WASHINGTON -- After last-minute negotiations, the Securities and Exchange Commission and the accounting industry reached a tentative compromise on conflict-of-interest rules that would allow auditors to continue offering clients certain consulting services under new restrictions.

The deal, which represents a softening of the SEC's position as reported Tuesday, almost assures that the agency's four members will approve the controversial package of auditor-independence rules during Wednesday's scheduled meeting. Congress, which had made noises about blocking the rule, is also likely to give its blessing. But accounting firms won't officially sign off until they see the final language in the roughly 200 pages of rules, which won't be completed for several days.

The SEC and the accounting industry have been at loggerheads over the conflicts of interest involved in accounting firms providing both audit and lucrative consulting services -- especially computer-systems consulting -- for the same clients.

But an SEC official said Tuesday that he expects that the proposed rules won't have "a major economic impact" on the firms. The official estimated that around 10% of the Big Five firms' total annual revenue comes from consulting work for audit clients.

**Private-Sector Solution**

Although the proposal would force big accounting firms to drop consulting or audit relationships with some of their clients, those firms also would pick up additional work from other clients who have been dropped by their consulting or audit firms because of the rule, the official said.

"It's a private-sector solution motivated by the commission," said SEC Chairman Arthur Levitt. "I think the result is vastly superior to a rule that would have been contentious without the involvement of the audit committees." Mr. Levitt has said that new standards are needed to maintain investor confidence in the reliability and accuracy of audited financial statements of public companies.

SEC officials said four accounting firms -- Ernst & Young LLP, PricewaterhouseCoopers LLP, Arthur Andersen LLP, Deloitte & Touche LLP -- and the American Institute of Certified Public Accountants are on board.

James Schiro, chief executive officer for PricewaterhouseCoopers LLP, praised the agreement in a prepared statement. "We're now confident that the rule the SEC will consider on Wednesday will provide ... the flexibility necessary to adapt our business to the evolving economy and capital markets."

---

**Money & Investing**

**SEC, Accounting Industry Compromise May Solidify Auditor-Independence Rules**

**By Michael Schroeder**
Staff Reporter of The Wall Street Journal
Spokesmen for Arthur Andersen LLP and Deloitte & Touche declined to comment. Ernst & Young LLP officials couldn't be reached for comment.

The SEC said that KMPG LLP was the lone hold out. "We have to see the final language before we can comment," Stephen Allis, a government affairs partner at KPMG, said. "It sounds like major progress has been made."

**Disclosure Restrictions**

A draft of the final rule, which has been circulating among the commissioners since last weekend, proposed an outright ban of computer-systems consulting. In reaching a compromise, the SEC backed off that hard-line position -- instead imposing strong management and disclosure restrictions, while squeezing concessions from the accountants in other areas. The final rules will have to be revised to include the changes.

The SEC's negotiating position has lurched back and forth since the proposal was initially issued last June to widespread criticism from the accounting industry. The SEC softened its stance on some issues -- but not the consulting-service bans -- when it helped craft an earlier compromise proposal in September with Ernst & Young and PricewaterhouseCoopers -- the most supportive of the Big Five accounting firms.

By late October, the SEC indicated a willingness to forgo the bans in lieu of other restrictions. But the agency recently appeared to retreat to its harder position. Accounting-industry negotiators now view the SEC's recent-seeming indecision as a bargaining ploy that created pressure for an eleventh-hour deal as the final vote approached.

Under the deal, auditing firms could avoid a ban on cross-selling computer-systems consulting to corporate clients if stringent new disclosure and management requirements were met. For instance, public companies would have to disclose in annual financial filings with the SEC the total fees for auditing, consulting and other services provided by their outside auditing firm. Company audit committees also would have to certify that offering multiple services doesn't create conflicts of interest. And company management, not the consulting firm, would have to have operating control of any computer system designed by its auditor's consulting affiliate.

**'Appearance' Principles**

The proposal includes a partial ban on having an accounting firm perform both a corporate client's outside audit and preparing audits used internally by management and the board. Consulting affiliates couldn't provide more than 40% of an audit client's internal-auditing services.

The SEC believes it got an important concession when the industry agreed to guidelines defining what kinds of arrangements would create an improper appearance of conflicts. The proposal includes several "appearance" principles, such as prohibitions against an accounting firm auditing its own consulting work.

The new appearance standards would give the SEC new tools to pursue firms for possible violations of new broader standards.
Apart from the new rules, the SEC got some assurances that the industry will properly fund the Public Oversight Board, an independent industry watchdog, and seek to increase the number of public directors of the AICPA’s enforcement committee.

-- Jonathan Weil contributed to this article.

Write to Michael Schroeder at mike.schroeder@wsj.com

URL for this Article:
http://interactive.wsj.com/archive/retrieve.cgi?id=SB974252070298334338.djm

Hyperlinks in this Article:
(1) mailto:mike.schroeder@wsj.com