

EALIC

European Association of Listed Companies AISBL-IVZW

SECURITIES EXCHANGE COMMISSION
To Mrs. Nancy M. MORRIS
Secretary
100 F Street
NE Washington, DC 20549-0609

Posted on-line on the SEC's website

Brussels, 27 October 2006

Dear Mrs. Morris,

**Re: SEC's Concept Release Concerning Management's Reports on Internal Control Over
Financial Reporting Release No. 34-54122; File No. S7-11-06**

We have the pleasure to send you herewith EALIC's reply to the above mentioned Concept Release.

We stay at your disposal for any questions you may have with regard to the contents of the attached position.

Yours sincerely,



Dorien FRANSENS
Secretary General

Enclosure : 1

EALIC

European Association of Listed Companies IVZW-AISBL

EALIC, the European Association of Listed Companies, promotes the common interests of European issuers on a European level. Its scope of activities includes the legal and regulatory framework specific to listed companies in general and to the issuing and trading of securities on European markets in particular.

EALIC was incorporated in December 2002 as an international non-profit association. Its current member-base counts six national associations of listed companies, namely VEUO (Netherlands), ANSA and AFEP (France), ABSC-BVBV (Belgium), ASSONIME (Italy) and SEG (Poland). In addition, more than seventy public companies from the mentioned countries, as well as from Portugal and Spain, are direct members of our association. As such EALIC represents many hundreds of leading issuing companies to date.

EALIC'S REPLY
To
THE SEC'S CONCEPT RELEASE CONCERNING
MANAGEMENT'S REPORTS ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
RELEASE NO. 34-54122; FILE NO. S7-11-06

27 October 2006

EALIC strongly supports the development of additional guidance for management regarding its evaluation and assessment of internal control over financial reporting for the purposes of Section 404 of Sarbanes-Oxley Act of 2002 as set forth in Release No. 34-54122, Concept Release Concerning Management's Reports on Internal Control Over Financial Reporting (the "Concept Release").

Please find below EALIC's comments on certain specific questions of particular interest to Foreign Private Issuers.

11. What guidance is needed to help management implement a "top-down, risk-based" approach to identifying risks to reliable financial reporting and the related internal controls?

The first application of the top-down and risk-based approach is found in the process of identifying companies of the group to be evaluated for the purposes of the US Securities law, including the Sarbanes Oxley Act (so-called scoping). In many cases auditors require that it is necessary to take into consideration not only the main balance sheet aggregates but also single items in order to properly carry out the scoping, although the risk level or importance of such single items is not assessed. This approach seems contradictory to the general concept of risk-based evaluation and gives rise to an increase of controls without creating a material advantage in terms of reduction of the inadequate information risk. Therefore, guidance on the definition of the entities and procedures under Section 404 would be extremely useful.

12. Does the existing guidance, which has been used by management of accelerated filers, provide sufficient information regarding the identification of controls that address the risks of material misstatement? Would additional guidance on identifying controls that address these risks be helpful?

Although Foreign Private Issuers are required to focus their monitoring activities mainly on the "key" controls, up to now there is no methodology generally accepted for the identification of such "key" controls. It would be helpful to know the fundamental characteristics of a "key" control.

16. Should guidance be given about the appropriateness of and extent to which quantitative and qualitative factors, such as likelihood of an error, should be used

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when assessing risks and identifying controls for the entity? If so, what factors should be addressed in the guidance?

The risk-based approach allows indicating the main processes which have to be monitored through the internal control procedures. Using quantitative parameters (materiality threshold) or taking into account qualitative aspects (e.g. the existence of a fraud risk), it is possible to identify: 1) the relevant balance sheet items, 2) the relevant nourishing processes, 3) the different phases constituting the identified processes. Consequently, it should be possible to select the single phases of a process that the assessment and evaluation activities should focus on. Internal control procedures that take into account the distinction above will allow for a better allocation of resources. Considering there is no uniform view on this subject, guidance would be very useful.

18. Should guidance be issued to help companies with multiple locations or business units to understand how those affect their risk assessment and control identification activities? How are companies currently determining which locations or units to test?

Problems have been encountered as regards scoping in case of infra-group transactions within the context of business restructuring projects. The evaluation of the internal control procedures refers to the situation existing at the end of the financial year; therefore, if a transfer of business activities by a group's company to Newco (belonging to the same group) is carried out over two different financial years, Newco should be considered as relevant company under Section 404 and included in the scoping. Evaluation of an internal control system's effectiveness should include the controls adopted by the Newco. However, considering the short operational time, it is likely that the acquiring company does not have sufficient records documenting the effectiveness of its internal control system and should therefore report a lack of the same. Postponing the restructuring transactions could avoid this situation, but could not be preferable in terms of business goals. Specific guidance is requested with the way to proceed so that Newco has enough time to document its own compliance with Section 404 similarly to the provisions already set forth for acquisitions involving companies not belonging to a group.

20. Would guidance on how management's assessment can be based on evidence other than that derived from separate evaluation-type testing of controls, such as on-going monitoring activities, be useful? What are some of the sources of evidence that companies find most useful in ongoing monitoring of control effectiveness? Would guidance be useful about how management's daily interaction with controls can be used to support its assessment?

As indicated in the Concept Release, alternative monitoring procedures to the separate evaluation would be appropriate, and so would be validating on-going monitoring carried out through procedures which are well integrated within the business activities, as they represent a standard mean of control. Particular reference is made to the monitoring methodologies which only indirectly prove effectiveness of controls: for instance, monitoring carried out through the examination of the list of possible errors (lack of errors is an indirect evidence of the effectiveness of internal controls. As far as sample tests are concerned, they are usually indicated by the technical experts as the most valid

method for assessing and evaluating the internal control procedures. However the experts never provide a clear indication of the specific sample tests which can be used. In this regard, a general guidance would be useful.

Furthermore, interpretative problems can occur also in the phase of designing the internal controls. For instance, in the (controversial) opinion of certain auditing firms, it is not possible for the head of a business unit to carry out the control provided for that unit if a different person is in charge of the comprehensive monitoring and there is no risk of fraud. Considering that this aspect is of fundamental importance in the context of an effective internal control system, SEC guidance on this would be highly appreciated.

32. What guidance is needed about the form, nature, and extent of documentation that management must maintain as evidence for its assessment of risks to financial reporting and control identification? Are there certain factors to consider in making judgments about the nature and extent of documentation (e.g., entity factors, process, or account complexity factors)? If so, what are they?

33. What guidance is needed about the extent of documentation that management must maintain about its evaluation procedures that support its annual assessment of internal control over financial reporting?

Neither the U.S. legislator nor the SEC expressly indicated the minimum term during which the evaluation reports and working papers elaborated by the management for assessing the internal control procedures have to be kept. Up to now, Foreign Private Issuers can only rely on the general rules provided for the auditors pursuant to which documents have to be kept for a minimum term of seven years without any distinction between working papers and final reports. Once again, in order to simplify and improve the evaluation and assessment over the internal control procedures, a clear and uniform guidance on this aspect would help all the persons involved in the application of Section 404.