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July 6, 2007

The Honorable Christopher J. Dodd
Chairman
The Honorable Richard C. Shelby
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Barney Frank
Chairman
The Honorable Spencer Bachus
Ranking Minority Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Amendments to Rules Regarding Management's Report on Internal Control Over Financial Reporting*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (Commission), entitled "Amendments to Rules Regarding Management's Report on Internal Control Over Financial Reporting" (RIN: 3235-AJ58). We received the rule on June 21, 2007. It was published in the *Federal Register* as a final rule on June 27, 2007. 72 Fed. Reg. 35,310.

The Commission requires that companies include in their annual reports filed under sections 13(1) or 15(d) of the Securities Exchange Act of 1934, a report by management of each company's internal control over financial reporting (ICFR). This final rule clarifies that an ICFR that complies with the interpretive guidance referenced therein is one way to satisfy this requirement. The ICFR guidance was also published in the *Federal Register* on June 27, 2007. 72 Fed. Reg. 35,324. In addition, this final rule defines the term material weakness and revises the requirements regarding the auditor's attestation reports on the effectiveness of ICFR.

Enclosed is our assessment of the Commission's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review indicates that the Commission complied with the applicable requirements.

If you have any questions about this report, please contact Michael R. Volpe, Assistant General Counsel, at (202) 512-8236. The official responsible for GAO evaluation work relating to the subject matter of the rule is Richard Hillman, Managing Director, Financial Markets and Community Investment. Mr. Hillman can be reached at (202) 512-8678.

signed

Robert J. Cramer
Associate General Counsel

Enclosure

cc: Nancy M. Morris
Secretary
Securities and Exchange Commission

ENCLOSURE

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"AMENDMENTS TO RULES REGARDING MANAGEMENT'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING"
(RIN: 3235-AJ58)

(i) Cost-benefit analysis

The Securities and Exchange Commission (Commission) analyzed the costs and benefits of this final rule. The Commission recognized that the costs of this rule are directly related to the extent to which companies choose to rely on the guidance referenced therein. According to the Commission, the guidance should allow companies to avoid excessive costs in reporting on internal control over financial reporting (ICFR). The Commission noted that several comments on the final rule made estimates as to how much the rule would reduce compliance costs. This final rule did not create the preexisting requirement to report on ICFR, so the costs of such reporting are not attributable to this rule.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

The Commission prepared a Final Regulatory Flexibility Analysis in connection with this final rule. To the extent that this final rule impacts small entities, the Commission predicts that the small entities will benefit by lower compliance costs in reporting on ICFR. The Commission considered a number of alternatives in conducting this rulemaking.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the Commission is not subject to title II of the Unfunded Mandates Reform Act of 1995.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

The Commission promulgated this final rule using the notice and comment procedures found in the Administrative Procedure Act. 5 U.S.C. § 553. The Commission published a proposed rule on December 27, 2006. 71 Fed. Reg. 77,635.

The Commission received comments from approximately 70 parties on the proposed rule, to which they responded in the final rule. 72 Fed. Reg. 35,310 - 35,314.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

The Commission has submitted the information collection requirements in this final rule to the Office of Management and Budget (OMB) for approval.

Statutory authorization for the rule

The Commission promulgated this final rule under sections 12, 13, 15, and 23 of the Securities Exchange Act of 1934 and sections 3(a) and 404 of the Sarbanes-Oxley Act of 2002. 15 U.S.C. §§ 78l, 78m, 78o, 78w, 7202(a), 7262.

Exchange Act, 15 U.S.C. §§ 78c(f), 78w(a)(2)

Section 3(f) of the Exchange Act requires the Commission to determine whether a rulemaking will promote efficiency, competition, and capital formation. Section 23(a)(2) of the Exchange Act also prohibits any rulemaking that would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Commission concludes that this rule will promote efficiency and capital formation and will not impact competition.

Executive Order No. 12,866

As the rule is promulgated by an independent regulatory agency, it is not subject to the review requirements of the order.