

Advocacy Supports the Securities and Exchange Commission's Sarbanes-Oxley Compliance Relief for Smaller and Newly Public Companies

On September 14, 2006, 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 and Newly Public Companies*. Advocacy praised the SEC for postponing internal control auditing requirements for smaller and newly public companies. The postponement addresses concerns that small businesses may be denied access to capital markets based on the cost of complying with the regulations immediately. Advocacy encouraged the SEC to explore more opportunities for reducing Sarbanes-Oxley costs on small businesses. A copy of Advocacy's letter to the SEC may be accessed at <http://www.sba.gov/advo/laws/comments/>.

- The Securities and Exchange Act of 1934 requires audited quarterly and annual financial reports from some public companies to be filed with the SEC. Smaller public companies can be required to file these reports due to certain stock exchange rules. Companies have systems in place at various levels of decision-making to guard against fraudulent or mistaken transactions and to ensure the accuracy of the financial reports submitted to the SEC; these systems are generally referred to as "internal controls."
- The Sarbanes-Oxley Act of 2002 introduced a new requirement for companies that submit audited financial reports to the SEC to include with their annual report a management assessment report and an auditor's attestation report on the company's internal controls.
- The first proposed extension affects non-accelerated filers, or smaller public companies with less than \$75 million worth of equity. This rule would give these companies a five month extension for the management assessment report and a 17- month extension for the auditor's attestation report. Small public companies would submit the management assessment report with their annual report the first fiscal year ending on or after December 15, 2007. These entities would not be required to submit an auditor's attestation report until the next year's annual report, or the fiscal year ending on or after December 15, 2008.
- The second proposed extension affects newly public companies. Under this proposed rule, newly public companies would not be required to comply with the management assessment report and the auditor's attestation report until their second annual report.

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.