

Advocacy Supports the SEC's Sarbanes-Oxley Compliance Relief and Cost Benefit-Study on Section 404 for Smaller Public Companies

On February 25, 2008, the Office of Advocacy (Advocacy) sent a letter to the U.S. Securities and Exchange Commission (SEC) in response to a proposed rule it recently published, *Internal Control Over Financial Reporting In Exchange Act; Periodic Reports of Non-Accelerated Filers*. Advocacy commended the SEC for proposing a one-year extension of Section 404(b) of the Sarbanes-Oxley Act of 2002 for smaller public companies and for commencing a study of the costs of Section 404 on these entities. For a copy of this letter and a complete chronology of Advocacy's Sarbanes-Oxley Act activities, please visit: http://www.sba.gov/advo/laws/comments/sarbanes_oxley.html.

- The Sarbanes-Oxley Act of 2002 introduced a new requirement for companies that submit audited financial reports to submit a management assessment report and an auditor's attestation report on the company's internal controls to the SEC. Internal controls are systems that companies have in place to guard against fraudulent transactions and to ensure the accuracy of the financial reports.
- Non-accelerated filers, or smaller public companies with less than \$75 million in public float, have already submitted a management report under Section 404(a) for fiscal years ending on or after December 15, 2007. Under this proposed one-year extension, the Section 404(b) requirement for an auditor's report would apply to these entities with fiscal years ending on or after December 15, 2009.
- In December 2006, the SEC released management guidance and the Public Companies Accounting Oversight Board released a revised auditing standard to make the implementation of Section 404 more effective and efficient. Advocacy recommended that the SEC extend the deadline for Section 404(b) compliance to examine whether these new proposals were actually cost effective.
- Advocacy also strongly supports the SEC's proposal to conduct a cost-benefit study and survey on the impact of Section 404 on smaller public companies. Advocacy believes that the cost-benefit study is important because other studies have found that Section 404 imposes disproportionate costs on these small entities. Advocacy also urged the SEC to provide additional flexibilities for smaller public companies if the results of the agency's study show that the costs of Section 404 outweigh the benefits for these small entities.

For more information, visit Advocacy's Web page at <http://www.sba.gov/advo>, or contact Assistant Chief Counsel Janis Reyes by email at janis.reyes@sba.gov or by phone at 202-619-0312.