

February 25th 2007

Ms. Nancy M. Morris
Secretary, Security and Exchange Commission
100F Street NE
Washington DC 20549-1090

RE: SEC FILE NUMBER S7-24-06

Dear Ms. Morris,

I am writing to comment on the impact that the proposed amendments would bring to the competitive environment of individual industries as well as its impact to the US capital market.

First of all, I appreciate the Securities and Exchange Commission's effort to relieve small companies of disproportionate compliance cost. However, from an economic standpoint, it is fairly debatable whether the proposed amendments can actually achieve the intended goal. There is a structural difference between larger companies and their smaller counterparts, and the difference makes the impact of the Section 404 on them vary significantly. This difference is so inherent that even the proposed amendments cannot change the fact that smaller companies suffer much more than larger companies due to the enactment of Section 404 and this single difference is the capability to utilize economies of scale.

Larger companies are more capable of taking advantage of economies of scale. As larger companies have greater outputs, they are able to spread the costs of compliance across their many products. Moreover, since larger companies generally have bigger contracts with professional service firms, they have more bargaining power in negotiating prices of services related to the compliance of Section 404 than their smaller competitors do. Traces of the impact of differences in bargaining power and capability of utilizing economies of scale can be found in the following tables extracted from *Sarbanes-Oxley Section 404 Costs and Implementation Issues: Spring 2006 Survey Update* - a survey conducted by CRA International Inc. under the request of Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP and PricewaterhouseCoopers LLP. These two tables present the first-year and second-year Section 404 cost incurred by an average smaller company (with market capitalization between \$75 million and \$700 million) and an average larger company (with market capitalization over \$700 million) respectively.

Smaller Company Cost Summary

	Year 2	Year 1	% change
404 Cost Summary	In 000s (\$)	In 000s(\$)	
Internal Issuer 404 Costs	301	355	-15.2%
Third Party Costs for 404	223	463	-51.8%
Total 404 Issuer Costs	524	818	-36.0%
404 Audit Fees	336	423	-20.6%
Total 404 Costs	860	1241	-30.7%

Larger Company Cost Summary

	Year 2	Year 1	% change
404 Cost Summary	In 000s (\$)	In 000s(\$)	
Internal Issuer 404 Costs	2220	4260	-47.9%
Third Party Costs for 404	980	2230	-56.1%
Total 404 Issuer Costs	3200	6490	-50.7%
404 Audit Fees	1570	2020	-22.3%
Total 404 Costs	4770	8510	-43.9%

As the tables have shown, it is apparent that the percentage decrease in the total 404 costs for larger companies is far greater than that for smaller companies. Although there could be many drivers which engineered the dramatic decrease for larger companies, many of them are originated from the size of companies and their capability to utilize economies of scale. Therefore, even though the proposed amendment does help to relieve smaller companies of some compliance cost at the beginning, smaller companies are still at a disadvantage compare to larger companies with respect to reducing the compliance cost over the long run. As a result, one can foresee that costs in relation to revenue would still be unevenly borne by smaller public companies in the future. And the disproportionate high compliance cost could easily dissipate smaller companies' competitiveness in their respective industries.

Along with imposing a burden on competition within individual industries, the proposed amendments also fail to respond to the critics regarding the Section 404's impact on the US capital market. The situation can never be more blatant as the statistics shows that less than a third of the \$ 22.6 billion of primary and secondary stock offerings by Brazilian and Mexican companies were listed on the New York Stock Exchange. Moreover, among

the 24 biggest foreign Initial Public Offerings in 2005, only one publicly listed its stock on the NYSE. Some would argue that looking back to history, the market always performed better after the enactment of tough regulations which had been considered lethal to the market, notably the Securities Exchange Act of 1934. However, we should be aware that the US capital market is now facing a lot more competitions than before. While the London Stock Exchange has always been a rival to the NYSE, ever-growing stock markets in Asia nowadays also attract many foreign investors. The epitome would be Hong Kong which has now become the first choice of many Chinese firms when it comes to capital-raising and trading. Having said that, it is obvious that nowadays there are more capital markets available for companies to raise their funds; and increasing the reporting burden would only make companies turn away from the US capital market. In fact, while the US capital market is losing its charm, it is also shrinking due to the fact that many domestic firms are privatizing in order to avoid high compliance cost. Therefore it is my recommendation that the Commission should make further adjustments in order to retain the competitive edge of the US capital market.

I appreciate the opportunity to comment. Should the Commission needs any additional information, please feel free to contact me.

Respectfully submitted,
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