SIEMENS

September 18th, 2006

Nancy M. Morris, Secretary
Securities & Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Reference: File Number S7-11-06

Dear Ms. Morris,

Thank you very much for the opportunity to submit our comment on the concept release concerning management's report on internal control over financial reporting (ICFR).

Good corporate governance has always had a high priority at Siemens. As a German stock corporation with a listing at the New York Stock Exchange, we need to comply not only with the German corporate governance framework, but also with European initiatives and U.S. capital market rules, including the Sarbanes-Oxley Act.

Although being a foreign private issuer, we complied with the requirements stipulated by Section 404 of the Sarbanes-Oxley Act (SOA 404) on a voluntary basis for the fiscal year ending September 30, 2005. The extension of compliance dates released by the SEC on March 2, 2005 came too late for Siemens, as we were already in the middle of our first year implementation project.

Similar to the experience made by other companies, achieving compliance with SOA 404 was and continues to be a difficult and costly exercise. Some of the costs incurred may be attributed to maintenance and enhancement of our internal control structures, but the majority of effort was caused by the excessive formalistic requirements based on an early stage interpretation of the PCAOB Auditing Standard No. 2.

As a consequence, year 2 of SOA 404 has been characterized by the overall objective to improve the efficiency of our assessment of ICFR, while sustaining compliance. Two weeks before our fiscal year end, we can state that the SOA 404 process – so far – has run more efficiently than last year.

However, this observation should not be misunderstood: Compliance with SOA 404 in our opinion still requires well too many resources and attention, which are inevitably taken away from other important corporate initiatives that create value for our shareholders. For Siemens as one of the largest companies in the global electrical market, operating in more than 190 countries, the assessment of ICFR involves testing of tens of thousands of controls at the transaction level.

That having said, we believe that balance between the appropriate level of assurance and incurred costs can only be achieved through realignment of the underlying rules and regulations. Therefore, we appreciate the current steps taken by the SEC and PCAOB to provide additional guidance in the near future on how management should assess the effectiveness of ICFR.

In the appendix below, you will find our views and perspectives on selected questions of the concept release, which we would kindly ask you to consider.

Sincerely,

Dr. Klaus Patzak
Corporate Vice President
Financial Reporting and Controlling
Siemens AG

Dr. Joachim Gebhard
Head of Corporate Financial Audit
Siemens AG

Appendix

No.	Question	Response
1	Would **additional guidance to management** on how to evaluate the effectiveness of a company's internal control over financial reporting be useful? If so, would additional guidance be useful to all reporting companies subject to the Section 404 requirements or only to a sub-group of companies? What are the potential limitations to developing guidance that can be applied by most or all reporting companies subject to the Section 404 requirements?	Yes. Although the frequently cited "May 16 guidance" issued by the SEC has clearly stated that management has a broad array of opportunities to perform its assessment of internal control over financial reporting (ICFR), there is a clear lack of guidance on what is possible and what is not. This is true not only for the reporting companies themselves, but also for their independent auditors who need to evaluate the appropriateness of the measures taken by management. Companies are now taking small, incremental steps to make their assessment more efficient, but in the absence of other standards and guidance, PCAOB AS2 is still the overall benchmark being applied. As long as there is no clear guidance available which is directed at the reporting companies, we don't believe that there will be a major breakthrough to bring costs and benefits of SOA 404 into some sort of balance. Furthermore, we believe that guidance should be issued for <u>all</u> reporting companies subject to SOA 404. While we acknowledge that such guidance – the more specific it gets – may not be applicable to all classes of companies, the benefits will still outweigh the potential limitations. Even for those companies who may not be able to directly implement the guidance, it will help gain a better understanding of the general scope and nature of the SOA 404 management assessment, thus will contribute to more consistent and certain decision-making by companies (and independent auditors).
2	Are there special issues applicable to **foreign private issuers** that the Commission should consider in developing guidance to management on how to evaluate the effectiveness of a company's internal control over financial reporting? If so, what are these? Are such considerations applicable to all foreign private issuers or only to a sub-group of these filers?	Basically, we believe that foreign private issuers – with a certain delay – have experienced the same obstacles and challenges like domestic U.S. filers when implementing SOA 404. However, as a multi-national company with operations in most regions of the world, it becomes more and more difficult and cumbersome to manage the different corporate governance rules in each region. We would like to ask you to take additional care in evaluating potential conflicts and/ or redundancies resulting from the different legislative provisions. Where it may not be possible to harmonize the basic principles of the respective rules, than at least there should be more flexibility allowed and a consensus of mutual acceptance.

No.	Question	Response
3	Should additional guidance be limited to articulation of **broad principles** or should it be more detailed?	In general, additional guidance should be principles based (providing companies with as much flexibility as possible to follow their individual implementation approach), accompanied by specific implementation examples which may or may not be adopted by companies depending on specific circumstances. That having said, we believe that guidance should probably have the format of both a Commission rule and supplementary interpretive guidance.
10	We also seek input on the **appropriate role of outside auditors** in connection with the management assessment required by Section 404(a) of Sarbanes-Oxley, and on the manner in which outside auditors provide the attestation required by Section 404(b). Should possible alternatives to the current approach be considered and if so, what? Would these alternatives provide investors with similar benefits without the same level of cost? How would these alternatives work?	In order to express an opinion whether the assessment of ICFR performed by management is stated fairly, in all material aspects, the independent auditor by himself is currently required to obtain “principal evidence” about whether ICFR is effective. As a consequence, both the independent auditor and the reporting company each provide an opinion on the effectiveness of ICFR. We believe that the additional costs to perform separate assessments of ICFR by management and the independent auditor cannot be justified by the limited increase of assurance. Therefore, we recommend eliminating the requirement for the auditor to perform an assessment of ICFR by himself (cancellation of the "principal evidence" requirement). The auditor should form an opinion only on the appropriateness of management’s assessment of ICFR. This may also include limited re-performance and review of some of the company's test work, but only to an extent which allows the auditor to conclude whether the test activities performed by the company are reliable.

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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 basic principle of a risk-based top-down approach is fairly simple: Start with the company-level controls, then determine the relevant financial statements accounts, and drill down to identify the relevant financial reporting risks and controls at the transaction-level. Unfortunately, existing guidance from SEC & PCAOB remains fairly vague and does not offer much practical help for implementation. In fact, we believe that most companies currently follow the audit methodologies of the big audit firms (which are of course not publicly available). Companies in discussions with their independent auditor are therefore always in a weak position, as there are no public standards available which they can refer to. While we acknowledge that significant professional judgment is required to implement such guidance in an effective manner, it would still be important to have basic principles established which define a framework for applying a risk-based top-down approach. As discussed in further detail in our response to question #18, this is especially important for diversified and decentralized companies.

No.	Question	Response
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?	PCAOB AS2 §B4 states that "Generally, a relatively small number of locations or business units will encompass a large portion of a company's operations and financial position, making them financially significant." A commonly used interpretation of the term "large portion" is to include in the assessment all business units/ locations which jointly cover between 60 and 75% of the overall financial position of the company. For a diversified, decentralized company like Siemens, to satisfy such rules, we need to include in our assessment a significant number of business units/ locations which individually contribute less than 0.5% to the overall financial position. While this is not what we would call an "individually important" business unit/ location, PCAOB AS2 §B11 clearly states that: "If the auditor cannot test a large portion of the company's operations and financial position by selecting a relatively small number of locations or business units, he or she should expand the number of locations or business units selected to evaluate internal control over financial reporting." As a result of these requirements, it is our experience that a high percentage of the control deficiencies identified locally have a magnitude which is clearly inconsequential at the consolidated group level. In our opinion, too much effort is spent in low risk areas from a top level perspective. That having said, more specific guidance is needed which shows how to apply a risk-based top-down approach for companies in a highly decentralized and diversified environment.
19	What type of guidance would help explain how **entity-level controls** can reduce or eliminate the need for testing at the individual account or transaction level? If applicable, please provide specific examples of types of entity-level controls that have been useful in reducing testing elsewhere.	The importance of company-level controls has been emphasized again and again by regulators, audit firms and other professional organizations. While we agree with the importance of company-level controls as the underlying foundation for an effective internal control system overall, we have not yet seen an integrated approach where the amount of work at the transaction-level would directly depend on the reliability of the underlying company-level controls. This is especially true for large, complex organizations with several layers and dimensions of company-level controls (e.g. corporate vs. business unit level) That having said, we would be very interested in practical guidance which demonstrates how this approach, which sounds very straightforward, can be put into action under real life conditions. Especially, this guidance should show how a direct link between significant accounts/ assertions and company-level controls can be created and how this would prevent or detect a material misstatement.

No.	Question	Response
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?	The problem we see is that monitoring activities and related documentation often do not meet formal documentation requirements (e.g. distinction between test of design and operating effectiveness, sample size determination, etc.). Similar to question #19, it would be very helpful to see how this approach can be applied practically based on examples. At Siemens, we have made good experience leveraging internal audit work in the area of SAP R/3, which is based on standardized audit procedures. The audit report itself was deemed appropriate evidence for the management evaluation of the respective IT general controls and application controls covered during the audit. As the scope of such audits is very broad and the typical frequency is every 3 to 4 years, the audits are accompanied by a lean self assessment approach in the years in between.
22	In situations where management determines that separate evaluation-type testing is necessary, what type of additional guidance to assist management in **varying the nature and extent of the evaluation procedures** supporting its assessment would be helpful? Would guidance be useful on how risk, materiality, attributes of the controls themselves, and other factors play a role in the judgments about when to use separate evaluations versus relying on ongoing monitoring activities?	Over the last year, we have worked hard to streamline the number of "key controls" which we have included in our assessment. However, a significant number of key controls still remains in lower risk areas and for routine transactions. In our opinion, a substantial efficiency gain could be made by allowing companies to apply a "roll-forward" testing approach. For example, if a transaction-level control in a non-focus area was deemed effective in the previous year, and given that the underlying company-level controls in the current year are effective as well, no additional testing should be required. We believe that this approach, which is very similar to the "benchmarking" concept for IT application controls, does not reduce the overall level of assurance. Furthermore, a company with a positive record on ICFR over the last periods should be rewarded by a reduction of SOA 404 requirements (and vice versa in case of a negative record). The quality of ICFR could be measured in terms of external criteria (e.g. previous restatements, reported material weaknesses, other reported/filed issues on "Controls and Procedures") and internal criteria (e.g. number and impact of significant deficiencies, total number of deficiencies on ICFR, number and impact of adjustment entries after financial statement audit). "Rewards" could be reflected in adjusted materiality considerations, reduced coverage ratios, or reduced testing requirements.

No.	Question	Response
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?	It is our understanding that there is currently no direct guidance available for the reporting companies regarding extent and timeframe for the retention of documents supporting management’s assessment of ICFR. As of today, we have implemented a policy which directly follows the 7 years retention period for the independent auditor. We also see a need for obtaining additional guidance regarding the scope of documentation to be archived. Is it sufficient to have documents available at the top level only, summarizing the approach and overall results of the assessment? Or is it necessary to archive the individual test results and supporting evidence? There are some companies (mainly those which want to sell their own products) which even state that for example, every email communication should be archived for a certain number of years.

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