



U.S. Securities and Exchange Commission

SEC Moves Forward on Sarbanes-Oxley 404 Improvements

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Washington, D.C., July 11, 2006 - The Securities and Exchange Commission, in another step toward improving the implementation of the Sarbanes-Oxley investor protection law, today published a Concept Release as a prelude to its forthcoming guidance for management in assessing a company's internal controls for financial reporting.

Following its May 10, 2006, Roundtable devoted to Sarbanes-Oxley Section 404 implementation issues, the Commission issued a roadmap for improvements entitled "Next Steps for Sarbanes-Oxley Implementation" (SEC Press Release 2006-75, May 17, 2006). Today's issuance of the Concept Release is one of the milestones on that roadmap, and it brings the SEC one step closer to issuing guidance for management that has been lacking since the law was enacted in 2002.

At the Roundtable, the Commission learned from participants that while Section 404 has produced benefits, its implementation has been unduly costly. The Commission also received specific feedback about issues that remain to be addressed, and actions that the SEC and the Public Company Accounting Oversight Board could take to make the internal control assessment and auditing more efficient and more effective. A separate Advisory Committee on Smaller Public Companies reported, following a year-long study, that companies which have not yet undertaken the process have special concerns with both costs and procedures. The planned guidance for management which is the subject of the Concept Release is intended to assist in dealing with all of these issues and concerns.

"Our goal is to develop practical guidance for companies to help improve the reliability of financial reporting and to make Section 404 implementation more efficient and cost effective for investors," said SEC Chairman Christopher Cox. "The public comment we receive in response to today's Concept Release will help the SEC write meaningful guidance for all public companies — large, small, foreign, and domestic — for the benefit of all of their shareholders."

The Commission anticipates that the forthcoming guidance for management will cover at least these areas:

- Identifying risks to financial statement account and disclosure accuracy

and the related internal controls that address the risks, including how management might use company-level controls to address the risks

- Objectives of the evaluation procedures and methods or approaches available to management to gather evidence to support its assessment
- Factors management should consider to determine the nature, timing, and extent of its evaluation procedures
- Documentation requirements, including overall objectives of the documentation and factors that might influence documentation requirements

The Concept Release seeks feedback on each of these topics and on whether guidance should be provided in other areas as well.

"Quality financial reporting is a critical cornerstone to our capital markets, and investors are entitled to rely upon it. Section 404 has a key role to play in enhancing the reliability of public companies' financial statements," said John W. White, Director of the Division of Corporation Finance. "I hope the Commission's issuance of the Concept Release will garner useful and broad-based public comment as we move forward in our efforts to improve the implementation of Section 404 for issuers and investors alike."

SEC Acting Chief Accountant Scott Taub said, "The guidance we issue should help companies further improve and streamline their processes for assessing the effectiveness of internal controls. We intend for the guidance to be flexible and scalable, such that it will assist companies of all sizes."

The Commission continues to move forward on the other steps it announced in May, and will be sensitive and responsive to the particular needs of smaller issuers, both domestic and foreign, while seeking to reduce costs and facilitate a more efficient and effective process to minimize the burdens that Section 404 may impose. The Commission and its staff will also continue to work with the Public Company Accounting Oversight Board on revisions to Auditing Standard No. 2, which implements Section 404 for auditors, so that it will more efficiently and workably protect investors in companies of all sizes.

▶ Additional materials: [Concept Release 34-54122](#)

<http://www.sec.gov/news/press/2006-112.htm>