

Advocacy Urges the Securities and Exchange Commission to Provide Flexibility to Smaller Public Companies

On April 27, 2006, the Office of Advocacy (Advocacy) sent a letter to the U.S. Securities and Exchange Commission (the Commission), in response to a notice it recently published, *Roundtable on Internal Control Reporting Requirements* (71 Fed. Reg. 11001; March 3, 2006). Advocacy urged the Commission to avoid imposing disproportionate costs on smaller companies, and noted that the evidence collected by a committee of experts indicated that new internal control auditing requirements currently being considered by the Commission could impose such costs. Advocacy recommended that the Commission defer small entity compliance with any new standards until they could be implemented in a more cost effective manner. A complete copy of Advocacy's letter to the Commission 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 Commission. 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 Commission; 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 Commission to include in their annual reports a report on management of the companies' internal controls. On June 18, 2003, the Commission published a final rule which would require smaller public companies with less than \$75 million worth of equity to comply with the new requirement for the first fiscal year ending after June 15, 2004. This date was later extended to July 15, 2007.
- Currently, the Commission is reviewing its 2003 final rule to determine whether the rule will impose greater costs than originally expected on smaller public companies and, if so, to come up with a proper balance for regulatory relief to smaller public companies. The Commission's independent Advisory Committee on Smaller Public Companies recommended an extension of the compliance date until cost-effective accounting standards could be introduced.

For more information, visit Advocacy's Web page at: <http://www.sba.gov/advo>, or contact assistant chief counsel Michael See by email at michael.see@sba.gov or by phone at (202) 619-0312.