

Sotheby's

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May 1, 2006

Mr. Christopher Cox, Chairman  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

WILLIAM S. SHERIDAN  
EXECUTIVE VICE PRESIDENT &  
CHIEF FINANCIAL OFFICER  
SOTHEBY'S HOLDINGS, INC.

Re: File Number 4-511

Dear Mr. Cox:

Sotheby's Holdings, Inc. is pleased to respond to the request for comments for the *2006 Roundtable on Second-Year Experiences with Internal Control Reporting and Auditing Provisions* to be held on May 10, 2006.

We recognize the need for establishing and enforcing internal control, as well as accounting and reporting standards, which will reestablish confidence in our financial markets. Market participants deserve to have confidence in the financial statements that are presented by a company's management, just as they should have confidence that an audit of the financial statements was properly conducted.

While Sotheby's supports the efforts of the Securities and Exchange Commission ("SEC") and the Public Company Accounting Oversight Board ("PCAOB") in this regard, our experience has been such that the benefits we have achieved have come at a comparatively high cost, in terms of increased audit fees, costs incurred for external consultants, and internal manpower. We have seen a decrease in our costs in the year after implementation, yet we are discouraged that the costs remain high and we do not perceive there to be additional significant efficiencies which can be achieved utilizing the current approach.

We believe that the goals and intentions of the Sarbanes-Oxley Act of 2002 can be achieved in a fashion that is less onerous and less costly. We believe that this can be accomplished by focusing testing on those areas possessing the greatest risks facilitated by continued guidance by the SEC and the PCAOB, elimination of or a reduction in the amount of testing to be performed by management, and the elimination of the walk through requirement.

A more detailed discussion of our views follows:

Increased Use of a Top Down, Risk Based Approach

The massive frauds and resulting business failures our financial markets have experienced in recent years did not occur due to the failure of low or mid level controls

within the affected companies; they occurred due to the failure of controls within the highest levels of the companies, including, but not limited to:

- The establishment of and adherence to a Code of Ethics;
- Adequate oversight and involvement of the Board of Directors and the Audit Committee;
- Effective oversight on the part of Executive Management;
- Effective analysis of Fraud Risk Factors;
- The proper application of Generally Accepted Accounting Principals;
- Effective reviews of monthly, quarterly, and annual financial statements;
- Effective monthly, quarterly, and annual financial closing procedures;
- Effective involvement of Legal, Compliance, and other departments in the financial closing process; and
- Effective training and supervision of personnel.

The general response to the regulatory and inspection process has been one of extreme conservatism on the part of the auditor community. Each auditing firm establishes its own testing methodology, which may contain extensive testing geared towards detailed, transaction level controls in addition to testing of the Control Environment and the financial close process. This may result in a disproportionate amount of testing being performed on detailed, low or mid level transaction controls, which is where we believe the least amount of risk resides with respect to internal control over financial reporting. Additionally, this extreme conservatism during the audit and audit related consultation process continues to result in an undue and prolonged emphasis on items and findings that are frequently not material, usually insignificant, and sometimes trivial. As auditors must also opine on the adequacy of management testing, they have significant impact not only on the overall scope of management testing, but on the quantity of detailed transactional tests which must be performed.

Our experience has been that 404 testing is heavily weighted towards controls and procedures which are performed at the lower to mid level due to their high volume, and while these are important from an approval or internal control perspective, they would likely not result in a significant financial statement error should a control failure occur. Examples of such items are approval of invoices, approval for payment, meeting notes, individual signatures, etc.

The SEC and the PCAOB have previously provided guidance emphasizing the use of a top down, risk based approach to 404 testing. We believe that providing continued guidance, including "Best Practices," would greatly assist registrants and auditors in determining the appropriate scope of testing and depth of procedures in order to achieve the standards of the PCAOB in a cost effective manner.

### Duplicative Testing

We believe that the cost incurred by having both management and the independent auditors perform testing is excessive for the benefit received. The details of testing

performed by management, including the overall scope, sample size, key controls to be tested, and basic testing procedures, must be approved by the external auditors in order for them to opine on management's testing overall. This results in two audits, which while not identical, are very duplicative in nature. Our general experience has been that the findings of the two different teams, particularly when testing is performed in a parallel manner, are similar.

We believe that the testing required by management should be significantly reduced or rescinded. The overall intent of Sarbanes-Oxley is to ensure that the registrant has adequate internal controls over financial reporting, or, if the registrant does not have adequate controls over financial reporting, that this fact is disclosed to investors. One audit should suffice for this purpose.

### Walkthroughs

We suggest that the requirement for auditors to perform walkthroughs of various systems and processes be rescinded, as it is partially duplicative of the testing performed on key controls and provides little, if any, value for the time and effort expended and the cost incurred.

Key controls, as defined by management, are currently tested by management and are subject to further testing by the auditors. The testing of key controls, which provides the basis for management's and auditors' conclusions as to the effectiveness of internal control over financial reporting, also ensures that the processes surrounding the key controls are documented appropriately.

An auditor performing a walkthrough, therefore, spends a great deal of time concerned with the documentation and other processes which have already been determined not to be key controls in the internal control process. Typically, this may yield minor wording changes or documentation deficiencies, though it further burdens the accounting and finance staff, and is not an inconsiderable expense as part of the overall audit fee. We do not perceive there to be any benefit derived from the performance of walkthrough procedures, and therefore propose that this requirement be rescinded.

We appreciate the opportunity to present our comments and suggestions to both the SEC and the PCAOB, and would be pleased to have further discussions to clarify any of our comments. Frankly, the requirements of Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, requiring CEO and CFO certifications, is really all that is necessary in our view.

Sincerely,



William S. Sheridan, Chief Financial Officer

cc: Bill Gradison, Acting Chairman, PCAOB