



# BRITISH BANKERS' ASSOCIATION

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19 March 2007

Nancy M. Morris  
Secretary, Securities and Exchange Commission  
100 F Street  
Washington  
DC 20549-1090  
[rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Dear Ms Morris,

## **SEC Proposed Interpretation Guidance: Management's Report on Internal Control over Financial Reporting & Proposed Exchange Act Rule Amendments**

### *General Comments*

The British Bankers' Association welcomes the opportunity to comment on the proposed Interpretation Guidance: 'Management's Report on Internal Control over Financial Reporting'. We applaud the Commission's willingness to engage in a dialogue with filers to facilitate compliance with Section 404 of the Sarbanes-Oxley Act of 2002. As you may be aware, we are the principal representative body for banks operating in the United Kingdom. Our members comprise some 260 domestic and international institutions, some of whom are SEC registrants.

Whilst we recognise that Section 404 was intended to increase investor confidence in financial markets by improving the quality of financial disclosure and corporate governance – and believe the maintenance of effective internal control over financial reporting is vital to the preparation of reliable financial statements – many market participants (particularly foreign issuers) have found implementation and compliance with the regulations to be burdensome. We welcome, therefore, the steps taken by the Commission in its Staff Statement of 16 May 2005 and Concept Release of July 18 2006 to reduce the burden. This Interpretation Guidance is another welcome step.

We are pleased that the proposed guidance acknowledges and incorporates the approach advocated in responses made by constituents to the July Concept Release; particularly the need for consultation before implementation. We fully endorse the use of broad principles in favour of detailed and prescriptive rules. The importance of management's judgement is rightly recognised as a necessary precursor for the implementation of an effective top-down, risk-based approach.

Foreign registrants have now completed the first round of reporting under section 404 and as a result have devoted considerable time and effort to developing the procedures and structures necessary to comply. We are pleased, therefore, that the proposed guidance is not inconsistent with current practice but gives management greater ability to use its judgement. In order for the guidance to achieve the desired benefits, however, it is necessary to ensure that it is finalised and published in definitive form in good time to allow registrants to reassess their processes and

procedures in good time for the next reporting period. It is also necessary to ensure that the guidance is acted upon in practice by audit firms.

We support the proposed safe-harbour, resulting from the amendments to Exchange Act Rules 13a-15(c) and 15d-15(c) believing it will play an important part in enabling management to use its judgement when operating within the Commission's guidance. Flexibility of approach in the evaluation process is also welcome.

In conclusion, whilst we recognise and support the due process that the guidance has rightly been subject to, we urge the SEC to promulgate the guidance as promptly as possible and to work with the PCAOB to ensure that it is acted upon by audit firms in practice.

Yours sincerely,

*Paul Chisnall*

Paul Chisnall  
Executive Director