

December 6, 2010

Securities and Exchange Commission  
100 F St., N.E.  
Washington, D.C. 20549-1090

Attn: Elizabeth M. Murphy, Secretary

**Re: File No. S7-29-10 – Request for Comment Related to a Study Required by Section 989G(b) of the Dodd-Frank Act Regarding Compliance with Section 404(b) of the Sarbanes-Oxley Act**

Deloitte & Touche LLP appreciates the opportunity to respond to the Securities and Exchange Commission's (SEC or the Commission) request for comment related to the study it is conducting regarding compliance with Section 404(b) of the Sarbanes-Oxley Act by companies whose public float is between \$75 million and \$250 million. Through this letter we would like to express our support for the comments submitted to the SEC by the Center for Audit Quality. We participated in the drafting of that letter and support the statements made therein, including those related to:

- The Benefits of Section 404(b) to Investors
- Cost Trends of Section 404(b)
- Concerns with Expansion of Section 404(b) Exemptions
- Recommendations for Further Reducing the Compliance Burden of Section 404(b) Requirements.

Overall, like the Center for Audit Quality, we believe investors have greatly benefited from reporting about the effectiveness of internal control over financial reporting (ICFR). For example, we believe management reporting on ICFR and the related requirement for an auditor's attestation report has among other things, enhanced the reliability of financial statements, resulted in fewer restatements<sup>1</sup> compared to those issuers that are not required to comply, increased the accountability of individuals involved in the financial reporting process, resulted in better corporate governance practices, and enhanced investor confidence. Further, we also believe the PCAOB's revised internal control auditing

---

<sup>1</sup> A 2010 study conducted by Albert L. Nagy, a professor of accounting at John Carroll University, found that companies required to comply with Section 404(b) are less likely to issue materially misstated financial statements than companies not so required and suggests that the Section 404 regulation is meeting its objective of improving the quality of financial reports. This study, entitled *Section 404 Compliance and Financial Reporting Quality*, was published on September 15, 2010 and can be found at:

<http://scitation.aip.org/getabs/servlet/GetabsServlet?prog=normal&id=ACHXX000024000003000441000001&idtype=cvips&gifs=yes&ref=no>.

standard, AS 5,<sup>2</sup> as well as the additional guidance issued by the PCAOB, the SEC, the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and other professional organizations have led to more efficient and effective Section 404 compliance processes for both issuers and auditors. Moreover, efficiencies in the effective implementation of Section 404 have been gained as a result of issuers and auditors becoming more experienced with assessing the design and operating effectiveness of ICFR. The combination of these factors has contributed to a general decline in costs associated with management's assessment and the external audit of ICFR.<sup>3</sup> Given the benefits of compliance, combined with the declining trend in costs associated with both management's assessment and the external audit, we do not believe it would be prudent to roll back existing internal control requirements for a population of issuers that are currently complying with Section 404(b).

We welcome an opportunity to further discuss these matters with the Commission and the staff. If you have any questions or would like to discuss these matters further, please do not hesitate to contact John Fogarty at 203-761-3227. We thank you for your consideration of these matters.

Very truly yours,

/s/ Deloitte & Touche LLP

cc: SEC  
Mary L. Schapiro, Chairman  
Luis A. Aguilar, Commissioner  
Kathleen L. Casey, Commissioner  
Troy A. Paredes, Commissioner  
Elisse B. Walter, Commissioner  
James L. Kroeker, Chief Accountant  
Brian T. Croteau, SEC Deputy Chief Accountant

PCAOB  
Daniel L. Goelzer, Acting Chairman  
Bill Gradison, Member  
Steven B. Harris, Member  
Charles D. Niemeier, Member  
Martin F. Baumann, Chief Auditor and Director of Professional Standards

---

<sup>2</sup> PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That is Integrated with An Audit of Financial Statements*

<sup>3</sup> A 2010 survey conducted by Protiviti concluded that SOX costs have declined as compared to the initial compliance year. Approximately one-quarter of survey respondents indicated that since the initial compliance year, they had a reduction of greater than 70 percent, while more than 60 percent of respondents indicated they had a reduction of greater than 30 percent. Protiviti's 2010 *Sarbanes Oxley Compliance Survey* can be found at <http://www.auditnet.org/articles/KL201010.pdf>.