

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

September 19, 2006

**Re: File No. S7-11-06 – Concept Release Concerning Management’s Reports on Internal Control over Financial Reporting**

Dear Ms. Morris:

ABN AMRO<sup>1</sup> is pleased to provide our comments to the United States Securities and Exchange Commission (the “SEC” or the “Commission”) in response to the request for comment in Concept Release 34-54122 *Concerning Management’s Reports on Internal Control over Financial Reporting* (the “Concept Release”) issued by the Commission on July 11, 2006.

ABN AMRO values the importance of a strong internal control environment in ensuring the financial statements are transparent and materially correct. Over the past two years, ABN AMRO has devoted significant time and effort towards complying with the spirit and the letter of the law. Based on that experience, we believe there is both opportunity and need for complying in a more efficient and risk-focused manner.

ABN AMRO strongly supports the SEC’s interest in and efforts towards providing additional interpretative guidance to assist management in its assessment of internal control over financial reporting. ABN AMRO hopes that the SEC’s response to the many questions posed before it over the past several years will encourage the Public Company Accounting Oversight Board (“PCAOB”) to heed the lead taken by the Commission and adopt similar guidance; with the end goal being integrated literature assisting both registrants and external auditors. ABN AMRO encourages the SEC to consider that any interpretative guidance issued be principles-based as opposed to rules-based. We believe a principles-based standard is more likely to be sufficiently flexible enough to accommodate the needs of different industries and global and local models. Further, any interpretative guidance should consider the potential for further alignment with international regulations as well as rules promulgated by the PCAOB.

As a foreign private issuer, ABN AMRO faces unique challenges in complying with the provisions of the Sarbanes-Oxley Act of 2002 (the “Act” or “SOXA”), and particularly with Section 404. In addition to the provisions of the Act and other US rules and regulations, ABN AMRO faces other and varied

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<sup>1</sup> ABN AMRO is an international bank, and a foreign registrant on the NYSE. ABN AMRO ranks 8th in Europe and 15th in the world based on tier 1 capital, with more than 3,700 branches in 52 countries, a staff of over 105,000 full-time equivalents and total assets of EUR 986 billion (as at 30 June 2006).

jurisdictional regulations in the myriad of regions in which it operates, such as Europe, the Pacific Rim, and South America. For instance, we must comply with the Dutch version of SOXA, "Tabaksblat" (The Dutch Corporate Governance Code) which went into effect on January 1, 2004. In relation to other foreign private issuers, ABN AMRO is not unique; the cost and effort to comply with both regulations of our home region and SOXA places an additional burden on all foreign filers compared to domestic registrants listed on US exchanges.

Our comments focus on the following five topics of primary importance to us, out of the 35 questions in the Concept Release. We included a cross-reference to the questions listed in the Concept Release for your convenience.

- I. Information Technology Controls (Questions #29 and #34)
- II. Unique needs of a foreign private issuer (Question #2)
- III. Entity level controls guidance (Questions #15, #19 and #20)
- IV. Evaluations; specifically the work of others (Question #1)

While we will discuss each topic in greater detail below, ABN AMRO selected the aforementioned five topics as these represent what we perceive to be areas of greatest potential relief in terms of effort and cost to registrants; areas where we have struggled with how to apply or interpret the guidance available; or where we believe we have additional insight to share with the Commission.

#### I. Information Technology ("IT") Controls

Of the four areas outlined in this letter, ABN AMRO believes IT controls require the most attention by the Commission. ABN AMRO seeks further clarification from the SEC in the following areas.

1. The linkage of IT general controls to the financial statements;
2. The triggers for applications to be included in scope; and
3. Aggregating IT control deficiencies.

With respect to item one, the lack of interpretative guidance and a conservatism of interpretation to date has led organizations to create overly broad scopes with respect to IT applications and IT General Controls. Not only does this increase the overall cost by performing extraneous testing, the lack of clarity may still leave risks unaddressed. The discussion document, "*Guide to the Assessment of IT General Controls Scope Based on Risk ("GAIT")*," states that neither the COSO nor COBIT frameworks provides a clear or unambiguous linkage from IT processes to the achievement of financial statement objectives<sup>2</sup>. As such, ABN AMRO proposes that the SEC consider the following when considering the need for additional guidance:

- The flexibility to use an IT framework or approach that more explicitly links the IT processes to the financial assertions providing the link between COSO and COBIT; and
- A list of considerations to scope IT applications to focus on material financial risks.

With reference to the second bullet point above, consider the following theoretical example. A system matches trade details but does not directly "feed" or interface with the general ledger system. This system is important from a business perspective, but what about from a SOXA perspective? If a trade were improperly matched, it would be detected via downstream controls such as balancing with various exchanges, cash reconciliation processes and confirmations with the counterparties. As such, is this system integral to ensuring the financial statements are materially correct when other controls seemingly achieve the same objective? Some might view these systems as generally "de-

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<sup>2</sup> GAIT, Discussion Document Version 2 dated April 11, 2006, as taken from the Institute of Internal Auditors website ([www.theiia.org](http://www.theiia.org)).

scoped” unless they have significant authorization controls. A review of the GAIT literature combined with our own assessment leads ABN AMRO to believe we have adequate controls in place that would allow us to de-scope such a system<sup>3</sup>. But the lack of clarity can and does result in significantly different views as others may view such a system as “in-scope”. In practice, if disparate views are held by the company and external auditor, the result often is significant rework at a high cost. Additional guidance would help management to make this distinction and clarify the types of applications and controls that should be considered as part of SOXA.

Finally, we would like clarifying guidance in aggregating deficiencies in IT General Controls or specific application controls to a significant deficiency or material weakness, specifically as it relates to the quantification in terms of dollar exposure. Assistance in identifying factors to consider when making the assessment rather than a set of rules would in our view be of the most benefit.

## II. Unique Needs of a Foreign Private Issuer

ABN AMRO considers the needs of the foreign private issuer to be unique and these needs continue to require particular additional consideration. Current guidance is limited and generally “plain vanilla” in that it does not take into consideration the circumstances of the foreign private issuers who must comply with its provisions. While giving credit to the SEC for past attempts to direct the external auditing firms to apply less of a “one-size-fits-all” approach to SOXA, the practice of registrants is that this continues to be the case. ABN AMRO proposes the Commission consider the following two areas when contemplating the need for clarifying guidance.

First, the differing accounting standards of domestic and foreign filers has led to confusion as to what accounting standards prevail in the SOXA environment. While the regulation was issued in the US (meaning US Generally Accepted Accounting Principles (“GAAP”) is implied), ABN AMRO files its Form 20-F based on International Financial Reporting Standards (“IFRS”) with a footnote reconciliation of significant differences to US GAAP.

As an illustrative example, consider that a control does not detect an IFRS error, but does detect and correct a US GAAP error. Should the error be considered a SOXA deficiency even if the US GAAP information is correct? Or does SOXA apply equally to both principal accounting models employed by foreign private issuers, thus potentially doubling the work? If a distinction should be drawn, what accounting standard should prevail – the primary accounting basis used by the registrant or US GAAP? The SEC’s willingness to eventually eliminate the reconciliation requirement entirely<sup>4</sup> would suggest that from a SOXA perspective a European filer should focus on IFRS reporting and controls. This would allow for an element of relief on testing additional add-on processes related to the US GAAP reconciliation while maintaining the spirit of SOXA.

ABN AMRO believes the current lack of comity, the courteous recognition by one nation of the laws and institutions of another, effectively holds foreign registrants to a higher standard than domestic registrants and increases overall compliance costs, putting the foreign registrant at a competitive disadvantage to their US counterparts. This statement is validated by comments made by SEC Staff Member Paul Atkins in June.<sup>5</sup> While the global movement of adopting “SOXA-like” regulations is laudable, we feel there should be international SOXA standards developed holistically, much like the accounting standards are progressing internationally.

<sup>3</sup> GAIT, Discussion Document Version 2 dated April 11, 2006, as taken from the Institute of Internal Auditors website ([www.theiia.org](http://www.theiia.org)).

<sup>4</sup> Speech by SEC Staff, Ethiopia Tafara, Director of the Office of International Affairs, December 1, 2005, before the Federation of European Accountants: International Financial Reporting Standards and the US Capital Market.

<sup>5</sup> Speech by Paul Atkins, Commissioner, June 7, 2006, before International Law Association’s 72nd Biannual Conference.

### III. Entity Level Controls Guidance

Although the Public Accounting Oversight Board (“PCAOB”) has expressed the view that, in order to properly plan and perform an effective audit under Auditing Standard No. 2, companies should use a top-down approach that begins with company-level controls; this area needs clarification on *how* to successfully implement a top-down approach that can reduce the testing effort. For instance, if effective entity level controls can reduce the nature, timing and extent of transactional controls, how can management practically implement this? The nature of entity level controls is often “soft” in that operation is often hard to evidence; how can registrants make a discernable linkage from entity level controls to more readily testable process level controls?

As part of any clarifying guidance, the SEC may consider additional reliance on entity level controls rather than transactional non-core financial activities for purposes of documentation and testing. An example might be a Credit committee’s oversight versus individual controls over authorization or approval.

ABN AMRO also believes the effective use of monitoring controls represents an opportunity to increase test efficiencies, especially when more faith is placed in them by the external auditors, as advocated by the PCAOB’s Tom Ray in a speech in June<sup>6</sup>. We believe monitoring controls can reduce the amount of specific transactional testing required or even eliminate the need to perform sample testing in low-risk, routine areas. However, the lack of flexibility in Auding Standard No. 2 has not allowed the external auditors to embrace monitoring control programs as a viable test option, resulting in continuing inefficiencies. We believe any real progress will only come if the SEC works closely with the PCAOB (who concurrently is re-evaluating the provisions of Auditing Standard No. 2) to align the standards and guidance to be provided in the near future.

In practice, ABN AMRO has found that the assessment of the effectiveness of entity level and process level controls are generally conducted as separate exercises. This generally does not engender a top-down or risk-based approach to scoping, as different accounts with different risk factors are treated in a similar fashion. Guidance from the SEC on how to address these issues would assist management and the external auditors in implementing a truly risk-based approach to SOXA scoping. Further, the Commission’s insight on the following would be of benefit to registrants: i) how a transactional level gap could be mitigated by an entity level control; and ii) cases when a prior period restatement would not constitute a material weakness.

### IV. Evaluations

Work of Others – while ABN AMRO understands the premise that the external auditor must obtain principal evidence of its assessment as to the effectiveness of internal control over financial reporting, the Commission should consider the practicality of limiting, in the form of a rule, the *extent* to which the external auditor can rely upon the work of others. We believe the cycle of testing (management/audit/management-refresh/auditor-refresh/year-end) has created “audit fatigue” on company personnel that could be greatly reduced if greater flexibility were allowed or clarification provided as to how the external auditor can use the work of others to reduce the nature, timing and extent of testing performed by them. The SEC has commented in the past that the audit of the financial statements and the audit of internal controls over financial reporting should not be separate. However, the ability to rely upon the work of others with respect to the audit of internal controls over financial reporting is more stringent. We see neither the logic nor necessity for this dual standard. Based on comments provided at various SEC Roundtable discussions, we believe that companies continue to see external auditors perform more testing than is warranted by the associated risks.

<sup>6</sup> Speech by PCAOB Chief Auditor and Director of Professional Standards, Tom Ray, at the 25<sup>th</sup> Annual SEC & Financial Reporting Institute conference, Pasadena, California.

Date  
19/09/06

Often, the additional testing is explained to be necessary to substantiate the financial reporting opinion or other standards, such as FDICIA, with which our US operations must comply.

Conclusion

ABN AMRO appreciates the opportunity to comment, and would be pleased to discuss our views with you further. If you have any questions or would like to discuss any comments further, please contact Mrs Petri Hofsté, Group Controller, at +31 20 6292418.

Sincerely,



Petri H.M. Hofsté  
Group Controller and Chief Accounting Officer  
ABN AMRO Bank N.V.