

April 24, 2006

The Honorable Christopher Cox  
Chairman  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

**RE: INTERNAL CONTROL ROUNDTABLE (FILE No. 4-511)**

Dear Chairman Cox:

GovernanceMetrics International (GMI) is an independent research and ratings firm that analyzes corporate governance practices at more than 3,300 publicly traded companies worldwide on behalf of institutional investors, banks, insurers, trade associations and regulatory bodies in fifteen countries.

We believe that the Sarbanes-Oxley Act of 2002 (SOX) was an unfortunate but probably necessary step to restore investor confidence in the wake of numerous corporate governance and accounting breakdowns, given the collective failure of analysts, investors, public accounting firms, credit rating agencies and boards of directors. Tellingly, none of the companies that had already adopted progressive practices and which were rated highly by GMI during our research and development phase in 2001 have run into significant financial difficulty, leading us to believe SOX safeguards do serve as a useful baseline standard.

In our view corporate governance depends on three factors: structural safeguards, regulatory framework, and corporate culture. We believe the current debate concerning SOX Section 404 touches on all three areas and that any changes should be considered with great care.

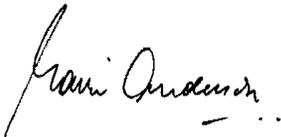
We are sympathetic to the financial burden of Section 404 on small companies – we are a small (privately held) company ourselves. Clearly there are extra burdens that small companies face when they choose to move from private to public ownership and these are obviously carefully weighed. But once a decision to go public - or remain public - is taken, the protection of public shareholders interests should remain paramount. For this reason we think it would be a serious misstep to exempt small companies from Section 404. We also believe a bifurcated rule is poor policymaking. Going back to our three-legged stool, we think the disciplines imposed by Section 404 are a positive contribution to fostering the right corporate culture. In many ways culture is process repeated. And in any organization culture needs to be reinforced at all levels – the very top (board and management), employees company-wide and through the application of controls.

Finally, as may have already observed, smaller companies are where the potential is highest for lax controls and financial reporting errors. Using the most recent data available<sup>[1]</sup>, GMI found that the average overall rating for companies in the S&P 500 Index outranked those in the S&P MidCap 400, which outranked those in the S&P SmallCap 600. The same pattern held when GMI examined our specific ratings for financial disclosure and internal controls. These findings strongly argue *not* to exempt the 80 percent of all publicly traded companies that fall under the proposed small company threshold.

The question to us is whether Section 404 is getting to the right issues – are the controls under question those that have the potential to undermine a company’s financial health or are they minor in nature? In this regard we think the suggestions of Robert Pozen, Chairman, MFS Investment Management have some merit.<sup>[2]</sup> Rather than exempt small companies from Section 404, the SEC and PCAOB might want to re-explore the rules on internal controls for all public companies. We agree with Mr. Pozen that investors are best served if management's assessment of internal controls focuses on material items and that auditors should at minimum, attest to management's assessment by reviewing its processes and sample testing. Both should apply the traditional concept of materiality -- financial significance relative to the whole company. In this manner, Section 404 will continue to help reduce the chance of material misstatements in a company's financial reports, but at a potentially lower cost.

We appreciate the opportunity to comment on this important issue. Please do not hesitate to contact me at 212-949-1313 if I can be of further assistance.

Sincerely yours,



Gavin Anderson  
President and CEO

Cc: SEC Commissioner Paul S. Atkins  
SEC Commissioner Roel C. Campos  
SEC Commissioner Cynthia A. Glassman  
SEC Commissioner Annette L. Nazareth

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<sup>[1]</sup> GMI Ratings Release 2006.1 (release date February 28, 2006).

<sup>[2]</sup> “Why Sweat the Small Stuff?” *Wall Street Journal* op-ed, April 5 2006 @ A20.