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March 17, 2006

The Honorable Christopher Cox, Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1070

Re: File No. 265-23

Dear Chairman Cox,

The American Association of Individual Investors (AAII) is a nonprofit organization representing 180,000 individual investors throughout the United States as well as internationally. Our purpose is to provide unbiased education and tools to individual investors to aid them in their investment decisions.

We strongly urge the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) to *reject* the recommendations of the Advisory Committee on Smaller Companies (the Committee) that would exempt an estimated 80% of all public companies from the internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley).

Sarbanes-Oxley was passed by Congress in 2002 as a means to restore investor confidence in the aftermath of the market decline and several high-profile accounting scandals. The result has been a higher level of transparency in corporate accounting, increased confidence in the financial markets, and a strengthening of investor protections. In addition, the increased number of errors detected in financial statements is evidence that Sarbanes-Oxley is having the desired effect.

Like many pieces of legislation, there have been unintended consequences of Sarbanes-Oxley that have led some to question its need and effectiveness. The most prominent criticism has been that the costs associated with Section 404 compliance have been higher than anticipated and a disproportional burden on smaller firms. In response to the corporate outcry related to these compliance costs, The Advisory Committee on Smaller Companies set about coming up with alternatives to Section 404 that would reduce costs while maintaining investor protections. Their recommended solution to the problem was to exempt companies with a market value of \$128 million or less and with less than \$125 million in annual revenue from all provisions of Section 404. Furthermore, the Committee recommended that companies with market values between \$128 million and \$787 million and annual revenue of less than \$250 million but greater than \$10 million be exempted from external auditor involvement as outlined in Section 404.

In our view, these recommendations do not honor the Committee's charter, which calls for it to "conduct its work with a view of furthering the Commission's investor protection mandate...." Simply exempting smaller companies from Section 404 compliance is an "either/or" solution that, while lowering the costs to smaller companies, sacrifices investor protections underlying Sarbanes-Oxley. One of the main goals of Sarbanes-Oxley is to address accounting and internal control issues. Studies have shown that such issues exist with smaller companies at a much higher rate (perhaps as high as twice the rate) than with larger companies. Small companies, historically, have also accounted for the vast majority of accounting fraud cases brought before this Commission. This illustrates the definite need for more transparent financial reporting for small companies. However, the Committee's recommendations would exempt the roughly 80% of all U.S. publicly traded companies that have the greatest need for such transparency.

An additional argument voiced by critics of Section 404 compliance is that smaller firms account for "only" 6% of the total market capitalization of U.S. firms. They contend that, as a result, there is less of a risk that an accounting scandal at any one of these firms would be a shock to the financial markets. However, we feel that this is a very shortsighted view. Individual investors own an overwhelming percentage of the outstanding shares of smaller companies. Therefore, the Committee's recommendations place individual investors at a disadvantage since they would not be able to place as much reliance on the financial statements of these firms. This is especially troubling since many small firms lack analyst and media coverage, so their financial statements are the main source of information regarding the financial state of the company on which individuals base their investment decisions. As a result, individual investors have the most to lose from accounting scandals at these smaller firms. However, as compared to institutional investors, this group does not have a collective "voice" to be heard by various governmental and regulatory bodies. As a result, this is precisely the group that needs

"The American Association of Individual Investors is an independent not-for-profit corporation formed in 1978 for the purpose of assisting individuals in becoming effective managers of their own assets through programs of education, information and research."

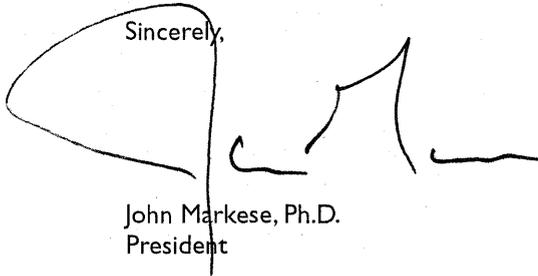
legislation such as Sarbanes-Oxley to offer investor protections. Again, however, the Committee's recommendations to exempt smaller companies from Section 404 compliance serve to diminish these protections.

We do understand and appreciate the impact Section 404 compliance costs can have on smaller firms, but we also believe in the importance of having reliable financial information on which to base investment decisions. It is our opinion that the costs of better disclosure are outweighed by lowering the instance of accounting scandals, which have an undue and adverse impact on individual investors.

Therefore, we strongly urge the SEC to arrive at a solution that best balances the costs and benefits of Section 404, instead of merely exempting smaller companies from the main requirements of Section 404. We further stress the importance of minimizing the costs of regulatory requirements for smaller public companies while retaining important investor protections that are the cornerstone of Sarbanes-Oxley.

We thank the Commission for the opportunity to voice our opinions regarding the Sarbanes-Oxley Act and Section 404 on behalf of individual investors. If you have any questions or comments, please feel free to contact us at (312) 280-0170.

Sincerely,

A handwritten signature in black ink, appearing to read "John Markese". The signature is stylized with a large, sweeping initial "J" and a horizontal line extending to the right.

John Markese, Ph.D.
President

A handwritten signature in black ink, appearing to read "Wayne A. Thorp". The signature is written in a cursive style with a prominent "W" and "T".

Wayne A. Thorp, CFA
Financial Analyst