September 18, 2006

Securities and Exchange Commission
C/o Nancy M. Morris, Secretary
100 F Street, NE
Washington, DC 20549-0609

RE: File No. S7-11-06: Concept Release Concerning Management's Reports on Internal Control Over Financial Reporting

Dear Ladies and Gentlemen,

On behalf of the Principal Financial Group, we appreciate the opportunity to provide our input on the Security and Exchange Commission's (Commission) goal "to develop practical guidance for companies to help improve the reliability of financial reporting and to make Section 404 implementation more efficient and cost effective for investors". We believe additional guidance will not only make the assessment and attestation process more effective and efficient, but it will also improve the consistency of the documentation and testing performed and the level of effort expended by issuers and external auditors. We understand that it is difficult to provide meaningful guidance that will benefit each and every issuer since many factors will affect each company and situation differently. As a result, a balance must be reached between providing too much detailed guidance where the assessment becomes too rules-based and where the guidance is too general and there is little consistency among issuers and auditors. We appreciate your efforts to reach this balance though providing additional principles-based guidance supplemented with expected ranges and applicable examples.

We believe that any new guidance issued by the Commission as a result of this process should incorporate the current status of the previously issued Frequently Asked Questions and Staff Statements of the Commission.

The following are our comments and recommendations for guidance relating to the questions listed in the Concept Release by the Commission.

Scope of Management's Assessment

We would appreciate guidance on the determination of what processes and controls should be included in management's assessment of internal control over financial reporting. In most large and diverse companies, there may be hundreds of processes and thousands of controls that impact the financial statements and notes to the financial statements (footnotes) of the company. Each process and control affects the accuracy and reliability of the company's financial reporting in a different manner. Some are more material than others, some are more complex, some are more subjective, some more critical, some more routine, some more pervasive, etc. The identification of the processes and controls to be documented, tested, and evaluated has the greatest impact on the amount of time and effort management and the external auditors expend on the evaluation of internal controls.

Additional guidance is needed on the quantitative and qualitative factors that should be considered when identifying processes that have an impact on management's assessment of the effectiveness of internal control over financial reporting. A thorough discussion of the factors to consider along with several examples would be very helpful to this identification. Since footnotes include many amounts from many different sources and processes, the guidance should include the factors that should be evaluated to determine which footnotes and which related processes are in scope. We obviously do not expect that the guidance will provide for all the situations or circumstances that may exist, but a thorough discussion of the factors and the thought process that must be undertaken to identify in-scope processes and controls with applicable examples may make the assessment more efficient.

It would be appreciated if quantitative guidance can be provided, in the form of ranges, regarding how much of the financial statements and footnotes should be covered by the processes determined to be in scope. Is there a range where the percent "coverage" of the financial statements and footnotes would be considered adequate to the assessment? In other words, what percent of assets, liabilities, revenues, etc. would be sufficient if addressed by the processes and controls that are documented and tested by management? A minimum and maximum range could be used to streamline the scope of the assessment. Qualitative factors play a significant role in the identification of in-scope processes and controls and need to be considered along with the quantitative ranges. Again, examples may be helpful to understand the Commission's guidance in this area.

Extent of Documentation and Testing of Controls

Once the in-scope processes and controls have been identified, each of them has a different impact on the accuracy and reliability of the financial statements and footnotes, as stated earlier. We don't feel that just because a process and/or control has been determined to be in-scope that it is required to have the same level of documentation and/or testing as the other processes. The same factors that are used to identify in- and out-of-scope processes and controls, should determine the extent of documentation and testing is required. Higher-risk processes and related controls should be documented and tested in more detail than those that are determined to be of lower risk or importance. For lower-risk processes and controls, we also believe that rotation of the controls that are tested or smaller sample sizes should be acceptable. Guidance regarding this concept would also be appreciated, including examples.

On a related matter, we believe that inquiry and observation and self-assessments should be a valuable testing technique. Certainly this type of test is not as reliable as examination and/or reperformance, but it can be a valid type of test if used properly. For in-scope processes and/or controls, we believe that this type of testing method can be used for those determined to be lower-risk or less important/critical. Controls can be tested in different manners; no one type of test is required for each type of control. Different testing techniques can give management different levels of assurance. If less assurance isn't needed due to the determination of the risk or importance of the process or control, then a test that is more efficient to perform while providing evidence of effectiveness should be acceptable. Using such testing, where appropriate, would make the assessment process more efficient. The Commission's direction on the use of inquiry and observation or self-assessment testing, including in what circumstances it is acceptable is appreciated.

Use of "Top-Down" Approach

There has been a lot of discussion about using a "risk-based, top-down" approach to the assessment. Many of our comments above have focused on clarification of a risk-based" approach. Clear guidance is also needed on the application of a "top-down" approach with specific examples as to where it would be appropriate. We believe that the analysis of in- and out-of-scope processes, including the risk assessment process, should be part of the determination of when an entity-level control may be relied upon in place of specific process- or transaction-level controls. A lower-risk process or control may not need to be tested or not tested to the fullest extent if there are entity-level controls in operation that provides adequate assurance that the corresponding financial statement assertions and risks are mitigated. Doing so could result in a more efficient assessment process.

IT General Controls

We currently utilize *IT Control Objectives for Sarbanes-Oxley*, published by the IT Governance Institute, for identification of the IT general controls that we consider in-scope for management's assessment. This framework is very comprehensive and recommends controls that appear to be more operational than financial in their focus. As a result, we have spent a great deal of effort rationalizing and documenting why a recommended control should be considered out-of-scope. Several controls are in a gray area and have ended up in-scope and require extensive detailed documentation and annual testing to support our assessment. It would be helpful if the Commission could provide more detailed guidance as to which IT-related controls impact the financial reporting process and should be included in our assessment.

Control Deficiencies

In the past, we have considered various sources when identifying potential control deficiencies for evaluation of significance. Not only do we include exceptions from our testing of controls, we have also considered management's identification of financial statement misstatements that relate to prior quarters or years. These have historically been errors that have been considered immaterial, not requiring restatement of previously issued financial statements. We have also evaluated control issues identified by internal audit and other regulatory bodies when performing examinations of our operations not directly related to the management's assessment. If it impacts internal control over financial reporting, then it has been included in our identification and evaluation of control deficiencies. It would be helpful to get the Commission's guidance on the potential sources of control deficiencies that should be considered by management when assessing their controls.

More definition around what constitutes a significant deficiency and material weakness, along with related examples, is needed to provide management the tools to more accurately and consistently identify and report such matters. This guidance should include how to best perform the aggregation analysis as well; again examples would be very helpful. As you know, the concept of "more that inconsequential" has lowered the level for which deficiencies are included. In addition, this concept is extremely vague and difficult to apply with the existing guidance. More clear guidance is needed from the Commission as to what does or does not constitute something that is "more than inconsequential". Certainly, quantitative and qualitative factors need to be considered. The factors considered most significant to this evaluation should be described in detail and examples provided if possible. We would encourage the SEC to provide a percentage range of various financial information that should be analyzed as part of the evaluation of what is "more than inconsequential", as well as those that should be considered "material". Again, providing this direction would eliminate confusion and greatly enhance the comparability and consistent in the deficiencies reported as significant or material.

External Auditors' Use of the Work of Others

It still does not appear that the external auditors are utilizing the work of others to the extent they could in order to improve the efficiency of their attestation. We don't believe the auditors are applying the risk-based or top-down approach to take advantage of the procedures performed by qualified and objective management testers or internal auditors. External auditors continue to use an extremely conservative approach to the attestation in order to obtain what they believe to be their principal evidence. More adequate planning and analysis of risks by the external auditors should allow a greater use of other qualified individuals resulting in a potentially more effective and timely attestation, not to mention more efficient. We would appreciate the Commission and the PCAOB working together to provide clear guidance, either through the PCAOB inspection process or through new audit standards, to convince external auditors that it acceptable to use the work of others to a much greater extent than they have in the past.

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Again, we appreciate the opportunity to provide our input to the Commission for you to consider as you develop guidance for companies in order to make Section 404 implementation more efficient and cost effective.

Very truly yours,

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