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

Management's Report on Internal Control Over Financial Reporting
Commission File No. S7-24-06

Dear Ms. Morris:

Ernst & Young LLP is pleased to comment on the Securities and Exchange Commission's (the "Commission" or the "SEC") proposed interpretive guidance regarding management's report on internal control over financial reporting (the "Proposed Guidance"). We strongly support the issuance of guidance for management regarding its evaluation and assessment of internal control over financial reporting and believe the Proposed Guidance can assist companies of all sizes, and in particular smaller, less complex public companies, in conducting efficient and effective annual assessments.

In our September 18, 2006 comment letter to the Commission on its Concept Release, we expressed our belief that issuers have benefited from the discipline, rigor and focus on financial reporting and the associated evaluation and reporting on internal control. We also believe that investors have benefited through a greater focus on corporate governance, enhanced audit committee oversight, higher quality financial reporting, and enhanced transparency. We believe the Proposed Guidance is consistent with the continued achievement of these positive outcomes.

We also continue to support the Commission's goal of reducing unnecessary costs and work associated with the implementation of Section 404, while providing the same benefits and protections to investors. We believe the Proposed Guidance will help companies achieve these goals. Experience shows that internal costs—costs resulting from management fulfilling its obligations as opposed to fees paid to independent auditors—have been the largest component of total Section 404 costs for issuers, not only in the initial year of implementation but also in succeeding years. We believe the principles-based Proposed Guidance will allow appropriate management judgments in the execution of a top-down, risk-based approach and will provide opportunities for larger issuers to review existing management assessment processes to identify cost-effective incremental improvements or efficiencies. At the same time, we also believe the Proposed Guidance is scalable to smaller companies and, in fact, may be of greatest benefit to management of non-accelerated filers and newly public companies that have not yet conducted an assessment under Section 404.

We believe the Proposed Guidance articulates the principles and objectives for management's assessment, and gives considerable flexibility to management in determining the detailed manner in which the assessment may be conducted consistent with those principles and objectives. Audit firms, issuers, and regulators have all observed that the nature and quality of management's assessment under Section 404 can have a direct effect on the amount of work the auditor must perform, particularly with respect to opportunities for the auditor to use the work of others. Accordingly, we suggest that the SEC consider giving greater emphasis in the Proposed Guidance to the point that management's choices with respect to reducing or minimizing its efforts could—depending on the nature of the work that management might elect to scale back—result in a need for the auditor to obtain more audit evidence directly. We believe that such a result may not always be the most efficient overall approach for an issuer as it seeks to optimize the combined reduction in effort. Thus, we believe bringing greater attention to this area would underscore the value of thoughtful collaboration among management, the independent auditor, and the audit committee as part of an issuer's efficient and effective management of its overall Section 404 efforts.

In the attachment to this letter we provide additional considerations related to certain topical areas within the Proposed Guidance where we believe issuers would benefit from further clarification, as well as our views on some of the specific questions on which the Commission has requested comment.

We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Very truly yours,

Ernst + Young LLP

Proposed Interpretive Guidance

Areas Requiring Further Clarification

We agree that management, and not the auditor, is responsible for determining the appropriate design and implementation of internal controls for the company as well as its evaluation methods and procedures under Section 404. However, in our experience, the alignment in the approaches taken by management and the auditor has itself provided significant overall efficiency and has resulted in higher quality assessments and audits. We understand the Commission's intent to allow significant flexibility for management in conducting its assessment, rather than following the requirements for auditors under PCAOB standards. However, the potential outcome is that management's Section 404 efforts become less closely aligned with those of the auditor. Accordingly, we believe that some management teams would benefit from additional clarification in certain areas where they are more likely to be unfamiliar with the principles-based objectives. These areas include the following:

Multiple Location Considerations. The Proposed Guidance does not include any factors to consider in determining locations to include within the scope of testing. Although we agree that management's assessment for a multi-location entity should be risk-based as opposed to coverage-based, the Proposed Guidance does not seem to fully acknowledge the practical reality that management's assessment of financial reporting risks—and therefore the controls that will need to be addressed in the assessment—often will focus on those locations that are quantitatively significant or otherwise significant based upon qualitative factors such as location-specific risks that contribute to consolidated financial reporting risks. Additionally, as we believe issuers may have difficulty in determining whether and how to test controls at locations that are neither quantitatively significant nor otherwise pose location-specific risks, we believe the Proposed Guidance could benefit by the inclusion of factors for management to consider when making risk-based multi-location judgments.

Scalability. Certain sections of the Proposed Guidance discuss scalability considerations for smaller public companies, such as the evaluation of financial reporting risks and the nature and extent of evidence needed to determine whether a control is operating effectively. We believe issuers may benefit from additional discussion regarding scalability in other areas, for example, the consideration of entity-level controls and considerations regarding the role of information technology general controls.

New Terminology. The Proposed Guidance introduces the terms "financial reporting risk" and "ICFR risk," which we do not believe are widely used in practice. Accordingly, we believe issuers could benefit from further description of their meaning, with practical illustrations and example applications where possible.

Risk-Based Evaluation of Evidence of the Operation of ICFR. We are supportive of the flexibility given to management in the Proposed Guidance to vary the nature, timing and extent of testing of identified controls in response to the assessment of risk. However, we are concerned that the lack of specificity may result in management's inappropriate reliance on activities that generally provide a less persuasive level of evidence that controls are operating effectively. For example, we believe management may have questions as to how to rely on ongoing monitoring activities or management's daily interaction with its controls or when to determine that such reliance is appropriate. We believe that heavy reliance on ongoing monitoring activities may be inappropriate if management has not determined that such activities are appropriately designed, and that a process by which findings are communicated and evaluated has been established. In addition, the effectiveness of monitoring activities, particularly higher-level reviews of the results of operations, are dependent on more detailed transaction-level controls that determine the data being used in the review is accurate and complete.

We believe the Commission should revise the Proposed Guidance to expand upon the considerations management should make when determining how and when to rely on less persuasive forms of evidence.

Entity-Level Controls. We agree that a central part of a top-down, risk-based approach is the consideration of entity-level controls. We believe the Proposed Guidance's emphasis on the consideration of entity-level controls is both appropriate and responsive to the large number of comments received on this topic in response to the Concept Release. However, the consideration of entity-level controls has been one of the most difficult challenges of Section 404's implementation for both issuers and auditors, and likely will remain so. We are concerned with the often-stated belief by some that such controls are not sufficiently leveraged in management's assessment or the auditor's attestation, because in most situations entity-level controls alone are not sufficient to prevent or detect a material financial statement misstatement. Accordingly, we believe the discussion of entity-level controls could be further clarified and expanded in section III.A. 1 of the Proposed Guidance.

Specifically, we recommend the Commission include additional guidance regarding considerations for establishing whether and how an appropriate "linkage" exists between entity-level controls and the company's identified financial reporting risks and the corresponding financial statement accounts and assertions that are affected. This additional guidance also could include (1) ways that entity-level controls that are only indirectly related to risks and the corresponding accounts and assertions (e.g., controls within the control environment) can affect risk assessment and control identification, and (2) ways that entity-level controls that are directly related to risks and the corresponding accounts and assertions can affect the nature, timing, and extent of testing of other controls. We also believe issuers would benefit from additional discussion of the considerations to be made when determining whether entity-level controls that directly relate to financial reporting risks and the corresponding financial statement accounts and assertions operate at a sufficient level of precision to adequately prevent or detect misstatements on a timely basis.

Finally, we strongly support the efforts of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to develop guidance designed to help companies monitor the quality of their internal control systems.

Documentation. We strongly support the inclusion within the Proposed Guidance of the discussions about “evidential matter to support the assessment,” which gives direction to management as to the nature and extent of documentation that would be expected to be retained in support of its assessment. We also agree with the considerable flexibility given to management as to what forms such evidential matter may take, and that the nature and extent of such documentation may vary depending upon the assessed level of risk. However, because issuers are interested in determining both how to complete their assessments and how the independent auditor completes its related audits in the most cost-efficient manner, we believe the evidential matter discussions within the Proposed Guidance should incorporate the concept that a higher quality management assessment generally can be more effectively leveraged by the independent auditor if it is accompanied by higher quality documentation.

Additional Aspects To Be Addressed

Evaluation of Deficiencies. We strongly support the statement in section III.B.1 of the Proposed Guidance that “management evaluates each control deficiency that comes to its attention.” However, as indicated in Footnote 74, management “discloses to the auditors and to the audit committee all *significant deficiencies* in the design or operation of controls which could adversely affect the issuer’s ability to record, process, summarize and report financial data and have identified for the issuer’s auditors any material weaknesses in internal control” (emphasis added). Additionally, we note that Commission regulations require management to disclose to the auditor any material weaknesses in internal controls. For clarification, we believe issuers and auditors would find it helpful if the Proposed Guidance directly acknowledged management’s responsibilities in this regard. For this purpose, the Proposed Guidance could refer to the definition of significant deficiency and material weakness in the PCAOB proposed auditing standard and indicate that management can use its judgment in determining whether a control deficiency, or combination of control deficiencies, is important enough to warrant the attention of those responsible for oversight of the company’s financial reporting (e.g., the audit committee) when evaluating whether a significant deficiency exists. This also would help management and the independent auditors reach agreement on matters that both believe should be brought to the audit committee’s attention.

Topics from May 2005 Staff Guidance and October 2004 Frequently Asked Questions. We believe that the topics addressed in the May 2005 Staff Guidance continue to be relevant. Though these topics appear to have been appropriately reflected in the Proposed Guidance, we observe that the Proposed Guidance is not mandatory and therefore retraction of the May 2005 Staff Guidance may not be in the best interest of issuers and investors. Additionally, we believe several topics within the Frequently Asked Questions (revised October 6, 2004) remain relevant and are not reflected in the Proposed Guidance. For example, many issuers have looked to the

Frequently Asked Questions for guidance regarding consolidation of entities based on characteristics other than voting control, consummation of a material purchase business combination during a fiscal year, requirements to assess controls over financial reporting of supplementary information, and requirements to disclose changes or improvements to controls made as a result of preparing for the registrant's first management report on internal control over financial reporting. We support the inclusion of these topics in the Proposed Guidance or the retention of the Frequently Asked Questions in some fashion.

We continue to believe there are a number of technical matters that the Commission could address in the Proposed Guidance or through additional Frequently Asked Questions that would significantly aid management of foreign private issuers in scoping and conducting their assessments of internal control over financial reporting. We summarize them by general category below. Although we are aware of the Staff's views on some of these matters, we believe the Commission should communicate them in some formal means.

Scoping Management's Assessment. For example, the use of primary GAAP (e.g., local country GAAP or IFRS) or U.S. GAAP, including whether any exclusions from scope will be permitted for entities for which management does not have the ability, in practice, to assess controls; and whether to include or exclude interim period reporting, U.S. GAAP reconciliation, or other disclosures required pursuant to their primary GAAP for which there is no corresponding requirement under U.S. GAAP

Evaluating Deficiencies. For example, whether or not to evaluate the effect on interim periods; and whether to use materiality measures established under the issuer's primary GAAP, U.S. GAAP, or both

Rule Amendments

Areas Requiring Further Clarification

Non-Exclusive Safe Harbor. Section IV of the Proposed Guidance states that "the proposed amendments would be similar to a non-exclusive safe harbor in that they would not require management to conduct the evaluation in accordance with the interpretive guidance, but would provide certainty to management that chooses to follow the guidance that it has satisfied its obligation to conduct an evaluation for purposes of the requirements in Rules 13a-15(c) and 15d-15(c)." We fully support the Commission making compliance with the interpretive guidance voluntary, which we believe will avoid a potentially significant level of incremental costs for issuers that currently have implemented an efficient and effective Section 404 assessment process. We are not entirely clear, however, what is meant by the term "safe harbor" in this context. That phrase has typically been used in the context of liability concerns, such as a "safe harbor" with respect to certain forward-looking statements under the Private Securities Litigation Reform Act of 1995. It does not appear that is the meaning intended here, but it would be helpful to clarify this matter.