



September 18, 2006

Nancy M. Morris  
Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

File No.: S7-11-06

*Concept Release Concerning Management's Reports on Internal Control Over Financial Reporting*

Dear Ms. Morris:

The Small Business & Entrepreneurship Council (SBE Council) is pleased to submit comments regarding Concept Release Concerning Management's Reports on Internal Control Over Financial Reporting. We thank the Securities and Exchange Commission (SEC) for its awareness of the concerns and burdens faced by small public companies with respect to Sarbanes-Oxley (SOX), specifically Section 404. In that context, the SBE Council fully supports the SEC proposal that provides further implementation delays for non-accelerated filers, and for newly public companies.

Based on feedback the SBE Council has received from small public companies, members of our organization whose firms have abandoned the IPO process due to the high costs and risks associated with SOX, as well as those who view SOX as an unreasonable and generally unattainable price of entry to the public markets, and a barrier that could inhibit acquisition opportunities, there is strong sentiment that the Commission enact meaningful changes that direct SOX to its intended purpose.

With respect to feedback that the SEC specifically seeks in its current concept release, additional guidance would be a welcome step *if* it leads to:

- Relief from excessive costs, as well as unproductive time expended by the entrepreneur/CEO and his or her management team on SOX-related issues at the expense of business growth activities, investment and innovation.

- Expeditious, clear and decisive action by the SEC so firms can make rationale planning decisions with respect to resource allocation, and execute with certainty on their business plans.
- Flexibility that takes into account business model variety and size, and currently effective and straightforward financial procedures and statements utilized by smaller companies.
- An “opt out” option for smaller public companies.

The SBE Council continues to support the recommendations of the Advisory Committee on Smaller Public Companies. The scaled regulatory approach outlined by the Committee, based on revenue, appears to be a reasonable and workable framework that takes into account the fact that smaller and growing firms have limited resources and personnel, and are dynamic in nature.

A tiered approach matches the goals of the Commission in its concept release (as well as the intentions it has communicated leading up to its release) – that is, guidance be “scalable and responsive to individual circumstances.” SBE Council members fully support a regulatory approach that is scaled to smaller firms -- small public companies that have responded to a survey administered by the SBE Council have yet to see *any* benefit from their vast expenditures on compliance, or efforts to “tee up” fully once extensions expire.

In issuing guidance, the SBE Council believes the Commission move forward with *principled-based* guidance in order to achieve the flexibility and scalability it intends to advance. The guidance should, in either a voluntary or mandatory system:

- Emphasize a top-down, risk-based approach.
- Focus on key areas of risk that SOX was originally intended to address.
- Be consistent with PCAOB changes, Accounting Standard #2 (AS2), in the post-reform environment.
- Allow internal control testing only when there are changes in established baseline controls, not simply because “it’s time.”
- Move to a rotational audit system – every three years, for example, after year-one compliance is satisfied.

The SBE Council recommends that the Commission further delay both the management assessment and the external auditor attestation requirements for non-accelerated filers and newly public companies until expected changes by the Commission and the PCAOB (AS2) are fully adopted.

pg. 3, SEC Comments, S7-11-06  
Kerrigan

With respect to the recommendations outlined by all comments received, SBE Council kindly requests that the Commission provide a summary of those that may require legislative action by the U.S. Congress.

Thank you again for your efforts to improve SOX, Section 404 compliance through additional guidance.

Sincerely,

A handwritten signature in black ink, appearing to read "Karen Kerrigan". The signature is fluid and cursive, with the first name "Karen" and last name "Kerrigan" clearly distinguishable.

Karen Kerrigan  
President & CEO

**Protecting Small Business, Promoting Entrepreneurship**

1920 L Street NW  
Suite 200  
Washington, DC 20036  
(202) 785-0238  
<http://www.sbecouncil.org>