

GRACE & WHITE, INC.

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GERALD I. WHITE, CFA
PRESIDENT

October 6, 2005

Mr. Jonathan G. Katz
Committee Management Officer
Securities and Exchange Commission
100 "F" Street, NE
Washington, DC 20549-9303

Re: File No. 2652-33, Advisory Committee on Smaller Public Companies

Dear Sir:

I am writing this letter in connection with my participation in the October 14, 2005 public meeting of the Advisory Committee in New York. I thought it would be helpful to the Committee members and staff to have some background and an indication of my views.

I have been a financial analyst and investment advisor for more than thirty-five years. I have represented the analyst community in the financial reporting process for most of that time period, served on FASAC, FASB task forces, and an SEC advisory committee, and taught financial statement analysis at the graduate level. I have attached some biographical information to this letter.

Grace & White, Inc. has been an SEC-registered investment advisor since 1977, with assets under management of nearly \$800 million. While we invest in companies of all sizes, most of our client holdings are concentrated in companies considered small-cap and micro-cap by most measures. As a result we are cognizant of the risks and rewards associated with such companies, and regulatory effects on them. In my opinion, the following characteristics of smaller companies are relevant to the issues to be discussed at the October 14 meeting:

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1. Less coverage by the financial and general media
2. Less coverage by investment banks and other providers of investment research
3. Little or no investor relations effort by the company
4. Lower level of accounting expertise within the company
5. Less sophisticated internal control systems
6. Lower materiality thresholds
7. Higher volatility of reported earnings
8. Higher risk of financial distress
9. Higher likelihood of restatement of previously issued financial statements
10. Lower stock market liquidity
11. Fewer investors, with more individual rather than institutional holders

These characteristics have the following consequences:

- (1) Investors in smaller companies are more dependent on financial reporting for information regarding past performance, and data needed to project future sales, earnings, and cash flows.
- (2) Smaller companies are inherently riskier as the effect of unexpected events is relatively greater and their capacity to absorb adverse events is more limited.
- (3) The effects of financial results that differ from expectations and restatements on share prices are greater due to low market liquidity and fewer large shareholders.
- (4) Smaller companies are more dependent on their auditors for accounting expertise.
- (5) While the requirements of Section 404 results in relatively higher costs for small companies, the potential benefits are also greater:
 - Higher financial statement reliability and lower risk of adverse outcomes should increase investor confidence and valuation metrics (such as the price-earnings ratio)
 - Management decision making should be enhanced by better and more reliable internal financial information

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In conclusion, I offer the following views regarding the issues before the Committee:

1. SOX requirements should be applicable to all public companies, regardless of size.
2. Accounting standards should not vary by company size.
3. Interim reporting is even more essential for smaller companies.
4. Segment information is essential for all companies, regardless of size.
5. While efforts should be made to reduce the cost of SOX compliance for smaller companies, their regulatory costs are always relatively higher.

I will elaborate on many of these issues on October 14th and would be pleased to answer any questions at that time.

Sincerely,



GIW/dp
Enclosure

GERALD I. WHITE, CFA

President, Grace & White, Inc. Investment Counsel (founded 1977)

Brown University, AB 1966

New York University, Stern School of Business, MBA 1971

Chartered Financial Analyst

CFA Institute (formerly AIMR):

Member, Corporate Policy Disclosure Council

(Chairman of predecessor Financial Accounting Policy Committee 1976 - 1987)

Distinguished Service Award (1987)

C. Stewart Sheppard Award (1995)

Adjunct Professor of Accounting, Stern School of Business, New York University
(1978 - 1995)

Co-Author, *The Analysis and Use of Financial Statements, Third Edition*
(Wiley, 2003)