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May 1, 2006

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

Re: File Number 4 - 511

Dear Ms. Morris:

PricewaterhouseCoopers LLP appreciates the opportunity to provide our perspectives to the Securities and Exchange Commission ("SEC" or "Commission") and Public Company Accounting Oversight Board ("PCAOB") on *Implementation of Internal Control Reporting Provisions: Year Two*, the topic of the upcoming roundtable to discuss second year experiences with the reporting and auditing requirements of the Sarbanes-Oxley Act of 2002 ("SOX") related to companies' internal control over financial reporting.

We continue to see a clear, positive change in the control consciousness of those involved in the corporate reporting process as a result of SOX. We attribute much of these changes to the implementation of the requirements of Section 404. The efficiency and control environment improvements that we have seen over the past two years support our belief that Section 404 and the related implementing regulations are fundamentally sound. We do not believe that significant changes are required, and we fully support the application of Section 404 to companies of all sizes.

We have documented our support of SOX and Section 404 in several letters issued in response to the Commission's request for comment:

- April 3, 2006: File No. 265-23; response to the Advisory Committee on Smaller Public Companies ("Advisory Committee") draft recommendations.
- October 31, 2005: File No. S7-06-03; request for comment on certain maters related to management's report on internal control over financial reporting and certification of disclosures in Exchange Act periodic reports of companies that are not accelerated filers.
- September 2, 2005: File No. 265-23; request for input by the Advisory Committee on ways to improve the current regulatory system for smaller companies under the securities laws of the United States, including SOX.

Benefits of Section 404

Section 404 triggered changes in control consciousness among key stakeholder groups in the capital markets network and the corporate reporting process, including management teams, audit committees, boards of directors, investors, regulators, attorneys, analysts, and auditors. We believe this heightened focus on the production of reliable financial reporting, predicated on effective internal control, is very positive. The improvement we began to see in Year one of Section 404 compliance has continued in Year two. Specifically:

- Registrants remain vigilant about maintaining effective systems of internal control and identifying and remediating internal control deficiencies, which improves the reliability of the financial information provided to the marketplace.
- In Year one, Section 404 provided the catalyst for reducing the backlog of deferred maintenance on existing systems of internal control. With a significant portion of deferred maintenance completed in Year one, Year two has shown management’s focus on making more permanent control improvements and streamlined control processes. During the 2005 audits, we began to observe a shift in management's approach to Section 404 from a periodic compliance exercise towards an ongoing process and sustainable mindset embedded into everyday operations. We also have seen positive change in internal control ownership, as it has evolved from being vested primarily in the finance and accounting functions to achieving broader ownership, including executive, business unit, and operating management.

  Our research shows that as of April 17, 2006, 78% of registrants whose internal control over financial reporting was determined by management and the independent auditors to be ineffective in Year one of filing under Section 404 have reported no material weaknesses in Year two.
- Audit committees and boards of directors are more attentive to their fiduciary responsibilities related to financial reporting. They have become substantially more engaged in overseeing the financial reporting processes and internal control environments of the companies they serve.
- Investors and analysts currently are being provided greater transparency into the quality of registrants’ financial reporting processes, allowing them to make better informed investment decisions.
- Audit firms have realigned and enhanced their relationships with audit committees; extensively trained their partners and staff on auditing internal controls; applied a risk-based approach; and enhanced their audit approach to more fully integrate the evaluation of internal controls with the performance of the financial statement audit. These changes and enhancements, coupled with external regulation, have improved the quality of audits.

Benefit of Auditor Attestation

We believe that the requirement for auditor attestation of management's assertion regarding the effectiveness of internal control over financial reporting is a driving factor behind the achievement of the benefits noted above. While companies have been statutorily required to maintain effective internal controls since the passage of the Foreign Corrupt Practices Act of 1977, it was not until the Sarbanes-Oxley Act and Section 404 that we witnessed the above-mentioned increase in the level of control consciousness over financial reporting. For this reason, we oppose the recommendation of the Advisory Committee to eliminate the auditor attestation requirement for smaller public companies. The elimination of auditor attestation would have a detrimental impact on the discipline this requirement inspires and the benefits derived there from.

Exemptive Relief Proposed by the Advisory Committee

We also oppose the Advisory Committee's recommendation to provide exemptive relief to almost 80% of all registrants. Because of the benefits derived from the existing Section 404 requirements, we do not believe that exemption is in the best interests of the capital markets or investing public. We are also concerned with the confusion that would be generated by varying regulatory standards based on the size of the registrant.

While the benefits derived from effective internal control over financial reporting are clear to most stakeholders, critics of Section 404 say that these benefits are delivered at too significant a cost.

We believe that efficiency related to Section 404 work has increased dramatically since Year one and further efficiencies will be experienced in the future. Experience in the first year, coupled with guidance from the SEC and PCAOB, contributed to significant efficiencies in Year two for both management's and the auditor's processes. Continued experience will allow management and auditors to make further improvements in the efficiency and effectiveness of their processes for companies of all sizes.

We are sensitive to the concerns expressed by smaller businesses that the approach and tools developed for larger companies have not yet been effectively scaled to recognize the characteristics and needs of smaller companies. We believe that smaller companies will benefit significantly from the experiences of earlier adopters—from the standpoint of both the registrant and the auditors—and will see a more efficient Year one process than that of the accelerated filers.

However, it would likely be helpful for this sector of the market to have available additional tools and guidance to minimize disruption in the initial year of compliance and to ensure effective application of best practices. We believe preparers, the profession, and regulators should develop processes that are responsive to the unique challenges of smaller companies and also achieve the intended investor protection goals of Section 404 in a cost-effective manner.

In order to develop these processes and tools, we have proposed the development of a pilot program. We envision a cooperative process whereby the approach for evaluating internal control for a small sample of companies could be studied by a task force of regulators, registrants, and auditors. Working collaboratively, this task force would bring together the best and most experienced minds on evaluating internal controls to determine the most effective, most efficient, and least disruptive means of obtaining the support necessary to assess and audit the effectiveness of internal control over financial reporting. The results of this study would be used to identify best practices and tools for evaluating internal control in accordance with the requirements of Section 404. While created to address smaller company concerns, we believe that a study of this type would provide invaluable information for companies of all sizes.

Cost of Compliance

We are confident, from our own experience and the findings of a recent survey commissioned by the larger accounting firms and performed by CRA International, that implementation costs are falling substantially from first-year levels.

The results of the study, based on data related to a random sample of audit clients of various sizes, updates information provided in two earlier surveys and confirms an expectation of substantial declines in total implementation costs for the surveyed companies in the second year of implementation. In the survey, total 404 costs (including internal costs, third party costs, and audit fees for the Section 404 internal control audit) declined significantly, falling nearly 31% for companies with less than $700 million in market capitalization and nearly 44% percent for companies with more than $700 million in market capitalization. For the smaller public companies, this percentage reflects a reduction from over $1.2 million of total costs in Year one to less than $900,000 in Year two. For larger public companies, this percentage reflects a reduction from over $8.5 million of total costs in Year one to less than $4.8 million in Year two.

The data confirms that a large portion of first-year costs reflected start-up expenses and one-time factors, including deferred maintenance. Significant initial investments in documentation and remediation will not have to be repeated in subsequent years. Based on the efficiencies to be gained from another year of experience by both management and auditors, we expect further reductions in Year three. However, understanding that it will take time to realize maximum efficiency, we believe it is more appropriate to allow the process to achieve a steady state, rather than reacting prematurely by making significant changes to the current Section 404 reporting requirements or to PCAOB Auditing Standard No. 2. Such changes would create more disruption and inefficiency and potentially dilute the effectiveness of the process.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions that the SEC or PCAOB may have. Please do not hesitate to contact Vincent Colman (973-236-5390) or Ray Beier (973-236-7440) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

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