

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6515

June 11, 2007

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington DC 20549

Dear Chairman Cox:

With respect to the testimony that you provided on Tuesday, June 5, the Committee seeks a written response to a number of important questions intended to clarify the record of the hearing. The Committee requests that the Securities and Exchange Commission (SEC) provide its responses to the attached questions no later than June 25, 2007.

- 1) Can you clarify whether or not the SEC has developed a cost estimate associated with the implementation of its newly adopted revised rules and guidance for management under Section 404(a) by non-accelerated and accelerated filers?
 - a. If the SEC has developed an estimate, the Committee requests a copy of the estimate and an explanation of the methodology used to develop the estimate.
 - b. If the SEC has not developed a cost estimate for the implementation of the newly adopted revised rules and guidance for management, the Committee requests an explanation of why a cost estimate was not developed.
- 2) Does the SEC expect that non-accelerated filers will not hire external auditors in 2007 to assist them in meeting the management requirements of SOX 404(a) for financial statements filed in 2008?
- 3) What information does the SEC have about when (under the existing compliance timeline) in the process of becoming SOX 404 compliant a non-accelerated filer will hire outside auditors to conduct a SOX 404 audit?

If the SEC possesses information in this regard, the Committee asks that the SEC provide a breakdown of what percentage of non-accelerated filers are expected to hire outside auditors to conduct a SOX 404 audit in 2007 for financial statements filed in 2008, and what percentage are expected to only hire outside auditors in 2008 for financial statements filed in 2009.

- 4) Assuming that the SEC maintains the existing SOX 404(a) compliance timeline for non-accelerated filers—compliance for 2007 results with respect to financial statements filed in 2008—does the SEC have a plan to collect data on costs that non-accelerated filers bear as a result of SOX 404(a) implementation?

If the SEC has a plan to collect data on SOX 404(a) compliance costs borne by non-accelerated filers, the Committee requests that the SEC's response to this question be as specific as possible and should reference:

- The dates by which the SEC's data collection will begin;
- The specific resources within the Commission that will be directed to collect and analyze the data;
- The approach or methodology the SEC will use to collect and analyze the data; and
- An indication of what standard the data will be measured against to determine if the costs constitute a "disproportionate" burden for small companies.

- 5) During the public comment period associated with AS-5, does the SEC intend to develop a cost estimate for AS-5? If so, will the SEC make public the cost estimate for public comment before it votes on final approval of AS-5?

- a. If the SEC intends to develop a cost estimate of AS-5, the Committee requests a copy of the estimate and an explanation of the methodology used to develop the estimate.
- b. If the SEC does not intend to develop a cost estimate for the implementation of the proposed new guidance for management, the Committee requests an explanation of why a cost estimate was not developed.

- 6) What is the SEC's plan for collecting SOX 404 compliance cost data from accelerated filers who implement the new revised rules and guidance for management under Section 404(a) and who implement AS-5 under 404(b), for financial statements filed in 2008?

If the SEC plans to collect data on SOX 404 compliance costs borne by accelerated filers, the Committee requests that the SEC's response to this question be as specific as possible and should reference:

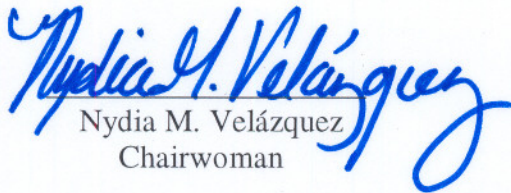
- The dates by which the SEC's data collection will begin;

- The specific resources within the Commission that will be directed to collect and analyze the data;
 - The approach or methodology the SEC will use to collect and analyze the data; and
 - An indication of what the data will be measured against to determine that the new standards have not only lowered audit efficiency but also lowered compliance costs (e.g., existing SOX 404 compliance cost data for accelerated filers).
- 7) In your testimony you indicated a willingness to reassess the compliance deadline associated with small company implementation of AS-5, if data were to show that the new standards are not having the intended effect. Assuming the presence of sufficient data, does the SEC plan to convene a meeting of the Commission to assess the SOX 404 compliance cost data?
- a. If so, during what month in 2008 will that meeting take place so as to allow the SEC Commissioners to consider extending a delay?
 - b. If not, what trigger will the SEC use to ensure that the Commission confirms that the data collected demonstrates that the proposed new standards have adequately addressed the Commission's concerns about the disproportionately high costs of SOX 404 compliance to small companies?
- 8) How will the SEC assess whether its new guidance and AS-5 have or have not lowered SOX 404 compliance costs? What measure will the Commission employ to determine whether non-accelerated filers should or should not be directed to implement AS-5 after December 15, 2008?
- 9) Has the SEC developed a detailed plan on how the SEC will educate small businesses on the implementation of the SEC guidance and AS-5?
- a. If so, the Committee requests a copy of the plan.
 - b. If not, by what date would this plan become available?
- 10) Will the SEC provide the Committee with a copy of the SEC's analysis of the impact of the proposed guidance for management on small companies?
- 11) Does the SEC believe that it has a legal obligation to estimate the costs and benefits to companies associated with the revisions of its rules under Section 404(a)? If not, why not?
- 12) Does the SEC have a legal obligation to estimate the costs and benefits to companies associated with the revisions of PCAOB's standards and guidance, in connection with the SEC's review and adoption of those changes? If not, why not?

- 13) At the hearing, an outstanding issue about the appropriate threshold for registration requirement was also raised. The SEC last updated the threshold for registration on May 1, 1996 when increasing the asset threshold of Rule 12g-1 from \$5 million to \$10 million. The Committee's understanding is that the SEC has stated that it would consider suggestions for revising the Rule's 500 shareholder threshold, originally set by the Congress in 1964. Can you clarify for the Committee whether the SEC has established a process and timeline by which the Commission will make a decision with respect to revising the 500 shareholder threshold?

The Committee looks forward to working with the SEC over the coming months to collect and analyze the data that demonstrate that the proposed regulations do, in fact, lower SOX 404 compliance costs and ensure that small businesses are not submitted to a process that you have aptly described as "inflexible, burdensome and wasteful."

Sincerely,


Nydia M. Velázquez
Chairwoman


Steve Chabot
Ranking Member