

COUNCIL OF INSTITUTIONAL INVESTORS

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May 1, 2006

The Honorable Christopher Cox
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Bill Gradison
Acting Chairman
Public Company Accounting Oversight Board
1666 K Street, N.W.
Washington, DC 20006

Dear Chairman Cox and Acting Chairman Gradison:

The Council of Institutional Investors, an association of more than 130 corporate, union, and public pension plans with more than \$3 trillion in assets, is pleased to comment on Section 404 of the Sarbanes-Oxley Act of 2002. We commend the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) for hosting the May 10 roundtable to discuss issues relating to implementation of Section 404.

The Sarbanes-Oxley Act was enacted in response to a shocking series of corporate scandals, including many resulting from lax or inadequate internal controls. The costs of these scandals—from company-specific losses to a widespread loss of confidence in the integrity of the U.S. capital markets—were staggering. From the stock market peak in 2000 to the market trough in the third quarter of 2002, the S&P 500 lost almost half of its value. From the start of 2002 through the fall of 2002—a period of widespread corporate scandals and frauds—the S&P 500 lost about 19.5 percent of its value. All investors in the U.S. markets, from large institutional investors to individuals investing their hard-earned savings, were impacted by these frauds.

As a leading voice for long-term, patient capital, the Council believes the post-Enron reforms promulgated by Congress, the SEC, the PCAOB, the stock exchanges and other regulatory agencies have played a vital role in restoring investor confidence and the overall integrity of our financial markets by strengthening investor protections, modernizing corporate governance standards for public companies, enhancing the “tone at the top,” invigorating boards of directors and audit committees, ensuring internal controls are adequately funded and not dismissed as “cost centers,” and increasing the

