October 4, 2011

The Honorable Spencer Bachus
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Barney Frank
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

The Honorable Scott Garrett
Chairman
Subcommittee on Capital Markets and
Government Sponsored Enterprises
U.S. House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Subcommittee on Capital Markets and
Government Sponsored Enterprises
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Bachus, Chairman Garrett, Ranking Member Frank and Ranking Member Waters:

I am writing to you on behalf of the 377,000 members of the American Institute of Certified Public Accountants to express our concern regarding the draft legislation entitled the “Small Company Job Growth and Regulatory Relief Act of 2011.” This legislation provides an extensive carve-out from compliance with Section 404(b) of the Sarbanes-Oxley Act of 2002 (“SOX”) including companies that have already been filing 404-compliant financial statements. The proposed legislation is the subject of an October 5, 2011 markup in the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises.

Section 404(b) of SOX requires an audit of the management assertions made regarding their company’s internal controls for financial reporting. SOX was enacted to protect all investors in public companies by increasing the accuracy and transparency of financial reporting. Effective internal controls are the bedrock of reliable financial reporting and are a first line of defense for preventing and detecting errors and fraud. We are concerned that by providing the carve-outs envisioned in the draft Small Company Job Growth and Regulatory Relief Act, fundamental protections that investors have historically relied on will no longer be in place. There is also no mechanism in the current draft legislation to require notifications to investors that there has been material change to some of the protections that they have relied upon for nearly a decade.

We are mindful of the cost of conducting such an audit, but note that the 2007 adoption by the PCAOB of Auditing Standard No. 5 brought significant improvements and efficiencies to the internal control audit. This point was highlighted in the April 2011 study released by the Securities and Exchange Commission on Section 404. The report explained that the 2007 reforms have resulted in cost savings and many of the original burdens associated with Section 404(b)
compliance have been reduced. We do not believe the draft legislation recognizes the steadily decreasing costs of 404(b) audits, nor does it protect the current benefits of the auditor attestation upon which investors and the capital markets rely.

We strongly support maintaining current investor protections and do not believe that rolling back these safeguards is appropriate.

Sincerely,

Barry C. Melancon, CPA
President and CEO

cc: Members of the Subcommittee on Capital Markets and Government Sponsored Enterprises