



Ohio Public Employees Retirement System

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Sent via email: rule-comments@sec.gov and gradisonw@pcaobus.org

February 17, 2006

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

Mr. William Gradison, Acting Chairman
Public Company Accounting Oversight Board
1666 K Street, NW
Washington, DC 20006

Re: SEC Advisory Committee on Smaller Public Companies Meeting on February 21, 2006

Dear Chairman Cox and Acting Chairman Gradison:

The Ohio Public Employees Retirement System (“OPERS”) is a \$68.6 billion fund serving three quarters of a million Ohioans, making the system the 10th largest state pension fund in the U.S. On August 31, 2005, OPERS submitted a detailed comment letter to the Securities and Exchange Commission (“SEC”) in response to the questions posed by the SEC Advisory Committee on Smaller Public Companies (“Small Company Committee”).

Since that time, a subcommittee of the SEC Small Company Committee has recommended that the SEC and the Public Company Accounting Oversight Board (“PCAOB”) either eliminate or significantly weaken the internal control requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”). We urge the SEC and the PCAOB *not* to accept the recommendation of the SEC Small Company Committee, which would effectively eliminate an important investor protection provision of Sarbanes-Oxley at approximately 80% of all public companies.

In an effort to restore investor confidence, Congress passed Sarbanes-Oxley in 2002 by a wide margin of 99-0 in the Senate and 432-3 vote in the House. This action was taken in response to the U.S. stock market crash in 2000 and the numerous, large-scale accounting frauds subsequently discovered. Since that time, Sarbanes-Oxley is credited for introducing more transparency into corporate accounting and inspiring trust that helped recent merger and acquisition activity surpass the \$1 trillion mark for the first time since 2000 (The National Law Journal, “The Good Times Still Roll,” February 6, 2006).

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On February 21, 2006, the SEC Small Company Committee will hold a public meeting to formally present its recommendation to the SEC, which if adopted would seriously undermine Sarbanes-Oxley and its investor protection provisions. More specifically, an exemption for approximately 80% of all public companies from Section 404 internal control requirements would seriously diminish investor confidence in the reliability of public company financial statements. Such a large-scale exemption would also have the effect of increasing the cost of capital for those companies the SEC Small Company Committee's recommendation is intended to benefit.

Moreover, research conducted by independent research firm, Glass, Lewis & Co. ("Glass Lewis") found that during 2004 and 2005, many companies that had previously certified to their investors the effectiveness of their internal controls, subsequently disclosed that material weaknesses in their internal controls did in fact exist. In 2005, there were a record number of companies that had to correct their financial statements with approximately half of those restatements by companies who also reported weaknesses in their internal controls. In addition, Glass Lewis found that smaller public companies are riskier as they are more than twice as likely to restate as larger public companies. A report of the Committee of Sponsoring Organizations in 1999 also found that the occurrence of fraud was also higher at smaller companies.

We believe the benefits of Sarbanes-Oxley continue to outweigh the costs associated with implementing its investor protection provisions. Sarbanes-Oxley is working as Congress intended as evidenced by the high rate of errors detected in financial statements and corrected during 2004 and 2005 as companies implemented Section 404. The SEC and PCAOB should not weaken these investor protection provisions, particularly for a higher risk category of public companies.

We support the approach outlined by former SEC Chair Arthur Levitt in his January 27, 2006 Wall Street Journal opinion editorial entitled "A Misguided Exemption." This approach is reasonable and can be implemented through additional SEC and PCAOB staff guidance without revising existing auditing standards. It is a sound approach based on both auditors and management applying "common sense" guidance, including the guidance already issued by the SEC and PCAOB staff in 2005. It appears that such guidance, and any additional implementation guidance, would continue to have a positive effect in reducing Section 404 implementation costs while still preserving a reasonable means of testing the effectiveness of internal controls to protect investors. We respectfully request that you *not* adopt the recommendation of the SEC Small Company Committee.

Thank you for providing us with this opportunity to comment. Should you need any additional information, please contact Cynthia Richson, OPERS Corporate Governance Officer, at 614.222.0398.

Sincerely,



Laurie Fiori Hacking
Executive Director