On behalf of The International Association of Small broker-Dealers and Advisors,www.IASBDA.com, we submit the following comments on the Small Business Committee's Proposals (SBCP's) . We want to focus on four) specific areas Sarbanes-Oxley, Finders, SEC staff commitment to small business and the SB program.. Before addressing specific areas, one general observation is paramount. The commission must extend its exemption of SOX 404 to small firms until it has had time to adequately consider the committee's recommendations. Failure to do so may kill a number of firms before a final decision is made and the committee's effort deserves serious study beyond the end of the current exemption. Indeed the committee should be made permanent.

IF THE COMMISSION DOES NOT PROVIDE TEMPORARY RELIEF AT THIS TIME IT MAY KILL A WHOLE GENERATION OF ASPIRING STARTUPS WITHOUT ANY EVIDENCE OF THEIR HISTORY OF ACCOUNTING FRAUD. AS WAS ONCE SAID OF RACE IN AMERICA, APPLICATION OF SOX 404 TO SMALL COMPANIES WILL RESULT IN TWO ECONOMIC SOCIETIES. The AFL-CIO HAS NOTED THAT IT DOES NOT WANT BROKERS CALLING ITS MEMBERS TO INVEST IN NON-SOXED COMPANIES.- THAT INDEED WILL HAPPEN IF THESE COMPANIES ARE FORCED TO THE PINK SHEETS . SOX WAS ALSO NOT INTENDED TO FORCE COMPANIES TO GO PRIVATE OR TO DETER FOREIGN COMPANIES FROM LISTING.

See FORBES 3/13/06 quoting Thompson Financial that firms going private are up tenfold in three years and Nasdaq CEO Greifeld's comments in the Wall Street journal. The Journal also recently noted that "In 2000, nine out of every 10 dollars raised by foreign companies through new stock offerings were done in the U.S., according to data from Citigroup. NYSE CEO John Thain recently told the Senate that last year not one of the top 10 initial public offerings (IPOs) measured by market capitalization was registered in a U.S. market. In fact, 23 out of the 25 largest IPOs in the world chose to register outside the United States, often in London or the Deutsche Bourse. Nor is 2006 shaping up to be better. Korean retailer Lotte Shopping recently conducted the largest IPO in Korean history; its shares are trading in Seoul and London"..

1) SOX- The Committee recommends that small firms be relieved of their SOX 404 burdens and many including former SEC Chairmen Levitt,Breeden,Pitt,Donaldson and FED Chairman Volcker(The Chairmen) have already spoken in opposition claiming that the small firms are more problematic. A NY Times columnist makes the same assertion. however the only reference in the report to a basis for such assertion is in the Schact dissent which notes that a 1998-20003 study finds they make up 75% of the fraud cases. But if they make up 80% of the entire universe that number is not definitive. Furthermore we suggest that more harm was done to investors in Enron alone than in all the cases in that study. The commission cannot judge small firms as problematical unless it has made a record for that finding that includes enforcement actions, investor complaints and number of investors in this universe

The Committee, Commission and PCAOB(The Regulators) need to address this argument in a more systematic way by analyzing what is problematic. The Chairmen contend that there are more restatements(75%) among companies with less than $500 million in revenue but the committee recommends exempting those with less than $128 million in revenue. Interestingly the chairmen do not recommend extending SOX to the least regulated entities, the Pink Sheets. A recent study by Glass Lewis fails also to note that the number of rising restatements is a small proportion of the 9,428 stock universe which goes to 15,000 if the pink sheets are included. The real issue however is losses to shareholders and there is strong evidence that this has been more true for the large issuers like Enron,Worldcom,Adelphia,Quest,Global Crossing and Refco. Thus while it is self evident and admitted that small firms have higher proportionate compliance costs, it is not self evident that their shareholders have suffered more even if there are more restatements and enforcement cases. Those restatements may well be honest mistakes and those cases may result in small losses or none at all.. Moreover the demise of many small firms for business reasons should not be confused with fraudulent accounting. SOX was not intended to fix unsuccessful business practices but rather fraudulent business practices.

One commentator explains "Sarbanes-Oxley's focus on internal controls -- the systems put in place to make sure factual financial and other important information actually reaches top management -- has led to an environment of second-guessing by auditors, where even a minor accounting error can mushroom into a wholesale investigation of a company's accounting procedures. The law put the onus on chief executives to certify they have taken all reasonable efforts to make sure that the numbers are correct and that their companies are fraud-free. The result, experts say, is a rush to get every possible error, no matter how small, identified and disclosed.

"I think what [Sarbanes-Oxley] did, it created an environment where companies aren't allowed to make honest mistakes," said Colleen Sayther Cunningham, president of Financial Executives International, a trade group of 15,000 chief financial officers and other financial executives. "You're seeing companies wounded by errors that in the past wouldn't have required a restatement but would have been fixed going forward." Wash Post January 30 2006.

The SEC'S former Chief Accountant Donald Nicolaison noted that not all material weaknesses will be viewed with equal significance "some material weaknesses may have a greater or lesser impact on an investor's decision-making process. In many cases, this decision will likely be influenced by the fullness of management's disclosure ,the underlying causes of the material weakness, and management's actions to address the material weakness. This is intended to be an open process whereby investors can evaluate both the weakness as well as management's actions to improve controls." speech at 11th Annual Midwestern Financial Reporting Symposium "

"Recent estimates from the American Electronic Association, for example, show that U.S. companies are spending $35 billion annually simply to comply with the law as opposed to original federal estimates of $1.2 billion. A University of Nebraska study found that audit fees for Fortune 1000 companies, on average, increased a staggering 103% from 2003 to 2004. The costs of being a U.S. public company are now more than triple what they were before the law passed, according to a study conducted by the Milwaukee-based law firm of Foley & Lardner. Some smaller firms report that they are spending 300% more on Sarbox compliance than on health care for their employees. As a result of these burdensome costs, enterprises are deciding not to go public, or else are opting to back out of our capital markets. Explaining his company's absorption into privately held Koch Industries, Peter Correll, the CEO of Georgia-Pacific, said, "There is a lot of time spent by top management on things that are not value-adding, but are simply bureaucratic and are required by a raft of regulation." In fact, the Foley & Lardner study found that 20% of public companies are considering going private just to avoid Sarbox compliance. It's no wonder, then, that the London Stock Exchange -- eager to exploit a competitive advantage -- now promotes itself by reminding companies that by listing on the LSE they are not subject to Sarbox.Beyond the direct cost of compliance to individual companies, a recent University of Rochester study concluded that the total effect of the law has reduced the stock value of American companies by $1.4 trillion. That is $1.4 trillion that could be invested in infrastructure improvements, jobs, innovative technologies or research and development. As Sun Microsystems CEO Scott McNealy says, Sarbanes-Oxley throws "buckets of sand into the gears of the market economy." The true beneficiaries of Sarbox are the nation's large auditing firms, which now maintain a regulatory oligarchy composed of a handful of entrenched services corporations. They will continue to champion Sarbox, since it provides a guaranteed market for their services. Surely this law was not intended by its authors to become a full employment act for the same auditing industry which was implicated in the original malfeasance of four or five years ago.Sarbox highlighted the importance of financial transparency and management integrity. And those in the corporate world who break the law should be punished. They are: Over 700 prosecutions have been launched since 2002 to address corporate crimes. Nevertheless, not one conviction was a result of Sarbox. Meanwhile, Sarbox clearly failed to prevent the massive accounting scandal at Fannie Mae. " Wall Street Journal March 18,2006

The Regulators have to resolve this debate through an independent study of small firm accounting enforcement actions and should arrange for one to be done by a University. At the very least, the accounting enforcement actions against small firms should be publicly considered as there are very few of them. It should not impose the costs of SOX on small firms until it has proof that the costs justify the remedy. Alternatively it could do a pilot study of the OTCBB to see how many shareholders are harmed by accounting irregularities over a short period of time. The argument for not imposing the same regulatory burden on small firms is one of proportionality. The small firms are hurt more by the auditing costs and may not present the same danger to shareholders. American financial markets have long been at the center of economic growth, innovation and world commerce. Unfortunately, The small firms that trade on the OTCBB need an alternative to individual audits. One solution might be allowing them to share the auditing costs that the bigger firms can individually absorb. They might therefore be allowed to form an association that would provide auditors whose costs were shared by numerous small firms under the oversight of the PCOAB. Firms choosing not to join would be bound by SOX. Such an association might also provide the accounting assistance suggested by both the Chairman and the Committee.. The Commission under its SOX authority could allow an association of small issuers to pool their resources into an auditing coop overseen by the PCAOB. The coop would hire a force of auditors to perform the internal controls audit under the PCAOB.The association would be supported by yearly fees based on revenue.. The Association might also receive additional funding from educational seminars and small business supporters and perhaps even NASDAQ . It would to some degree replace the extra SEC small business staff that has been suggested by the Chairmen. These association auditors would gain expertise over time in internal controls and become more efficient and more effective and as the companies grew they would move on to a regular SOX audit. Finally whatever is decided, should meet the fundamental principle of medical ethics;" First do no harm."

2) Finders- The Committee proposes to fix this problem by adopting an American Bar Association Proposal to create a new registration category for individuals who source capital so called private placement brokers. That category already exists in the form of Investment advisor registration which is less complex than broker-dealer registration and was recently applied to hedge funds. It is a simple fix that can be adopted immediately. A registered advisor with authority over client funds could at this time invest those funds by purchasing securities directly from an issuer. A finder who chose to register as an advisor could do the same. what could easily be clarified is that an ia registered finder could approach investors on behalf of an issuer for an investment and then obtain authority over the funds. The finder would have no authority to purchase other than directly from an issuer and would not be able to resell to another customer.. The commission should then clarify that this is the only way a finder can operate. this could be implemented as a pilot program and the staff could study its effect. as with the rationale used for hedge funds it would give the staff an insight into the finder business. It would also relegate most of the new registrants to the states as these advisor finders would be doing less than 25 million dollars per year, although the commission might lower that threshold for these advisers.

3) Staff- The committee's initial summary proposal speaks of an ombudsman or help desk function for additional SEC staff and Chairman Levitt speaks of the need for a small group of accountants to answer questions. We initially suggested that the Commission needed a separate and independent office for small business including small broker-dealers and an increase in staff from the current small business section of the Corporate Finance Division. This staff should have at least three missions. First, they must answer questions and do so expeditiously. Second they must independently assess the effect of new rules on small business. Third , they should independently suggest new rules designed to keep small business on a level playing field. Most importantly they must be the Commission's sole advisors on small business and not be influenced by other interests within the Commission For theses reasons and others we also believe the SB program should be retained.

4)The SB Program- We believe that it is not in the best long term interests of entry-level small business issuers to accept terminating the SEC Small Business Issuer regime by folding it into a scaled down segment of upper tier regimes is not likely to produce more public reporting entities. Issues that confront entry level small business issuers must be thought about and addressed differently. This reality was a driver that created the SEC Small Business Issuer Regime and before that the SEC Office of Small Business Policy. SB-2 registrations have become a market place favorite of the list of initiatives that were offered when the SBI regime was introduced. Moreover, small business issuers that file SB-2 registrations become public reporting entities and from our perspective investors and the public interest are better served by having more public reporting small business issuers rather than fewer.

Now is not the time to terminate the SEC small business issuer program, the SB-2 registration program or allow the SEC Office of Small

Business Policy to move away from a core mission to address entry level small business issuer regulatory regime problems. It took several years for the SEC to work its way through creating a distinct Small Business Issuer regime and adjustments have been made to that regime as problems emerged. Advocates ought not to allow higher level market cap value company problems and recommendations to drive terminating the SEC small business issuer regime and/or significantly alter the mission of the SEC Office of Small Business Policy. An end result outcome of the SEC Advisory Committee on Smaller Public Company Recommendations to terminate the SEC Small Business Issuer regime and requirements that SEC staff must give special consideration to an entry level class of small business issuers is not good public policy and this recommendation ought to be removed from the SEC ACSPC Recommendations.

At this moment the possibility for an entry level small business issuer market place is enabled by the SEC Small Business Issuer Regime, SB-2 registrations and OTC trading. Love or hate the OTCBB the fact is that its traded companies must be SEC public reporting entities and this is a better "in the public interest" situation than any securities regulatory regime recommendation that allows companies to raise and spend third party investor capital without presenting audited financial statements to potential investors.

Designing securities regulatory policy under a theory that only fully developed companies can enter the capital market fails to recognize a reality that lower threshold regulatory regimes are necessary for entry level small business issuers to raise small amounts of capital to organize and develop their business so that it can reach its next milestone. This condition can only be sustained when investors are provided a public market exit strategy. To believe other wise defies more than 200 years of stock market history. Statements made in SEC Advisory Committee on Smaller Public Company Recommendations on pages 66 to 72 to present arguments that support terminating the SEC's Small Business Issuer Regime that are problematic.

The SEC Office of Small Business Policy appears to have joined with companies that have fairly large market cap values to enable them to develop recommendations that the SEC Small Business Issuer regulatory regime be terminated. And, they are doing so in a context that enables these larger market cap value companies to benefit from the lower regulatory thresholds that were granted to small business issuers under the SEC Small Business Issuer regime. This is the wrong way to develop public policy. Larger market cap value company issues and recommendations ought to be bifurcated from any policy decisions to terminate or adjust the SEC Small Business Issuer securities regulatory regime. One can sense how weak the argument is for terminating the SEC Small Business Issuer Regime by examining language on pages 62 to 72 of the SEC Advisory Committee on Smaller Public Companies Recommendations especially:

"many securities lawyers saying they are not familiar with Regulation S-B";

Fact: More than 2,500 attorneys have worked on 5,750 SB-2 filings.

And, "drawbacks associated with Regulation S-B include a lack of acceptance of "SB filers" in the marketplace";

Fact: SEC.gov data reveals that from 1994 to now, 5,756 SB-2 Registrations have been filed from 1994 and 27,570 10KSB filings have been made. These total numbers do not reflect a lack of acceptance of SB filers in the marketplace.

And, "a possible stigma associated with being an S-B filer";

Fact: During 2005 there were 3,457 10KSB filings and 882 SB-2 registrations. I am happy to provide a research report about the SB-2 registration program. Among other things it reveals that the SB-2 program is a value creation mechanism. It also provides content that indicates the SBI program ought not to be terminated based on the arguments presented in the SEC Advisory Committee on Smaller Public Company Recommendations because for the SB-2 group of small business issuers there is no stigma associated with becoming an SB filer.
And, "the complexity for the SEC and public companies and their counsel of maintaining and staying abreast of two sets of disclosure rules that are substantially similar."
Projecting this statement into the future indicates that companies, general counsel and SEC staff believe that there should only be one company business model and one set of securities regulations because it is to complex to impose regulations on a wide range of business models. It is astonishing that anyone in today's world is willing to go on record stating that they can't deal with complexity. It is a sad commentary about our society that its upper tier securities attorneys, auditors, market participants and apparently SEC staff assert that they can't deal with complexity even as they attempt to impose more complexity on the entry level capital market. Therefore the resources allocated to the SEC Office of Small Business Policy ought to be expended focusing its mission on the small business issuer segment and developing solutions that will help this segment solve its compliance and reporting problems. Finally we believe that all these goals might better be accomplished by making the committee a permanent advisor to the commisssion and rotating its personnel on an annual basis.

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