

September 14, 2006

Securities and Exchange Commission
Attn: Nancy M. Morris, Secretary
100 F Street, NE
Washington, DC 20549-1090

Re: File No. S7-06-03 - Internal Control over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers and Newly Public Companies

Dear Ms. Morris:

The American Institute of Certified Public Accountants (AICPA) respectfully submits the following written comments on the Securities and Exchange Commission's (SEC or the Commission) proposal on, "Internal Control over Financial Reporting in Exchange Act Periodic Reports of Non-Accelerated Filers and Newly Public Companies," Release Nos. 33-8731; 34-54295 (the Proposal).

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 comments in this letter represent the views of those members who audit public companies.

We support the Commission's Proposal to extend the compliance dates by which non-accelerated filers are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (the Act). We believe that these extensions will allow both the Commission and the Public Company Accounting Oversight Board (PCAOB or the Board) adequate time to complete their intended goals of providing guidance to management and auditors which will ultimately lead to more efficient and effective Section 404 reporting. If the Commission concludes that bifurcating Sections 404(a) and (b) of the Act is in the best interest of investors, we would not object to the proposal to bifurcate, provided prominent disclosures are included in both management's assessment and the financial statement audit opinion to clearly alert investors that the auditor has not evaluated management's assessment or the effectiveness of the company's internal control over financial reporting. Lastly, we believe that the Commission's proposed relief from Section 404 requirements for all newly public companies would be in the interest of the U.S. capital markets and therefore, support the Commission's Proposal in this area.

The AICPA is committed to working with the SEC to help develop efficient and effective means by which public companies and their auditors implement new rules and regulations. To that end, we appreciate the opportunity to comment on certain aspects of the Proposal.

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PROPOSED EXTENSION OF INTERNAL CONTROL REPORTING COMPLIANCE DATES FOR NON-ACCELERATED FILERS

We support an adequate extension of Section 404 compliance dates for non-accelerated filers.

We agree with the Commission's Proposal to further extend the Section 404 compliance dates for non-accelerated filers. We believe that in order for investors to receive the full benefit of Section 404, issuers and auditors must have adequate time to fully understand and properly implement: 1) new management guidance planned by the Commission; 2) planned amendments of PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of the Financial Statements* (AS 2); and 3) the PCAOB's planned small business guidance to auditors. We believe that the extensions currently proposed should provide sufficient time to implement forthcoming management guidance and revisions to AS 2, if they are issued on a timely basis. However, if the SEC's management guidance and the Board's AS 2 revisions are not issued in sufficient time to allow for adequate understanding and proper implementation, we would support a further extension in order to provide adequate time for such understanding and implementation by both issuers and auditors.

We do not object to the proposed bifurcation of Sections 404(a) and (b) of the Act, provided adequate disclosures are included in both management's assessment and the financial statement audit opinion.

We believe that the full level of investor protection that the Act sought to achieve involves both the management assessment of internal control in conjunction with the independent auditor's attestation report. However, due to practical implementation reasons the Commission may conclude that bifurcating Sections 404(a) and (b) of the Act is in the best interest of investors. As such, we would not object to the proposal to bifurcate, provided appropriate disclosures are included in both management's assessment and the financial statement audit opinion to clearly alert investors that the auditor has not evaluated management's assessment or the effectiveness of the company's internal control over financial reporting.

While we do not object to the bifurcation of Sections 404(a) and (b), we are concerned it could result in possible unintended consequences. During the initial year of the proposed phase-in of a management-only assessment, auditors still will have a responsibility to report to management and the audit committee, as appropriate, control deficiencies of which the auditor becomes aware during the course of performing the financial statement audit. However, the auditor's procedures with respect to internal control over financial reporting during the course of the financial statement audit will not be nearly as targeted and comprehensive as the auditor would perform in an integrated audit. This decreased level of auditor involvement in the first year of compliance

may increase the risk that internal control material weaknesses that may otherwise be detected in an integrated audit will not be identified. In addition, investors may be confused regarding the level of comfort that should be placed on management's assessment of the internal control structure. As such, we encourage the Commission to carefully weigh the potential benefits with the risks identified.

Non-accelerated filers should be required to disclose in annual reports that management's assessment has not been attested to by the auditor during the year that the audit attestation report is not required.

We believe that it is essential that investors be made aware that management's assessment has not been attested to by the auditor in the initial phase-in year. We therefore strongly recommend that prominent disclosures be required of both the issuer and the auditor to clearly alert investors that the auditor has not evaluated management's assessment or the effectiveness of the company's internal control over financial reporting.

PROPOSED TRANSITION PERIOD FOR COMPLIANCE WITH THE INTERNAL CONTROL OVER FINANCIAL REPORTING REQUIREMENTS BY NEWLY PUBLIC COMPANIES

We believe the proposed relief from Section 404 requirements for all newly public companies would be in the interest of the U.S. capital markets.

We believe the proposed relief for newly public companies would be in the interest of the U.S. capital markets. While the requirement to have effective internal control should be unconditional, the requirement to perform an assessment in a shortened time period after going public is an added burden. Generally, it's challenging for companies to balance the personnel and financial resources to effectively and efficiently complete both processes simultaneously. Therefore, we support the Commission's proposed relief from Section 404 requirements for all newly public companies and believe that this will work towards a more effective and efficient implementation.

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We appreciate the opportunity to comment on the Commission's Proposal. We are firmly committed to working with the SEC and would welcome the opportunity to meet with you to clarify any of our recommendations.

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Sincerely,

A handwritten signature in black ink, appearing to read "S. Coffey". The signature is fluid and cursive, with a large initial "S" and a stylized "Coffey".

Susan S. Coffey, CPA
Senior Vice President – Member Quality and State Regulation
AICPA

cc: SEC
Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Commissioner Annette L. Nazareth
Commissioner Kathleen L. Casey
Conrad Hewitt, Chief Accountant
John W. White, Director of the Division of Corporation Finance

PCAOB
Mark W. Olson, Chairman of the PCAOB
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Daniel L. Goelzer, Member
Willis D. Gradison, Member
Charles D. Niemeier, Member
Thomas Ray, Chief Auditor and Director of Professional Standards