

May 31, 2005

Mr. Jonathan G. Katz
Committee Management Officer
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-6561

File No.: 265-23
Summary of Proposed Committee Agenda of Advisory Committee on Smaller Public Companies

Dear Mr. Katz:

The Center for Public Company Audit Firms (the “Center”) of the American Institute of Certified Public Accountants (“AICPA”) is pleased to submit written comments on the Securities and Exchange Commission’s (“SEC” or the “Commission”) Summary of Proposed Committee Agenda of Advisory Committee on Smaller Public Companies (the “Proposal”).

The Center was established by the AICPA to, among other things, provide a focal point of commitment to the quality of public company audits and provide the SEC and the Public Company Accounting Oversight Board (“PCAOB”), when appropriate, with comments on their proposals on behalf of Center members. There are approximately 900 Center member firms that collectively audit 97% of all SEC registrants. All of the Center’s member firms are U.S. domiciled accounting firms. The AICPA is the largest professional association of certified public accountants in the United States, with more than 340,000 members in business, industry, public practice, government and education.

The Center commends the Commission for the establishment of the SEC Advisory Committee on Smaller Public Companies (“Advisory Committee”) and the effort to assess and evaluate the current securities regulatory system for smaller companies. These efforts include assessing disclosures, financial reporting, internal controls, and the impact of each area of the Sarbanes-Oxley Act of 2002 (the “Act”), in an effort to make recommendations for change.

The members of the Center believe in open dialogue with the regulators to assist them in carrying out their public interest responsibilities. Given the depth and breadth of our membership, many firms view the Commission’s actions of establishment of the Advisory Committee as acknowledgement of the burden smaller public companies

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bear to comply with the complexities of the Act. The Center's most significant charge is to enhance quality for audits of public companies which will contribute towards the overall restoration and maintenance of investor confidence and trust in the capital markets. Our members' commitment is evidenced by their membership in the Center and participation in the forthcoming comments. Therefore, on behalf of our member firms, the Center submits the following responses to question numbers 1 and 3 raised in the Proposal and related comments on the proposed agenda:

Question 1: Are the subjects identified in the summary of the Committee Agenda the right subjects for the Committee to consider?

Question 3: Should the Committee not consider some subjects identified in the summary of the Committee Agenda for any reason, such as to conserve resources, to focus resources on other, more critical subjects, or because of the limited length of the Committee's 13-month term?

The Center believes that the subjects in the proposed agenda for the Advisory Committee encompass pressing and valid issues that smaller public companies and their auditors face in today's regulatory environment. However, the Center suggests that the Advisory Committee consider the scope of the agenda, which appears comprehensive and may be unattainable in the given timeframe of the Advisory Committee which is to terminate on April 23, 2006. Consideration should also be made as to the practicality of extending, by amendment of the Charter, the 13 month term of this initiative and the expectation of benefits and recommendations brought forward by the Advisory Committee if extension was warranted.

Due to the size in scope of the proposed agenda, the Center suggests that the Advisory Committee consider prioritizing their agenda to focus on the more pressing topics such as compliance with the Act. Specifically, the Center suggests Items 2. *Internal Control- Section 404 of Sarbanes-Oxley* and 4. *Effects of other Statutory Requirements and Commission Regulations, including under Sarbanes-Oxley, on Smaller Public Companies* of the proposed agenda should be the highest priority of the Advisory Committee's agenda as it appears to address benefits and cost burdens for smaller public companies, which are the concerns that our members have communicated to us over the past year. Section 404 reporting requirements of the Act for non-accelerated filers will begin with fiscal years ended after July 15, 2006, therefore, it is timely and relevant to focus heightened attention on this topic within the proposed agenda.

The Center sought feedback from its membership regarding the challenges their smaller public company clients face in meeting the compliance requirements of Section 404. The Advisory Committee's endeavor is further supported by our members' feedback regarding their smaller public company clients. The following information includes examples of what our members indicated are the challenges that their smaller public company clients are faced with under the new regulatory requirements of the Act:

• Limited resources, both financial resources and personnel resources
• Lack of an internal audit function
• Difficulty segregating duties due to limited staff size
• Limited knowledge, sophistication and expertise to implement 404 and significant costs to obtain these characteristics
• Significant financial burden for additional accounting, legal, outsourcing, internal audit, and consulting fees
• Limited Information Technology (IT) expertise to address issues/remediation
• Challenges in establishing an audit committee

Other Comments on the Agenda

The following represents comments on specific items in the Proposal.

Item 1. Definition of “Smaller Public Company”

1.2.2 Accelerated Filer Definition

Some members recommend that the market value definition of accelerated filers be increased to \$700 million to ease the reporting burden on smaller public companies.

In connection with the SEC’s Securities Offering Reform proposal, its Office of Economic Analysis (OEA) performed a study where it identified issuers with wide market following and seasoned offerings. This study indicates that the market capitalization level at which issuers are widely followed by investors whose interest in accelerated filing is likely to be the highest (based on “[h]igh levels of analyst coverage [and] institutional ownership,” among other criteria) is \$700 million (not the \$75 million reflected in the current accelerated filer definition). Therefore, we believe the Advisory Committee should consider raising the public float threshold (currently \$75 million) in the accelerated filer definition to \$700 million. If an issuer is not widely followed, we believe the cost of meeting the accelerated filing deadlines is “overly burdensome” and exceeds the benefit.

Item 2. Internal Control – Section 404 of Sarbanes-Oxley; S-K Item 308, S-X Reg. ¶ 210.2-02(e)

2.4 Mechanisms to Evaluate

As we noted earlier in our letter, the members of the Center believe in open dialogue with the regulators to assist them in carrying out their public interest responsibilities. While there are 4 members on the Advisory Committee who represent firms that are

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members of the Center (Deloitte & Touche LLP, Johnson Lambert & Co., KPMG LLP, and McGladrey & Pullen), we have an enormously diverse membership of approximately 900 member firms that audit the majority of the smaller public companies. Therefore, we welcome the opportunity to assist the Advisory Committee in obtaining feedback on any questions they may have. Our members are committed to the improvement of audit quality and the overall restoration of trust and confidence in the capital markets. We hope that the Advisory Committee considers the Center in assisting them in carrying out their very important mandate and objectives.

Item 4. Effects of other Statutory Requirements and Commission Regulations, including under Sarbanes-Oxley, on Smaller Businesses

4.4.3 Accelerated Filer Deadlines

The Center suggests that the Advisory Committee consider whether the accelerated filer deadlines for smaller public companies should be permanently extended. These due dates are scheduled to be reduced to 60 days after year-end for annual reports for fiscal years ending on or after December 15, 2005 and 35 days after quarter-end for subsequent quarterly reports. Extending the accelerated filer deadlines would alleviate the time pressures that smaller public companies face. The Center believes that additional time would be an important factor in a smaller public company's ability to successfully and accurately complete financial and internal control reporting requirements given that their human resources and other constraints. If the SEC is unwilling to raise the public float threshold to the \$700 million level as we suggest above, we believe that the results of the OEA's study of market following referred to above at least warrants retaining the current due dates for these issuers' periodic reports (40/75 days) and not accelerating them further (to 35/60 days).

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The AICPA Center for Public Company Audit Firms appreciates the opportunity to comment on the Proposal of the Advisory Committee. We are firmly committed to working with the SEC and are pleased to discuss these comments with you at your convenience.

Sincerely,



Robert J. Kueppers
Chair
Center for Public Company Audit Firms

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cc: Chairman William H. Donaldson
Commissioner Cynthia A Glassman
Commissioner Harvey J. Goldschmid
Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Alan L. Beller
Donald T. Nicolaisen