March 7, 2006

Mr. Kevin M. O'Neill
Special Counsel
Office of Small Business Policy
Division of Corporation Finance
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: File Number 265-23

Dear Mr. O'Neill:

The Sarbanes-Oxley Act of 2002 (the Act) was a mandate to protect investors. Accordingly, Grant Thornton LLP urges the SEC to give the provisions of Section 404 of the Act a chance to work, rather than providing exemptions for small companies as recommended by the SEC's Advisory Committee on Smaller Public Companies (the Committee).

Section 404 of the Act requires management of public companies to tell investors whether their internal procedures can reasonably be relied upon to produce complete and accurate financial statements. Section 404 also requires auditors of those public companies to attest to, and report on, the assessment made by management. These requirements are reasonable.

Real-world execution of Section 404 requirements has led to significant problems, chief among them the costs. Responding to these concerns, the Committee recommended that the SEC (1) fully exempt certain small companies from this requirement, and (2) exempt slightly larger companies from the requirement to have management's assessment audited. This recommendation would create three classes of public companies: one, in which management would not have to assert to the quality of their controls; another, in which management would have to assert to the quality of their controls (but their independent auditors would

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not audit that assertion); and, a final group of non-exempt public companies (i.e., those with public market capitalization over $700 million or revenues over $250 million), in which management would be required to issue an audited assertion regarding the quality of their internal controls. The creation of such a hierarchy would confuse investors and negatively affect audit committees, companies and capital markets.

The Committee's recommendation places investors in smaller companies at a disadvantage compared to investors in larger companies. Auditors of the non-exempt public companies would perform more overall audit work than auditors of smaller public companies. As a result, investors would not be able to place as much reliance on the financial statements of smaller public companies as on those of larger public companies.

In addition, the relative quality of financial reporting processes would be less for smaller companies than if all companies were held to the same standard; i.e., everyone understands, up front, that all internal controls will be audited. Historically, effective inspection has driven proper performance. It would be unfair to smaller company investors to have their investments held to a lesser standard than those of investors in larger companies.

Moreover, smaller company audit committees would find it difficult to fulfill fiduciary responsibilities for ensuring proper internal controls, and management, having spent the time and money to ensure proper controls, would be left at greater risk without independent evaluation of them. The lack of such third-party affirmation represents a significant competitive disadvantage.

The proposed cutoff between the largest public companies and all other public companies would also increase concentration of audits in the largest accounting firms. Today, six large accounting firms audit 99 percent of public-company sales. The Committee's recommendations would force an increasingly unhealthy concentration of the skills, methodologies and tools for auditing internal controls within these six accounting firms. Accordingly, investors and audit committees would be further limited in their choices for qualified auditors as they attempt to align a public company with the culture, skills and resources of a global, national, regional or local accounting firm. Although Grant Thornton LLP is the U.S. member firm of a global accounting organization and is among these six firms, this concentration is not in the best interests of the profession or the capital markets.

The Committee's recommendations were born out of a fundamental disparity that *does* exist between larger and smaller public companies. Section 404 requirements are not the source of the problem. The root cause is the lack of guidance for good internal controls that are applicable in myriad business situations.

Every public company, regardless of size, should have good controls over their financial reporting processes. It follows, then, that management of every public company should be in a position to state, at least annually, that they have good controls over their financial reporting processes. If these two statements are true, then the accounting and auditing profession and regulators should be able to agree upon the criteria against which management and auditors would base their conclusions on internal controls. They should also be able to develop reasonable audit procedures that would allow an auditor to say whether they agree with management's assessment.

To date, we have not succeeded in accomplishing that goal. The Committee of Sponsoring Organizations (COSO) made a valiant attempt to draft guidance for smaller public companies, but COSO never had the resources to develop the type of case-study material required to address the underlying disparity.

Appropriate guidance that would be useful to *both* companies and auditors can be developed. We recommend that a body of professionals composed of auditors, accountants from industry, regulators and academics author such guidelines, including case studies highlighting appropriate control and audit procedures relevant for a range of companies in varying circumstances. This approach would quickly eliminate the most egregious execution expense for *all* companies and gradually help the profession establish a point of equilibrium in which every public company is held to an appropriate—and shared—standard of quality in financial reporting.

The application of Section 404 and its related auditing standard are both less than two years old. Early recommendations must be scrutinized for the consequences of implementation in all possible environments. Before making fundamental changes in underlying requirements, it is critical to consider the implications for all interested parties. Ultimately, any such changes must prove fair to all investors, audit committees and companies in order to be perceived as being in the best interests of the capital markets.

Please direct your questions to Mike Starr, National Managing Partner of Public Policy & Strategy, at (312) 602-8705 or mike.starr@gt.com or Trent Gazzaway, Managing Partner of Corporate Governance at (704) 632-6834 or trent.gazzaway@gt.com.

Very truly yours,

Grant Thornton LLP

cc: Mr. Gerald J. Laporte
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