



Pension Reserves Investment Management Board

84 State Street, Second Floor
Boston, Massachusetts 02109

Timothy P. Cahill, Chair
Michael Travaglini, Executive Director

February 23, 2007

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Re: File Number S7-24-06



Dear Ms. Morris:

On behalf of the Pension Reserves Investment Management (PRIM) Board, which manages some \$46.7 billion on behalf of past and present public employees in the state of Massachusetts, I wish to share our views on the SEC's proposed interpretive guidance to management on the implementation of Section 404, the internal controls provisions of the Sarbanes-Oxley Act of 2002.

First, allow me to share PRIM's strong support for Sarbanes-Oxley, which we believe has played a critical role in re-establishing public trust in U.S. capital markets and the reliability of public company financial data following the financial frauds at Enron, Worldcom and other major corporations. Looking back, it is evident that these frauds were easier to perpetrate and more difficult to uncover because of weaknesses in the companies' internal controls over financial reporting. We believe that Sarbanes-Oxley, particularly Section 404, has substantially strengthened the internal controls of companies that have filed reports under Section 404.

At the same time, we recognize that implementation of the new law has not been perfect. We recognize that previous guidance to management has sometimes lacked sufficient clarity and may not have fully recognized operational differences between larger and smaller companies. We applaud the Commission's efforts to enhance its guidance to management, which we believe should help eliminate unnecessary work, enhance efficiency and reduce Section 404 costs for many public companies. We also support the Commission's efforts to coordinate with the PCAOB in that Board's examination of auditing standards applicable to Section 404.

But much as we support efforts to reduce unnecessary costs, we firmly believe that investor protection must remain overriding objective in implementation of Sarbanes-Oxley. We implore the Commission to remain steadfast in protecting investors. Cost considerations must not become the driving force behind Sarbanes-Oxley or Section 404.

PRIM believes that investors in both small and large companies are equally entitled to appropriate assurances about a company's financial data and internal controls. In that regard, the

delays in Section 404 implementation for a class of smaller companies have exposed these companies' shareholders to an undesirable level of risk.

Smaller companies have historically been somewhat more prone to both financial fraud and misstatements than larger companies. This tendency has been exacerbated by the relatively slower implementation of Section 404 for the smallest companies. According to recent data collected by Audit Analytics, the number of restatements by companies with market cap of less than \$75 million continued their steady growth during 2006. Restatements by these smaller companies climbed by 42 percent last year and accounted for more than two-thirds of all restatements by U.S. public companies. While we agree that audits should be scalable to reflect company size, scalability does not mean a lower standard should apply.

We certainly value efficiency and support efforts to eliminate unnecessary work and expense in internal control reviews. But, in our view, it is even more important that reviews are effective. The Commission should continue to insist that management's assessment as well as the external audit are conducted with sufficient rigor to fulfill the Act's goal of investor protection

We commend the Commission's efforts to properly balance competing imperatives. We must remain cognizant of the enormous long-term consequences of stripping away needed protections. Strong capital markets are essential for America's economic prosperity. The markets, in turn, depend on investor confidence. To keep capital markets and our economy strong, we urge the Commission and all policymakers to continue to stand up for investors.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Travaglini", with a stylized flourish extending to the right.

Michael Travaglini
Executive Director
Pension Reserves Investment Management Board