



December 16, 2010

U.S. Securities and Exchange Commission  
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Re: File No. S7-29-10 – Study Required by Section 989G(b) of the Dodd-Frank Act Regarding Compliance with Section 404(b) of the Sarbanes-Oxley Act

Dear Commissioners and Staff:

We appreciate the opportunity to provide our views on the U.S. Securities and Exchange Commissions' (SEC or Commission) request for comment related to the study required by the Dodd-Frank Wall Street Reform and Consumer Protection Act on how the Commission could reduce the burden of complying with Section 404(b) of the Sarbanes-Oxley Act of 2002 for companies whose public float is between \$75 million and \$250 million (referred to as "subject issuers"), while maintaining investor protections for such companies.

#### Quality of financial reporting and corporate governance

We have previously expressed our views in comment letters and public releases as to the importance of fully implementing Section 404(b), including our concerns with previous deferrals of the effective date for non-accelerated filers. We continue to believe that there is ample evidence in the marketplace today that Section 404 has substantially improved the quality of financial reporting for those companies that have fully implemented its requirements. In our interactions with boards of directors and audit committees, we have noted increased dialogue related to the results of our audits of internal control over financial reporting and identification and assessment of control deficiencies. We believe that the auditor attestation requirement under Section 404(b) has directly impacted those discussions. This increased interaction has resulted in improved corporate governance and financial reporting and is directly correlated to the strengthened investor confidence in U.S. capital markets.

Further, research has shown that the incidents of material internal control deficiencies, financial statement restatements, and fraud are all more prevalent in smaller companies indicating that smaller companies have the greatest need for improvement in their internal control systems. Accordingly, we strongly believe that it is neither warranted nor prudent to eliminate compliance with Section 404(b) for subject issuers. Section 404 should be viewed as the underpinning for reliable financial reporting, rather than a compliance burden. Eliminating compliance with Section 404(b) will reduce the willingness of subject issuers to invest any

additional effort in evaluating the effectiveness of their internal control systems, ultimately affecting the quality of financial reporting and investor confidence.

#### Impact on public company listings

Among other things, the SEC plans to use the results of the study to consider whether a reduction in the compliance burden or the further elimination of the Section 404(b) auditor attestation requirement for certain registrants would encourage companies to list on exchanges in the U.S. in their initial public offerings. Due to the current economic environment, we believe that it is not feasible to determine the effect Section 404(b) has had, or may continue to have, on the number of companies listing initial public offerings. It would seem that any intention to increase initial public offerings in the U.S. by reducing the initial requirements for auditor attestation would negate the original intent and spirit of Section 404. It is our belief that an auditor's report on the effectiveness of a subject issuer's internal control over financial reporting provides the same value to an investor in a non-accelerated filer as it does for an investor in an accelerated filer.

We would also observe the impact on certain public exchanges when a significant economic downturn or financial reporting crises occurs. Such events often result in a debilitating impact on public listings on exchanges that are not grounded in sound, transparent, and robust financial reporting and governance standards. We believe that considering the impact on company shares, listings, and sustainability of those exchanges in challenging times is just as important as studying listings on exchanges with less restrictive reporting requirements in periods of economic growth.

#### Cost, benefit and efficiency considerations

In their letter of comment, the Center for Audit Quality (CAQ) has addressed the benefits and cost trends of Section 404(b), as well as concerns related to the Section 404(b) exemptions and recommendations to reduce the "compliance burden." We fully support the views expressed by the CAQ; in particular, that in consideration of the benefits and declining costs, it would not be prudent to "roll back" existing internal control requirements that are currently being complied with by smaller public companies. Section 404 says simply that management should be in a position to tell investors that it is responsible for internal control over financial reporting, and perform reasonable procedures to evaluate the effectiveness of those controls. It further indicates that independent auditors should be able to perform reasonable audit procedures to tell investors that, in their opinion, management's assertions are accurate. Eliminating those reasonable expectations are not in the best interest of investors or companies. All companies that use the public's money should give investors the confidence in their financial reporting systems that they demand and deserve. In this regard, we strongly believe the benefits outweigh the costs.

Refinements in the auditor attestation requirements, more auditor experience, and additional guidance issued by the SEC, Public Company Accounting Oversight Board, and Committee of Sponsoring Organizations of the Treadway Commission (COSO) have all contributed to audit efficiencies and declining costs. Providing additional feedback and best practices based on an evaluation of inspection results and research regarding the implementation of Auditing

Standard 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements*, particularly in the areas related to entity-level controls, scaling the audit, and using the work of others, will continue to promote the effectiveness and efficiency of an integrated audit. We also encourage the SEC to work directly with COSO in updating its *Internal Control – Integrated Framework* by providing the SEC’s insights and observations into the current internal control environment.

We would be pleased to discuss our letter with you. If you have any questions, please contact Karin A. French, National Managing Partner of Professional Standards, at (312) 602-9160.

Sincerely,

