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July 18, 2007

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Proposed Rule on Definition of a Significant Deficiency
File No. S7-24-06

Dear Ms. Morris:

Ernst & Young LLP is pleased to comment on the Securities and Exchange Commission's (the "Commission" or the "SEC") proposed rule on the definition of a significant deficiency. We strongly support including this definition in the Commission's rules in view of the fact that the term "significant deficiency" is used in the Commission's rules implementing Section 302 and Section 404 of the Sarbanes-Oxley Act. We also strongly support a definition in the Commission's rules that is the same as the definition in PCAOB Auditing Standard No. 5 (AS 5) to enable a common understanding among management, audit committees, and independent auditors.

We agree with the Commission's view expressed in the Proposing Release that focusing on matters that are important enough to merit the attention of those responsible for oversight of the issuer's financial reporting will allow for sufficient and appropriate judgment for management to determine the deficiencies that should be reported to the auditor and the audit committee. We similarly believe that AS 5 enables the auditor to use professional judgment in determining whether any deficiencies identified during the audit that are less severe than a material weakness still merit attention by the audit committee.

In the attachment to this letter we provide additional comments and observations related to the subject matter of the questions for which the Commission has solicited additional comment.

We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

Ernst + Young LLP

Effect on the Certification of Quarterly and Annual Reports

As discussed in our cover letter, we support giving management and auditors more judgment in determining whether a control deficiency meets the definition of a "significant deficiency" and therefore must be communicated in accordance with the Commission's rules and AS 5. We also strongly support including this definition in the Commission's rules and agree that it will provide a useful complement to the Commission's Interpretive Guidance by enabling management to refer to Commission rules and guidance for the meaning of this term rather than referring to the auditing standards. However, we do not believe that the codification of the definition by itself will affect the effectiveness or efficiency of the certifications or the certification process to any significant degree.

Inclusion of a Likelihood Component or Other Specific Criteria

We do not believe it is necessary for the definition of significant deficiency to include a likelihood component or other specific criteria. In our view, management and auditors generally will consider the likelihood of misstatement of the financial statements as one of several qualitative factors in evaluating whether a deficiency or combination of deficiencies meets the definition of a significant deficiency. The inclusion of a likelihood component or other specific criteria may have the unintended effect of diminishing the use of judgment in performing that evaluation.

Benefits and Potential Costs or Burdens

We agree that the Commission's definition of a significant deficiency (and the definition in AS 5) focuses on the desired result of identifying those matters that are important enough to merit attention by those responsible for oversight of the issuer's financial reporting, without detracting from the overall goal of identifying control deficiencies that are material weaknesses. We do not believe that the flexibility provided in the definition, or the use of judgment by management and auditors in determining those matters that need to be communicated, will have any negative effects in terms of comparability of information provided because significant deficiencies are not publicly reported and are specific to the facts and circumstances of the particular entity. However, we believe this could result in management and auditors having different views about matters that each believes are important enough to be communicated.

Effect on Smaller Public Companies

We believe the proposed definition is appropriate for all issuers and will have no special effect on smaller public companies.