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United States General Accounting Office
Washington, DC 20548

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June 25, 2003

The Honorable Richard C. Shelby
Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports*

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 "Management's Report on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports" (RIN: 3235-AI66 and 3235-AI79). We received the rule on June 5, 2003. It was published in the Federal Register as a final rule on June 18, 2003. 68 Fed. Reg. 36636.

The final rule requires companies subject to the reporting requirements of the Securities Exchange Act of 1934, other than registered investment companies, to include in their annual reports a report of management on the company's internal control over financial reporting.

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 James W. Vickers, Assistant General Counsel, at (202) 512-8210. The official responsible for GAO evaluation work relating to the subject matter of the rule is Thomas McCool,

Managing Director, Financial Markets and Community Investment. Mr. McCool can be reached at (202) 512-8678.

signed

Kathleen E. Wannisky
Managing Associate General Counsel

Enclosure

cc: J. Lynn Taylor
Assistant Secretary
Securities and Exchange
Commission

ANALYSIS UNDER 5 U.S.C. § 801(a)(1)(B)(i)-(iv) OF A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND CERTIFICATION OF DISCLOSURE
IN EXCHANGE ACT PERIODIC REPORTS"
(RIN: 3235-AI66 AND 3235-AI79)

(i) Cost-benefit analysis

The Securities and Exchange Commission found that the aggregate annual cost of the final rule to be about \$1.24 billion or \$91,000 per company.

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

The Commission prepared an Initial Regulatory Flexibility Analysis in connection with the proposed rulemaking. The preamble to the final rule contains the Final Regulatory Flexibility Analysis that complies with the requirements of the Act, including a description of and the number of small entities affected by the rule and the steps taken to minimize the adverse impacts on small entities.

(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 the requirements of the Unfunded Mandates Reform Act.

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

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

The final rule was issued using the notice and comment procedures found at 5 U.S.C. 553. On October 30, 2003, the Commission published a Notice of Proposed Rulemaking in the Federal Register. 67 Fed. Reg. 66208. The Commission received over 200 comments in response to the notice that are discussed in the preamble to the final rule.

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

The final rule contains several information collections that are subject to review by the Office of Management and Budget under the Paperwork Review Act. The

Commission estimates that the total incremental burden associated with the new internal control evaluation and disclosure requirements for all companies to approximately 3,792,888 hours of company personnel time and a cost of \$481,013,550 for the services of outside professionals.

The estimated incremental burden for the certification requirements is 117,048 hours annually.

Statutory authorization for the rule

The final rule is promulgated under the authority contained in sections 5, 6, 7, 10, 17, and 19 of the Securities Act, as amended; sections 12, 13, 15, 23, and 36 of the Exchange Act; sections 8, 30, 31, and 38 of the Investment Company Act, as amended; and sections 3(a), 302, 404, 405, and 906 of the Sarbanes-Oxley Act.

Executive Order No. 12866

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