

CHAIRMANOFFICE

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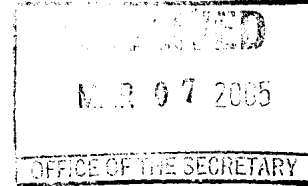
From: Lee Level [llevel@csc.com]
Sent: Tuesday, February 08, 2005 2:16 PM
To: chairmanoffice@sec.gov
Cc: atkinsp@sec.gov; camposr@sec.gov; glassmanc@sec.gov; goldschmidh@sec.gov
Subject: SEC Roundtable on SOX 404

Importance: High

4-497



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#23

Dear Chairman Donaldson -

We found today's announcement about the SEC's planned roundtable covering Section 404 of Sarbanes-Oxley encouraging. In the spirit of offering constructive suggestions, attached is a recent comment letter. We offer several suggestions where minor modifications in the rules implementing Section 404 could result in significant efficiencies in both time and expense, ultimately benefiting U.S. capital markets and investors. Our suggestions would help companies to file more timely and cost effectively while continuing to enjoy the benefits of listing securities in U.S. public markets.

Sincerely,

Leon J. Level
Chief Financial Officer

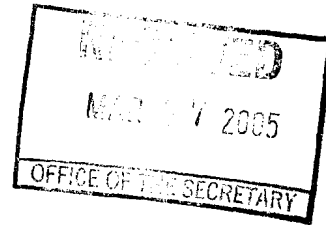
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Leon J. Level
Vice President and Chief Financial Officer

4-497

February 2, 2005



#23

The Honorable John W. Snow
Treasury Secretary
Department of Treasury
1500 Pennsylvania Avenue, N.W.
Washington D.C. 20220

CSC

Dear Mr. Treasury Secretary:

We are bringing to your attention a matter we think is of great importance to the U.S. economy, capital markets, investors and overall business climate, specifically the unforeseen and rising costs companies face in reporting on internal control over financial reporting. We are encouraged by your recent statements and those of other members of the President's Administration indicating the concerns of America's business community have been heard and the Administration is prepared to take action. The "over-engineered" implementation of Section 404 of the Sarbanes-Oxley Act of 2002 (the "Act") is resulting in costs wholly disproportionate to the resulting benefits. Some relatively simple refinements could greatly reduce the implementation cost, without diminishing the Act's effectiveness.

The past few years have been marked by unprecedented changes in the regulatory environment surrounding our capital markets. In large part, these changes are the result of the Act, which is without question the most sweeping legislation to affect our securities laws since the 1930's establishment of the fundamental regulatory framework for our securities markets and the Securities Exchange Commission. The Act has certainly drawn attention to a number of areas: corporate governance, ethical business practices, codes of conduct, financial reporting and disclosure practices, auditor independence, and enhanced internal controls -- particularly for smaller public companies.

CSC has actively supported the efforts of the President, Congress, New York Stock Exchange and Securities and Exchange Commission to enhance investor confidence in (1) corporate governance, (2) the integrity of our financial reporting system and, ultimately, (3) the capital markets. There is no question effective internal controls over financial reporting are important to the integrity of financial reporting and disclosure. However, over-interpretation and over-engineered implementation of Section 404 of the Act are resulting in excessive, unnecessary costs.

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While self-assessment and external audits of internal controls may help improve investor confidence, balancing the benefit of each measure with its cost is important. The costs of compliance with Section 404, as implemented, have been vastly underestimated. Survey information illustrates how such costs are eclipsing original expectations, only to be surpassed by new, higher estimates. Surveys compiled by the Committee for Corporate Reporting (CCR) of Financial Executives International (FEI) indicate cost estimates for companies with revenues greater than \$5 billion increased from \$4.6 million in January 2004 to over \$8 million in June 2004.



A September 2004 survey by the Roundtable on Internal Controls of the Corporate Executives Board reported expected average costs of \$14.1 million (exclusive of audit fees) for companies with revenues greater than \$8 billion. For these same companies, 404 audit fees are projected to be 48.7% of annual financial statement audit fees. This burden is even more significant for companies with revenues less than \$8 billion where 404 audit fees are projected at 63.9% of annual financial statement audit fees.

A study by AMR indicates 404 compliance costs may approximate \$1 million for every \$1 billion of revenue. Another study suggests such costs will average \$35 million per registrant, over seven times the year-ago estimate above.

As CSC continues to tally its 404 compliance costs, now exceeding \$10 million, we continue to find costs not contemplated in the original legislation. For example, our clients have requested new data center audits under SAS 70, with costs in the millions of dollars to assist in their own SOX 404 compliance for IT systems and services performed by CSC. Furthermore, each data center audit is now costing CSC and its customers over three times as much as previously in external auditor fees, while CSC is also adding certified information systems auditors to its internal audit payroll.

Obviously, costs of this magnitude adversely impede the competitiveness of U.S. businesses and impose a drag on our economy. Immediate and decisive action by the SEC and PCAOB is critically important at this juncture to relieve this burden. Fortunately, a few relatively simple refinements could dramatically reduce these costs without any reduction in the efficacy of the Act.

The necessary refinements to reduce compliance costs can be accomplished by amending the implementing legislation and related PCAOB auditing standards. Here are several examples:

Definition of Significant Deficiency

The PCAOB standards establish reporting requirements for material weaknesses and significant deficiencies. They effectively require companies to remediate any and all significant deficiencies, using low thresholds involving more than a "remote" probability of a more than "inconsequential" misstatement. This makes it difficult to distinguish more significant deficiencies from matters of far less importance. Moreover, the definition encompasses potential control deficiencies and misstatements which although possible are, in fact, not likely. Taken together, these

parameters effectively require companies to design, implement and annually test, remediate, re-test and evaluate controls where there may be little or no cost-benefit justification. Resolution of this issue alone, through a less onerous definition, would substantially reduce 404 compliance costs.

Increased Reliance on Work of Internal Audit

The scope of the auditor's work under the PCAOB auditing standard is unnecessarily broad in that it (1) mandates certain controls be evaluated directly by the independent auditor and (2) restricts the extent of reliance the auditor may place on procedures performed by management, internal audit, or others. In principle, the auditor should be able to place reliance on the work of others after considering their competence, objectivity and independence and performing tests to corroborate the results.



Furthermore, as audit firms are forced to test an unreasonable number of controls under the above definition without assistance of the company's internal audit or other personnel, they may run short of resources to fulfill the Act's requirements, especially for their smaller, lower fee clients. This situation is further exacerbating the cost of these audit services and seriously impairing the ability of smaller public companies to comply timely with the Act's requirements.

Documentary Evidence

Another area of concern relates to emerging requirements of independent auditors for documentary evidence of controls. Essentially, the PCAOB has thrust the audit profession into the position where, in the absence of documentary evidence, controls must be presumed to be ineffective. This is a significant 404 compliance issue for most companies and will increase costs if reasonable standards are not adopted.

Arduous Extensive Year-end and Annual Testing

Finally, the Act requires companies and their independent auditors to report on the effectiveness of the system of controls as of the last day of the fiscal year. In interpreting this requirement, the PCAOB audit standard requires substantial testing of all key areas as of the end of the fiscal year, rather than permitting more extensive reliance on interim tests. There is a long history within the auditing profession which supports interim testing. The year-end requirement significantly increases the cost of compliance due to duplication of interim and year-end testing. Furthermore, the requirement for annual testing of controls adds significantly more cost than performing some tests over multi-year cycles. These requirements create costly, substantial logistical challenges for many companies and their auditors.

Duplicate Cost of Multiple Opinions

After a public company's management completes its assessment of internal controls over financial reporting, management is required to publish its assessment. In addition, the external auditor is required to publish three opinions, i.e., the conventional financial statement opinion along with two new opinions covering management's assessment and the auditor's attestation regarding internal controls.

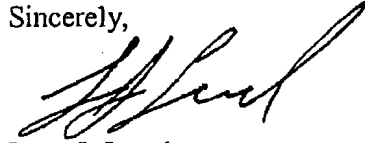
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These duplicative requirements add unnecessary cost which may well be streamlined into a result better tailored to the needs of financial statement readers.

In view of the overwhelming costs and burden on our businesses and economy, it is important the Administration take action to prevent the potential long-term erosion of U.S. capital markets and competitive position. Thank you for your consideration of our views. We would be glad to discuss at your convenience our concerns and recommendations and any questions you may have.

Sincerely,



Leon J. Level

LJL/vb

CSC