



KPMG LLP
280 Park Avenue
New York, N.Y. 10017
8th Floor

Telephone 212-909-5400
Fax 212-909-5699

| September 16, 2004

Mr. Jonathan G Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609

**Securities and Exchange Commission Release Nos. 33-8477; 34-50254
File No. S7-32-04
Temporary Postponement of the Final Phase-In Period for Acceleration of
Periodic Report Filing Dates**

Dear Mr. Katz:

KPMG LLP appreciates this opportunity to provide comments to the Securities and Exchange Commission (Commission) on the proposed rule, "Temporary Postponement of the Final Phase-In Period for Acceleration of Periodic Report Filing Dates" (Proposed Rule). In a letter addressed to Donald Nicolaisen dated August 3, 2004, which we prepared in collaboration with the other three largest registered public accounting firms, we stated our belief that a one year deferral of the Form 10-K acceleration schedule would serve the public interest by improving companies' ability to meet the demands of implementing Section 404 of the Sarbanes-Oxley Act of 2002 for the first time, while maintaining high standards of quality and accuracy of financial reporting. We therefore fully support the Proposed Rule as released. A copy of the August 3 letter is attached to this response.

KPMG LLP commends the Commission for its consideration of the factors noted in the August 3 letter in drafting and releasing the Proposed Rule.

If you have any questions regarding this letter, please contact Sam Ranzilla (212) 909-5837, sranzilla@kpmg.com, or Teresa Iannaconi, (212) 909-5426, tiannaconi@kpmg.com.

Very truly yours,

KPMG LLP

cc: William McDonough, Chairman, Public Company Accounting Oversight Board

August 3, 2004

Mr. Donald T. Nicolaisen
Chief Accountant
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Dear Mr. Nicolaisen:

Deloitte & Touche LLP, Ernst & Young LLP, KPMG LLP, and PricewaterhouseCoopers LLP believe that it is in the public interest to delay acceleration of the Form 10-K filing deadline by one year. Therefore, we request that the staff of the Securities and Exchange Commission (“Commission” or “SEC”) recommend to the Commission a filing deadline delay for one additional year, making the new sixty-day deadline effective for fiscal years ending after December 15, 2005.

Overview

Beginning this year, registrants that are accelerated filers with fiscal year-ends on or after December 15 will be required to file Form 10-K with the SEC within 60 days of their fiscal year-end. This filing deadline is accelerated from 75 days in the past year, and 90 days in the year prior (Appendix A).

Registrants that are accelerated filers will also be required to file their initial reports on internal control over financial reporting concurrent with the filing of their Form 10-K, pursuant to the SEC’s rules to implement the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 (“Section 404”).

The premise underlying our view that a delay is necessary and appropriate *for one year only* relates to the potential unintended consequences that two regulatory requirements could have on the quality of financial reporting: the timeline for filing the Form 10-K is accelerating while many registrants and auditors are finding that the processes surrounding readiness for reporting under Section 404 have been underestimated. Completion of that process by many registrants likely will be either hurried or postponed, a potential outcome that will not serve investors well.

The SEC rule governing the accelerated filing deadlines was passed in September 2002, just two months after Congress enacted the Sarbanes-Oxley Act (Appendix B). When the SEC passed the accelerated filing rule it recognized that a phased-in approach spanning a few years would allow registrants to adjust to significant new changes and requirements in the reporting system. At the same time, a phased-in approach would allow investors to

begin to experience the benefits of an accelerated flow of information. A key to this approach is balancing the benefits to the investor of receiving more timely financial information with the abilities of companies to produce quality financial data. As discussed in more detail below, adopting Section 404 has placed unanticipated demands on registrants that could negatively impact quality: some relief is therefore both necessary and appropriate.

The Level of Effort Necessary to Comply with Rule Section 404 Has Been Underestimated

A May 2004 survey¹ by Financial Executives International (“FEI”) of 83 of its public company members with average revenues of \$3.3 billion stated that the company employee man-hours necessary to be Section 404-compliant ranged widely, from 80 hours to 65,000 hours, and that on average, public companies expect to spend more than 6,000 hours on their readiness efforts. The incremental work occurring in the January-February timeframe will conflict with a statutory filing deadline that has accelerated by 20% (75 days to 60 days) since the prior year.

Over the past two years, many registrants underestimated what was necessary to put in place the processes to comply with Section 404. This underestimation resulted from uncertainties related to the implementation of this new requirement. The level of effort and cost to comply with Section 404 has greatly exceeded their original estimates.

First Time Assessing Section 404 Reporting Requirements and Practical Time Constraints

The preponderance of registrants will issue reports under Section 404 for the first time this year. The level of effort necessary for management to issue its report on internal controls will be over-and-above the effort necessary to issue financial statements and Management’s Discussion and Analysis (“MD&A”), because of the additional documentation, testing and assessment of results required to support management’s assertions contained in a report on internal controls.

For many registrants, the individuals responsible for closing the books and preparing the financial statements are the same ones who are responsible for driving the Section 404 process. Management’s final assessment required by Section 404 cannot be completed until it has evaluated the process for preparing the financial statements and related notes and tested the operation of those controls (for example, posting unique journal entries post-closing).

To finalize its Section 404 assertion, management must evaluate any significant deficiencies and material weaknesses. This evaluation can be finalized only after all of the management documentation and testing work has been completed and all of the deficiencies have been accumulated, aggregated and assessed. Because this is the first application of such a process, the framework for making these assessments is still

¹ See FEI Press Release dated May 30th, and survey results at <http://www.feio.org/news/404/costsurvey.xls>

evolving, and as a consequence registrants will be making judgments against an untested framework. This entails additional time to carefully evaluate results and formulate overall conclusions.

The impact on the capital markets and the marketplace implications of disclosure of material weaknesses under the Section 404 framework is unknown, and additional due care and prudence by registrants in making such judgments about the quality of internal control is critical. This will involve discussions with senior management, the audit committee, legal counsel and auditors on the potentially controversial and judgmental issues. We expect that the most difficult decisions, where there is legitimate room for judgment, will include discussions among a number of constituents to gather views. This process will be very time consuming, but will be time well spent to get to the right answer.

We expect this confluence of factors will place extreme pressure on the management responsible for the preparation of financial and internal control reporting in the February timeframe; and as a result, a disproportionate number of registrants will file Rule 12(b)-25 extensions that could raise unnecessary concerns about the registrant in the capital markets. These concerns could be avoided by delaying the accelerated filing deadline and thus giving the registrant an additional 15 days to complete both its financial and internal control reporting.

The Disproportionate Impact on Smaller Registrants

An analysis of the Form 10-K filing pattern of companies in the Fortune 100 for the years ended 2002 and 2003 shows that the average number of days from year-end to the date of the earnings release increased from 24 to 29 days and the average number of days from year-end to the date of the auditors' report increased from 38 to 45 days. This data does not take into account the additional time required by Section 404 in finalizing a company's periodic report.

We believe that the large-company preparer community will likely have more resources and capability to adapt to the new requirements, while smaller public corporations that are accelerated filers will face bigger challenges. Each of our firms has recently completed training on Section 404, which provided the opportunity for our partners to discuss the issues in the marketplace. Our partners are hearing from many registrants that management underestimated the level of effort that would be required to comply, and that therefore, the companies are behind in their readiness efforts. The burden on the smaller registrant in this regard is disproportionately high.

Audit Firms - Timing Challenges

An important feature of the PCAOB's Auditing Standard Number 2 is the requirement of the auditor to communicate in writing to management and the audit committee all significant deficiencies and material weaknesses identified during the audit. The written

communication should be made prior to the issuance of the auditor's report on internal control over financial reporting.

The audit firm cannot finalize its assessment of internal controls until management has completed its processes and assessment and the audit firm has completed its independent testing. The audit firm will necessarily need to finalize its assessment and report to management and the audit committee after the process of compiling all of the financial statements and footnotes is completed.

We expect that audit firm personnel, in addition to management personnel responsible for preparation of financial and internal control reporting, will be under extreme time pressure during *this year's* financial reporting cycle, particularly in the month of February, unless the filing deadline remains at 75 days.

The Potential Impact on MD&A and Other Management Disclosures

The SEC has consistently encouraged registrants to make thoughtful, reflective and meaningful disclosures. We applaud and also encourage these initiatives. Unfortunately, the quality and breadth of such disclosures this year may be negatively impacted by the concurrent timing pressures associated with the accelerated filing rule, Section 404 compliance and new SEC and Financial Accounting Standards Board ("FASB") requirements. Even though advancements in technology have improved the processes used to gather, prepare, summarize and produce financial data, the preparation of meaningful MD&A and other disclosures for investors requires a thoughtful, in-depth analysis and review of events by management.

We believe that providing quality disclosures to investors is a critical priority that may be unintentionally sacrificed by accelerated filing deadlines *this year*. The recent public debate surrounding the FASB's *Share-Based Payment* Exposure Draft further illustrates that registrants, in addition to representatives from the SEC and the FASB, are concerned about the unintended consequences of standards overload.

Conclusion

As you well know, investors and the public deserve a financial reporting process that provides them with reliable, relevant, and timely financial information. This year, registrants face a particular challenge in concurrently meeting the demands of the first year implementation of Section 404. In the current year, an accelerated Form 10-K filing deadline could compromise the ability to meet this challenge. To support high quality financial reporting, a one year deferral of the Form 10-K acceleration schedule would be in the public interest.

If you have any questions in relation to this letter, please do not hesitate to contact any of the following individuals:

Robert J. Kueppers - National Managing Partner, Risk, Professional and Regulatory Matters, Deloitte & Touche LLP (203-761-3579);
Randy G. Fletchall - Americas Vice Chair, Professional Practice and Risk Management, Ernst & Young LLP (212-773-4043);
Sam Ranzilla - Partner in Charge, Department of Professional Practice, KPMG LLP (212-909-5837); or
Raymond J. Bromark - Americas Leader of Professional, Technical, Risk and Quality, PricewaterhouseCoopers LLP (973-236-7781).

Sincerely,

/s/ Deloitte & Touche LLP

/s/ Ernst & Young LLP

/s/ KPMG LLP

/s/ PricewaterhouseCoopers LLP

CC:

Alan Beller

Erica Sulkowski

Appendix A – Accelerated Filing Schedule (Accelerated Filers)

For companies that meet the revised definition of accelerated filer, the filing deadlines are summarized in the following table:

For Fiscal Years Ending On or After	Form 10-K Deadline	Form 10-Q Deadline
December 15, 2002	90 days after fiscal year end	45 days after fiscal quarter end
December 15, 2003	75 days after fiscal year end	45 days after fiscal quarter end
December 15, 2004	60 days after fiscal year end	40 days after fiscal quarter end
December 15, 2005	60 days after fiscal year end	35 days after fiscal quarter end

Appendix B – Timeline of Significant Events

April 2002 – SEC releases a proposal on accelerated filing deadlines

July 2002 – Congress passes Sarbanes-Oxley

September 2002 – SEC issues final rule on accelerated filing deadlines

June 2003 – SEC issues final rule “Management's Reports on Internal Control Over Financial Reporting and Certification of Disclosure in Exchange Act Periodic Reports”

February 2004 – SEC releases an order deferring the effective date of Section 404 from June to November 2004

March 2004 – PCAOB issues an auditing standard on “An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements” (PCAOB Auditing Standard No. 2)

June 2004 – SEC approves PCAOB Auditing Standard No. 2 and both SEC and PCAOB issue frequently asked question guides on compliance with Section 404

June 2004 – PCAOB issues an auditing standard on “Audit Documentation” (PCAOB Auditing Standard No. 3) and a related Amendment to Interim Auditing Standards