



May 3, 2006

Chairman Christopher Cox
The Securities and Exchange Commission
100 F Street, NW
Washington, DC 20549

Dear Chairman Cox:

We at CIT believe that the Sarbanes-Oxley Act of 2002 (the Act) is an appropriate legislative measure designed to restore confidence in the U.S. capital markets. Compliance with the Act, we feel, has reinforced and revitalized the importance of internal controls, and has resulted in better financial reporting by public companies. We also believe, in large, that the Act as written, does not require extensive legislative change.

Greater efficiencies in complying with the Act can be achieved without sacrificing the assurance delivered there under, by modifying the overly prescriptive and process-focused requirements of Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements* (AS No. 2).

In brief, CIT's recommendations for consideration by the SEC and PCAOB with respect to AS No. 2 are to:

- Emphasize the importance of corporate governance and effective corporate general controls in employing risk based concepts to evaluate internal control over financial reporting
- Replace the "as of date" requirement of the attestation with a "for the period ended" requirement
- Develop further guidance or standards to distinguish controls over financial reporting from operating controls, to filter imperfections discovered within a business process from deficiencies in internal control over financial reporting, and to assess and measure the impact of any deficiencies on the financial statements, both in historical and prospective terms
- Eliminate other overly prescriptive provisions of the Public Company Accounting Oversight Board's (PCAOB) audit standard that add to the cost of compliance while providing little economic payback to shareholders

In addition, the SEC and PCAOB should consider studying similar legislation to the ACT enacted in Canada, but with an attestation on internal controls required only by management. As section 404(b) requires that each registered public accounting firm that prepares or issues an audit report for the issuer to attest to, and report on management's assessment, adaptation to the Canadian legislation may require legislative action.

The burdens of implementing section 404 of the Act are not resident in the legislation itself. Section 404 is only four paragraphs in length and non-prescriptive in nature. The burdens faced by public companies related to section 404 emanate from auditing standards promulgated by the PCAOB in AS No. 2, as well from auditing practices developed in response thereto by registered accounting firms.

The Roundtable hosted by the SEC and the PCAOB in May 2005 was instrumental in producing positive change, most notably by emphasizing a top-down, risk-adjusted approach and in

restoring the precept of reasonable assurance. The FAQs published by the SEC and PCAOB were a tremendous help in rationalizing the scope of compliance under the Act and refocusing the registered accounting firms on effective auditing practices. However, AS No.2 remains as originally published with numerous bottom-up, process-oriented provisions that run counter to the “top-down, risk-adjusted” guidance from the FAQs.

The following adds more color to the recommendations proposed to you above:

Corporate Governance and Corporate or General Controls

In proposing that the SEC and PCAOB incorporate risk-based concepts in evaluating and assessing internal control over financial reporting, greater emphasis should be placed on general or corporate-level controls (for e.g. Audit Committee effectiveness, principles of corporate governance, code of conduct, anti-fraud programs, independent internal audit function, and general information technology controls, etc.) in determining the scope of testing on process level controls. A strong general control environment should require much less process-level control testing than a weak general control environment, thereby producing efficiencies in complying with the Act for registrants with best in class general controls. To the contrary, a weak general control environment should require more extensive process-level control testing, costing more to comply, and providing the economic stimulus for change.

Opinion Date

Change the “as of” date element of the required internal control opinions. Internal controls should be functioning continuously, not just at a point in time. Auditing to a specific date has created a logjam of work to provide comfort over the effectiveness of internal control as close as possible to the “as of” date. Changing the internal control opinion to cover the reporting period makes more sense and will allow for registrants, and their registered independent public accountants, to distribute their workloads more evenly over the year under examination.

Clarity of Definitions and Guidance

Provide better definition and examples of internal controls over financial reporting to help distinguish these from operational controls. Practice in this area is very gray, as subjective and inconsistent decision-making is often exercised in defining the demarcation between the two types of controls, leading to the identification of too many key controls and inefficiencies in testing. More guidance is needed on measuring the effect of deficiencies to determine the impact on a registrant’s current period financial statements. Not all control deficiencies directly impact the financial statements, as they may be procedural in nature and not transactional. For example, a bank account reconciliation that does not contain evidence of a supervisory review, as is required by corporate policy, most likely does not have an impact on a company’s financial statements. However, if the bank reconciliation did contain evidence of review in accordance with policy, but a \$10 million reconciling item has not been investigated and cleared in 150 days, an exception of a different nature arises, one with more potential impact to the financial statements.

Eliminate or provide greater guidance on the requirement to assess the possible impact of a deficiency, what we refer to as the “could have” factor. Determination is very subjective and depends on many factors to realistically assess.

Prescriptive Requirements

Eliminate the overly prescriptive requirements of, or practices that have emanated from, AS No.2 such as:

- Identifying and measuring every account that meets a prescribed threshold through the construction of a financial statement bridge.
- Linking multiple financial statement assertions for significant accounts and control objectives.

We find these requirements and practices to be a bottom-up approach, too formulaic and a tremendous drain on manpower, with no value added to the control environment and our business process. Moreover, these requirements and practices create a false illusion that a system of internal control can be “scientifically” measured and assessed as to effectiveness. Internal control assessment is more an art than a science.

CIT has taken note of some interesting developments in Canada under the auspices of the Canadian Securities Administrators (CSA) with respect to requirements for public companies to report on the effectiveness of internal controls. Canada’s regulations place greater emphasis on quarterly certifications by management, equivalent to quarterly section 302 certifications under the Act, and do not require an external audit opinion on internal controls. The CSA reported that it decided against the external opinion after “extensive review and consultation and in view of the delays and the debate underway in the U.S. over the rules implementing section 404 of the Sarbanes-Oxley Act of 2002”. The CSA notes that an external auditor, under generally accepted auditing standards, must still understand a registrant’s system of internal control to audit the registrant’s financial statements, and must report on any material misstatements of facts or misrepresentations, if applicable.

Popular sentiment in Canada expresses an appropriate balance between the cost and benefits associated with internal control reporting requirements, and registrants are content to report on the effectiveness of internal controls without having to increase their audit fees. We consider Canada’s actions a good example of the 90/10 corollary – 90 percent of the benefit is achieved at 10% of the cost.

Should Canada’s actions be considered too progressive, the SEC and PCAOB may also wish to consider changing the annual attestation by a registered public accounting firm to a longer duration, as an alternative measure of relief – i.e. every two or three years. Although guidance by the SEC and PCAOB to better integrate the audit of financial controls with the financial statement audit has resulted in reduced fees in year two of Sarbanes-Oxley compliance, the incremental cost to the financial statement audit is still significant. Considering CIT’s strong corporate governance and general controls, we do not believe that the incremental cost of an attestation by our registered accountants provides commensurate benefit to the registrant or our shareholders.

Sincerely,
/s/ Joseph M. Leone
Vice Chairman and Chief Financial Officer