

However, despite the decline in the external auditor fees for 404 attestation, the total cost of audit (financial and SOX) remains significantly higher than it was prior to SOX. This is due in large part to the continuing high costs of the financial audit.

- The average hourly audit fee for the financial audit fell from \$199 in Year 1 to \$191 in Year 2, a four percent decline. The average hourly audit fee for 404 attestation fell from \$218 to \$199, a decline of 8.7 percent.
- The cost of external, non-audit assistance for 404 attestation fell by 57.4 percent while internal audit costs for SOX compliance fell by 12.6 percent.
- The overall average cost of SOX compliance—including the cost of internal audit work, external non-audit assistance, and audit fees for 404 attestation--fell by 30.2 percent. Most companies thus have successfully reduced the cost of compliance. This decline was anticipated as companies established procedures for ongoing compliance with SOX.
- Despite the decline in compliance costs, the Audit Committees of most companies in this survey believe that these costs remain high. Just five percent of the respondents indicated their Audit Committee found compliance costs to be “fair and reasonable” while 41 percent said that costs are too high, even allowing for the inherent complexity of the compliance process.

Conclusion

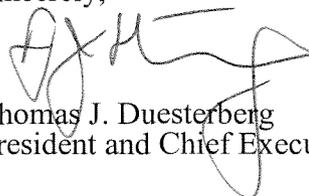
The Sarbanes-Oxley Act has served as a significant vehicle in helping to restore confidence in U.S. financial capital markets in the aftermath of well-publicized episodes of corporate misconduct which took place several years ago. This law also continues to have costly and indiscriminate side effects for public companies. The most significant of these include increased burdens on management teams and significant cost for outside audit. While (as our attached survey results clearly demonstrate) the costs of compliance with the law have moderated somewhat in year 2, they are still high, especially given that they represent a significant cost over and above the traditional financial audit, the cost of which has not moderated since the advent of SOX. The challenge going forward for lawmakers and regulators alike is to see that the law evolves in a way that helps maintain a high level of investor confidence in the markets while, at the same time, reducing costly burdens on companies that do not serve that end. Section 404 compliance costs are real and they adversely affect the competitiveness of many U.S. companies. We believe that effective oversight can significantly reduce these costs without an erosion of confidence in the markets.

We have attached the results of our survey to demonstrate the magnitude of the current costs of Section 404 compliance. We encourage the Commission and the Board to review those results to better understand the costs companies are incurring today.

We commend the Commission for providing this opportunity for involved parties to voice their continuing concerns about Section 404. The Manufacturers Alliance appreciates having this chance to present the views of many of the more than 180 executives who participate in our financial Council programs on these important issues and stands willing to further develop those views as the need arises.

Thank you for consideration of our comments.

Sincerely,



Thomas J. Dueterberg
President and Chief Executive Officer

The Cost of SOX and the Compliance Process: Year Two

Introduction and Summary

As part of the Alliance's ongoing project to monitor and evaluate implementation of the Sarbanes-Oxley Act of 2002 (SOX), a questionnaire on compliance with the SOX was sent to senior financial executives with public corporations who are members of the Manufacturers Alliance/MAPI CFO and Financial Councils.* Based on publicly available data, the revenues for the 43 companies represented in this survey exceeded just over \$350 billion in 2005.**

The questionnaire was divided into six parts and covered a wide range of issues associated with compliance, including the cost of complying with Section 404 of SOX. The results are presented in two sections. The first section reports aggregated results on the SOX compliance process and its cost. Most of the results include a comparison with the findings in last year's survey. In Section II, the responses to most of the questions in Section I are broken down by company size and/or by external auditor.

The Survey's key findings include:

- External auditor fees for 404 attestation declined by an average of 18.1 percent between Year 1 and Year 2 while the cost of the financial audit increased by 3.7 percent. Despite the decline in the external auditor fees for 404 attestation, the total cost of audit (financial and SOX) remains significantly higher than it was prior to SOX.
- The average hourly audit fee for the financial audit fell from \$199 in Year 1 to \$191 in Year 2, a four percent decline. The average hourly audit fee for 404 attestation fell from \$218 to \$199, a decline of 8.7 percent.
- The cost of external, non-audit assistance for 404 attestation fell by 57.4 percent while internal audit costs for SOX compliance fell by 12.6 percent.
- The overall average cost of SOX compliance—including the cost of internal audit work, external non-audit assistance, and audit fees for 404 attestation--fell by 30.2 percent. Most companies thus have successfully reduced the cost of compliance. This decline was anticipated as companies established procedures for ongoing compliance with SOX.
- Despite the decline in compliance costs, the Audit Committees of most companies in this survey believe that these costs remain high. Just five percent of the respondents indicated their Audit Committee found compliance costs to be "fair and reasonable" while 41 percent said that costs are too high, even allowing for the inherent complexity of the compliance process.

*The questions for this survey were developed by Philip G. Weaver, Vice President and Chief Financial Officer at Cooper Tire and Rubber, John Davidson, Senior Vice President, Controller and Chief Accounting Officer at Tyco International, and Richard H. Fearon, Executive Vice President, Chief Financial and Planning Officer at Eaton Corporation.

**For the results of the last year's survey on SOX implementation, see Donald A. Norman, *The Cost of SOX and the Compliance Process—A Manufacturers Alliance/MAPI Survey*, S-105, March 2005.

