

## SEC Comment Letter

Mr. Jonathan G. Katz  
Secretary  
U.S. Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, DC 20549

Re: File Number 4-497; Experiences with implementing and evaluating Section 404 of the Sarbanes-Oxley requirements

Dear Mr. Katz:

Allianz AG (“Allianz”) respectfully submits this letter commenting on its experience in implementing and evaluating Section 404 of the Sarbanes-Oxley (“SOX 404”) requirements.

We commend the Commission for actively pursuing feedback and recommendations to improve and streamline the SOX 404 requirements. We understand based on our own experiences and the experiences of our peers that the effort and costs to comply with this standard have been extraordinary. In order to make this annual process sustainable, we believe it is important to consider ways to improve the efficiency of the process without impairing the principle of achieving effective internal control over financial reporting.

Our objective in preparing this letter was to identify select areas, based on our own experiences, where we believe the Commission could achieve its greatest impact on the efficiency of the SOX 404 compliance process. However, before providing you with our recommendations, we believe it is important that we provide you with some background on Allianz’s SOX 404 process to allow you to better understand the context of our comments.

We initiated our SOX 404 project in January 2003. After receiving notice that the SOX 404 deadline had been postponed for foreign filers to 2005, we refocused our project towards achieving substantial compliance with SOX 404 for a majority of our larger subsidiaries by the end of 2004. As a result, we have spent approximately €60 million on internal and external resources to date on SOX 404 compliance. We believe we are well positioned to meet the SEC’s filing requirements related to SOX 404 for 2006.

Our recommendations are specifically focused on amending the required testing procedures. Since the documentation of processes and controls have been completed in the initial year of implementation, we believe that testing procedures, which include walkthroughs, will be the most significant cost driver of maintaining SOX 404 going forward. Therefore, the testing process should be made as efficient possible while maintaining a high level of assurance that internal controls over financial reporting are operating effectively.

Currently, companies are required to test all controls that are significant to the financial statement assertions within each operational process. This has led to the testing of between 500 to 800 controls at many of our major subsidiaries. To sustain this level of effort year after year we will incur significant costs.

We encourage the Commission to consider the following recommendations:

1. Focus annual testing requirements on areas which have the greatest risk of incurring a financial misstatement. This can be achieved through leveraging both the company's and its auditor's risk assessment processes.
2. Allow cyclical testing (e.g. every 3 years) for lower risk areas supplemented by control owner self-assessments on an annual basis. These self assessments would not require formal testing procedures given that the individuals responsible for performing the self-assessment either perform or monitor the controls on a frequent basis.
3. Clarify the requirements concerning how close to year-end testing should be performed. The auditing firms are currently indicating that some testing of controls would have to take place in the 4<sup>th</sup> quarter. This timing interferes with the 3<sup>rd</sup> and 4<sup>th</sup> quarter financial statement closing processes. We would, therefore, propose that testing in the second half of the year for most controls would be sufficient to meet the Commission's objectives.
4. Provide further clarity about which controls should be tested. The requirements are currently focusing companies and auditors on the detailed activities within processes. This, of course, significantly increases the number of controls that require testing. We believe that more attention should be placed on entity level controls and analytical review type controls rather than detailed activities within processes. This refocusing of controls would lead to fewer controls being tested, but also would contribute to the improvement of the design and operational effectiveness of these higher level controls. History has shown that many of the corporate improprieties that led to the enactment of Sarbanes-Oxley related to an absence of effective entity level controls and not to detail controls occurring in operational processes. The current requirements are unfortunately pushing companies into spending a majority of their time and effort in areas of lower risk (i.e. detail operational processes), allowing less time to be spent on more critical areas (i.e. entity level controls).
5. Clarify the requirements concerning the "baselining" of legacy systems. External auditors are requiring that documentation of user acceptance testing exists for all relevant IT applications. This does not present an issue for applications recently acquired and developed. However, many companies continue to utilize a significant number of legacy systems in their operations given that these systems have performed very soundly and properly throughout the years. Because these systems process large volumes of transactions, external auditors have in the past taken a controls-based approach when performing their financial statement audit of these transactions. In essence, the auditors have relied upon the controls related to the integrity of these legacy systems for a number of years. As a result, it is difficult for us to understand, why it is necessary to prepare documentation to prove something that has already been proven.

Additionally, these baselining activities have no future value – they are a one time event. The primary means that the Company will use to ensure the integrity of its legacy systems on an annual basis will be the evaluation of its program change controls. Therefore, we propose that the requirements focus only on change controls for legacy systems. However, new systems and applications introduced in the first year of adoption of SOX 404 and in subsequent years, should also be subject to program development controls.

One of the reasons for the development of a strict regime relating to testing controls is due to the absence of specific testing requirements provided by the SEC for registrants. As a result,

registrants have defaulted to using PCAOB Auditing Standard No. 2 as its primary guidance for conducting management's assessment of internal control despite that this standard is written for auditors. The driving force for this is that the auditors are required to opine on the quality of management's assessment process. Since the only official standard the auditors have to perform this assessment is the PCAOB Auditing Standard No. 2, they are subjecting management to these same requirements. Therefore, the use of the word "required" in this letter translates into requirements set by the external auditors vis-a-vis PCAOB Auditing Standard No. 2. We encourage the SEC to evaluate whether this was the Commission's intent when they promulgated its requirements for SOX 404. If it was not its intention to subject companies to the same rules as external auditors, we recommend that the Commission clarify this point.

Although these recommendations are not large in number, the impact that these recommendations will have on decreasing the costs of sustaining SOX 404 on an annual basis will be significant.

We are available to discuss the points raised above or other issues concerning SOX 404 in more detail at your convenience.

Sincerely yours,

Dr. Helmut Perlet  
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Group Controlling, Accounting, Taxes,  
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