



February 26, 2007

The Honorable Christopher Cox
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

The Honorable Mark W. Olson
Chairman
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006

Re: SEC File Number S7-24-06; Proposed Rule Concerning Management's Report on Internal Control over Financial Reporting, and
PCAOB Rulemaking Docket Matter No. 021; Proposed Audit Standard

Dear Chairman Cox and Chairman Olson:

We welcome the opportunity to offer comments on the Commission's proposed interpretive guidance and rule amendments and the Board's proposed auditing statement related to Sarbanes Oxley Section 404.

We welcome the efforts of the Commission and the Board to propose guidance and changes to Section 404 implementation that are intended to reduce the compliance burden, complexities and costs particularly for smaller and newly public companies. We appreciate the increased recognition that Section 404 implementation has imposed costs and burdens on many companies that are disproportionate to the benefits to investors.

TechNet is a national network of 200 chief executive officers of the nation's leading companies in the fields of information technology, Internet and e-commerce, biotechnology, venture capital and finance. TechNet's goal is to support the development of public policies that strengthen our nation's innovation-driven global competitiveness. Policies that enable entrepreneurship and the growth of innovative small companies are a critical component of U.S. competitiveness and of our policy agenda.

TechNet has been supportive of the Sarbanes Oxley Act's intended goals of improving financial reporting, governance and enterprise risk management. However, we believe strongly and have clearly articulated that the implementation of the Sarbanes Oxley Act's Section 404 has resulted in an approach that imposes inordinate compliance burdens and costs on smaller companies, undermining innovation in the high-growth sectors of our nation's economy.



Comments on Proposed ICFR Rules, Standards and Guidance
SEC File No. S7-24-06; PCAOB Docket Matter No. 021
February 26, 2007

We have advocated for a risk-based approach to prioritizing key financial controls and the establishment of internal control reporting requirements that are “scaled” and “proportional” to a company’s size and complexity. In short, we support a reform framework that encourages innovation in the U.S. high-growth sectors by addressing the excessive and unbalanced compliance burden of Section 404 that falls disproportionately on smaller companies.

We commend the Commission and the Board for recognizing the compliance burdens associated with Section 404 and for developing proposals that take steps toward an improved approach to its implementation. We offer the following comments to improve the proposals and we look forward to continuing to work with the Commission and the Board to take further steps toward a balanced approach to implementation of the Sarbanes Oxley Act.

Compliance by Smaller Issuers

Our paramount concern with respect to Section 404 has been the disproportionate impact of its requirements on smaller public companies. The significant costs and burdens on smaller companies resulting from Section 404 implementation have been well-documented.

Addressing this imbalance with respect to small companies should be a high priority to policymakers because of the direct and significant impacts that excessive Section 404 compliance burdens have had on the ability of smaller companies to innovate, grow and ultimately succeed, and because of the corresponding impact on our nation’s economic competitiveness.

We support the efforts of the Commission and the Board to move in the direction of reducing the compliance burden on smaller companies through these proposals. We believe, however, that it is too early to know the extent to which the Commission and Board proposals will ameliorate the compliance challenges facing smaller companies. We urge the Commission and the Board to continue to revise these proposals based on the specific comments and concerns of smaller companies.

We also encourage the Commission to consider further extension of the implementation date of Section 404 requirements for smaller public companies to enable analysis and implementation of the Commission and Board proposals. We support an extension that will enable smaller companies to assess and effectively transition to the revised Section 404 compliance and auditing requirements.

We further urge the Commission and the Board to continue to monitor and assess the compliance costs and burdens imposed as a result of Section 404 compliance during this



Comments on Proposed ICFR Rules, Standards and Guidance
SEC File No. S7-24-06; PCAOB Docket Matter No. 021
February 26, 2007

transition period and beyond, and to take additional action as necessary to ensure an appropriate cost-benefit balance.

Materiality

As we have noted in past comments, definitions of the terms “material weakness” and “significant deficiency” have been central to the implementation of Section 404. Specifically, these definitions have contributed significantly to an environment in which auditors and registrants spend excessive time and resources focused on audits of controls that have a remote likelihood to cause a significant effect on financial statements or a material misstatement. The result has been high inefficiencies and substantial cost burdens for all companies, particularly smaller companies.

The Board’s proposal provides refinements to the definitions of “material weakness” and “significant deficiency” with the intent of achieving a risk-based, cost-efficient approach. We believe the proposal provides refinements to the definitions that will enable greater efficiency. As discussed below, however, we expect ongoing challenges to an efficient implementation of Section 404 despite the proposals.

We specifically suggest that materiality be considered on an annual basis, and not on an interim basis as permitted by the proposal. References to interim statements can lead to excessive testing, rather than testing on an annual basis that would appropriately focus on controls that are significant. References to interim statements should be eliminated from the definitions of material weakness and significant deficiency.

Implementation Challenges

As we have stated in past comments, the perceived need by issuers to undertake extensive internal control regimes to meet Section 404 requirements has led to a substantial imbalance between costs and benefits under the Section 404. Further, overzealous review by the auditing community as a result of financial incentives and liability concerns has contributed to overly vigilant implementation of Section 404 requirements.

These incentives and practices will continue to exist and, in fact, are now entrenched to the point that improving Section 404 implementation and eliminating excessive compliance requirements in practice will be a significant ongoing challenge despite improvements in the regulations. We support additional reforms to address the auditor requirements, and we urge a strong commitment on the part of the Board to monitor Section 404 implementation practices and to take steps to prevent excessive auditing practices.

We further encourage the Commission to provide more specific guidance that enables companies to meet Section 404 requirements without investing resources in over-



Comments on Proposed ICFR Rules, Standards and Guidance
SEC File No. S7-24-06; PCAOB Docket Matter No. 021
February 26, 2007

compliance that yields relatively little additional benefit. One means of doing so would be to provide illustrative examples of appropriate compliance measures, as well as examples of insufficient and overly aggressive compliance measures. Companies will face continued challenges to achieve an appropriate balance between effective – and cost-effective -- internal controls and further illustrative guidance would assist companies in achieving an appropriate balance.

As a more general matter, we note that the Commission's proposal, consistent with efforts to grant increased flexibility to companies, provides relatively general guidance, in contrast to the more specific requirements related to internal control audits set forth in the Board's proposal. We encourage increased coordination between the proposals by the Commission and the Board to facilitate efforts to reconcile the proposals and encourage effective implementation.

Conclusion

We appreciate the continued efforts of the Securities and Exchange Commission and the Public Company Accounting Oversight Board to address the compliance burden of Section 404, particularly for smaller companies. We believe that establishing an internal controls process that is efficient and cost-effective for smaller companies should be a paramount objective because of the critical importance of small companies to our nation's innovation-driven economic competitiveness. We are committed to working with the Commission and the Board to achieve these goals.

Sincerely,

A handwritten signature in black ink that reads "Lezlee Westine".

Lezlee Westine
President and CEO