

## ***Advocacy Urges the SEC and the PCAOB to Provide Further Flexibility for Smaller Public Companies under Sarbanes-Oxley***

On February 21, 2007, the Office of Advocacy (Advocacy) submitted a joint comment letter on the proposals by the U.S. Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB). The proposals provide guidance and a revised auditing standard for management and external auditors on Section 404 of the Sarbanes-Oxley Act of 2002. At a roundtable hosted by Advocacy, small business representatives raised concerns that these proposals do not go far enough to address the large and disproportionate costs that small public companies face in complying with Section 404, which may deny their access to capital markets. Advocacy strongly recommends that the SEC continue to provide further exemptions for small public companies. A copy of Advocacy's letter to the SEC may be accessed at: <http://www.sba.gov/advo/laws/comments/>.

- The Sarbanes-Oxley Act of 2002 (SOX) introduced new internal controls reporting requirements for public companies that submit annual financial reports. Companies complying with SOX have commented that the PCAOB's current Auditing Standard No. 2 (AS2) is a one-size-fits-all standard that has onerous requirements and has resulted in excessive costs and redundancies.
- Small public companies with a market capitalization below \$75 million will be required to submit a management assessment report at the end of this year, and an auditor's attestation report next year. Surveys of actual Section 404 costs indicate that non-accelerated filers (small public companies) spent approximately \$935,000 to comply with these internal controls reporting requirements.
- The SEC's proposed interpretative guidance sets forth a risk-based approach for management to complete and assess the effectiveness of its company's internal controls as required by Section 404(a). The SEC is proposing to change the requirements for an auditor's attestation reports under Section 404(b), by requiring only one report on the effectiveness of management's internal controls reporting. The PCAOB's revised auditing standard would supersede AS2, the standard used by auditors to evaluate internal controls under Section 404(b).
- At Advocacy's roundtable on these proposals, small business representatives requested clarifications, questioned whether these provisions could provide scalability and cost-savings, and stressed the need for further exemptions based on the recent guidance and the revised auditing standards.

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](mailto:janis.reyes@sba.gov) or by phone at 202-619-0312.