

The International Association of Small Broker Dealers and Advisors

1620 Eye Street, NW, Suite 210 Washington, DC 20006

202-785-8940 ext. 108

pchepucavage@plexusconsulting.com, www.iasbda.com

The International Association of Small Broker-Dealers and Advisers, www.iasbda.com submits the following comments on the above referenced proposal. The Association appreciates the continuing efforts by the Commission and staff to be fair to small companies. We believe that the staff when studying costs should focus its attention on how much of the costs are attributable to potential liability. From our experience we think that the costs of actually doing the work in most cases is \$25,000 for pre audit assistance and \$75,000 to \$125,000 for the actual audit which is not that far from the original number of \$91,000 indicated in the original discussions by the Small Business Advisory Committee. Part of these costs include time spent by the internal staff to prepare for the audit. See also ;

RAND Corp. study shows "empirical evidence" of steeper relative costs, stock impact, and flight from public markets after 404, but calls the findings "qualified." [Roy Harris](#), CFO.com, January 29, 2008

A recent study on the costs of Section 404 compliance for small companies was woefully understated, observers agree. [Alix Stuart](#), CFO.com, January 29, 2008.

However the few small accounting firms left to do this work face almost unlimited liability for what can only be a marginal profit if these numbers are accurate. Much of the analysis on these costs has been strategic rather than tactical. We think this is an opportunity for the staff to ask specifically how much will it cost and how much of that cost is attributable to potential auditor liability and how much those costs will reduce for subsequent audits

The staff should also specifically ask about the specific internal costs in preparing for the audit. We think however that an educated guess will reveal the numbers similar to those noted above. The question then is whether that is a reasonable cost to impose on these small companies. We believe that once those numbers are formulated they should be discussed in a Roundtable in order to be very specific about their impact on companies that may have very little in assets or net worth. We recommend that the Commission thereafter consider phasing in the audit requirement starting with the larger non-accelerated filers

and delaying the 25 million and below market cap companies. While there will surely be concern expressed about further delay by those representing large companies and institutions we would respond by saying look around at which size firms contributing to the subprime crisis seem to have lacked good internal controls when they were subject to the audit requirement. As noted in a February 12, 2008 WSJ article about AIG:

PricewaterhouseCoopers's finding that there was a material weakness in (AIG'S) internal controls used to value the insurance contracts is one of the first of its kind involving a major company since the financial crisis erupted last August, said Mr. Cheffers. He added that more such findings could come as auditors go through year-end numbers, which are more closely scrutinized than quarterly figures.

A regulatory delay is always better than the destruction of the next Microsoft and a 2- 3 year phase-in will allow for an even more precise determination of costs especially in the face of a possible recession. The Commission cannot fail to recognize that over the last 10 years, the major losses to both shareholders and the economy have not come from the non-accelerated filers.

Peter J. Chepucavage
General Counsel
Plexus Consulting
202-785-8940 ext 108.

[Donate to fallenheroesfund.org](http://fallenheroesfund.org)
