March 31, 2006

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File No. 265-23

Dear Members of the Commission,

Thank you for an opportunity to provide comments on the Exposure Draft published by the SEC Advisory Committee on Smaller Public Companies. Through my 15-year old company WBS&A, Ltd., I am a management consultant who is also developing www.smecapitalmarkets.net as a knowledge exchange platform for the small-to-medium-enterprise capital market segment. I am also Chairman of an Advisory Board[i] for a small public company that is currently providing management consulting services to 25 clients that are undertaking SB-2 registrations. As an investor I have held positions in a fair number of OTCBB traded companies and I know that there is a qualitative difference between the information that OTCBB issuers provide and that provided by issuers who trade in venues that don't require financial reporting.

I believe that the public interest is best served by policy makers, regulators, market participants, professional service providers and advocates designing securities regulatory schemes that maintain the greatest possible number of SEC financial reporting entities and that decision makers in these entities must figure out how to help small issuers achieve regulatory compliance.

I have consistently advocated that it is in the public interest for policy makers and regulators to ensure that small issuers provide investors information that is over sighted by auditors, regulators and/or a compliance system.[ii]

Preparation to present my comments includes writing a research report about the SEC's Small Business Issuer SB-2 Registration Program, see Abstract.[iii] I will gladly make this report available to any reader of this comment letter who requests it from me. Facts in my SB-2 Research Report are at variance with representations made to support terminating the SEC Small Business Issuer Regime and its SB-2 Registration program in the SEC Advisory Committee on Smaller Public Companies Recommendations. Also, I am currently working on a survey of SB-2 and 10KSB Auditors that focused on what can be done to help small issuers achieve and maintain public reporting status and writing a related report. Content in the SEC Advisory Committee on Smaller Public Companies Recommendations makes a point that "Of the 900 U.S. audit firms registered with the PCAOB, we noted that approximately 82% of them audit five or fewer public companies". This is the group that we attempted to survey and when the SB-2 and 10KSB Auditors Survey

Report[iv] is completed I will make it available to any reader of this comment letter who requests it and content in this comment letter reflects findings from the SB-2 and 10KSB Auditors Survey.

My overall point is that the recommendations in my comment letter are supported by a fair effort to develop background information.

I strongly recommend that SEC decision makers <u>not accept</u> the committee's recommendation to terminate the Small Business Issuer Regime and its SB-2 registration and 10QSB and 10KSB financial reporting programs.

This is an egregious example where the Committee's case for its Recommendations to terminate the SEC Small Business Issuer regime by folding it into a scaled down upper tier regime is not supported by actual facts.

I believe that the Committee's failing of facts to support its arguments on this one item (terminate the SB-2, 10QSB and 10KSB programs helps demonstrate why its body of recommendations are problematic.

From a top down perspective, guiding public policy toward producing fewer SEC financial reporting entities is not in the public interest. This committee failed to address its task of determining what can be done to make SOX work. Some of its content may be useful going forward but I have concluded that the starting point to figure out what can be done to help small public companies achieve compliance must be reset.

Moreover, I note that not a single CPA / auditor who does work for small public companies has presented a comment letter that supports the SEC Advisory Committee on Smaller Public Companies Recommendations.

Other information must also be considered by SEC decision makers. Every issuer segment in the capital market depends upon investors providing them capital. The February 27, 2006 letter to Chairman Cox from the STATE BOARD OF ADMINISTRATION OF FLORIDA which speaks on behalf of the Florida Retirement System (FRS) -- the fourth largest public pension plan in the United States[v] provides ample evidence that investors do not support the SEC Advisory Committee on Smaller Public Company Recommendations.

Policy makers, regulators and advocates must recognize this reality that investors do not support this Committees recommendations and then move forward on new initiatives and programs to make SOX compliance work.

The Levitt group[vi] opposes SOX mitigation as it has been proposed by the SEC Advisory Committee on Smaller Public Company Recommendations. I will cover 3 of their recommended action steps[vii] in this comment letter.

I am summarizing the Levitt group's recommended action steps as follows:

1. Recommended Action Step - Redefine what constitutes a small business;
2. Recommended Action Step - Establish a joint entity task force to develop reasonably priced tools to help the small business issuer segment comply with Sarbanes Oxley and monitor its effectiveness; and,
3. Recommended Action Step - Reconfigure the SEC to more readily provide accessible assistance to small business issuers.

As it pertains to "Redefining what constitutes a small business", this is a topic that must be considered in a global policy and competitive factor context. Unless and until there is an acceptable definition of what constitutes a small business issuer no action should be taken to terminate the SEC Small Business Issuer Regime and/or act on any SEC Advisory Committee on Smaller Public Company Recommendation that affects SB-2 registrations and 10QSB or 10KSB financial reporting. More over part of the follow on action by SEC decision makers must include redefining the SEC Office of Small Business Policy's mission so that its work and resources focus on the SEC small business issuer regime and capital market segment.

One way for the SEC to produce an acceptable market place definition of a small business issuer can be achieved by this tactic. Create a bright line marker between companies that are required to immediately comply with SOX and those that will be given more time as right sized SOX compliance programs and tools are being developed. From my perspective the bright line marker ought to be exchange listed companies versus OTCBB traded companies. Conceptually the SEC can achieve this outcome by relaxing size measurements in its small business issuer regime so that any company in the lower 5% market cap value group can elect to remove itself from an exchange listing and begin reporting under the Small Business Issuer regime. Under this scenario, companies that select exchange listed status must comply with SOX and those that select the OTCBB trading venue will have the benefit of some extended period of time delay before they must address the more rigorous and costly increments of SOX.

One assumes that it will take a reasonable amount of time to develop a right-sized SOX regulatory compliance program for small business issuers. At the end of this time frame SEC decision makers can review the profile of companies that have elected to trade on the OTCBB and use this information to reset small business issuer size standards because these sizes will be market determined.

I believe that enabling a market based approach to define the size standards for a small business issuer is the best way for policy makers, regulators, issuers, market participants and their professionals to learn what constitutes a small public company and that this is a necessary step that must be taken before the small business issuer regime should be changed or terminated.

This approach is in the public interest because it helps maintain the greatest possible number of SEC financial reporting entities because it maintains existing and highly functional lower financial reporting and auditing thresholds for OTCBB traded companies while the deeper policy discussion[viii] called for in the February 26, 2006, Consumer Federation of America letter to Chairman Cox produces its products.

The system must engage in constructive efforts to learn how to develop tools to cost effectively instill SOX compliance into lower tier companies. At the end of all out cries about the SEC Advisory Committee on Smaller Public Companies Recommendations (ACSPC) I believe that the Levitt group's recommendation to form a task force will prevail because it is supported in most of the thoughtful arguments against accepting the ACSPC recommendations. A good example is Donald H. Chapman's, CPA March 15, 2006 Comment Letter.[ix]

Also, the complexity problem of financial reporting[x] is now being addressed by the House Financial Services Committee and by the highest levels of regulatory and governance entities.

Learning how to cost effectively instill SOX and address the complexity problem of financial reporting can be achieved by acting on two other recommendations made by the Levitt group[xi]:

- Establishing a joint entity task force to develop tools; and,
- Reconfiguring the SEC to more readily provide accessible assistance to small business issuers;

These recommendations can be empowered and actualized by leaders within the SEC, PCAOB, legal and accounting professional organizations, information technology industry, trade associations etc., forming a task force that has a mission to organize a public / private regulatory compliance facility that focuses its work on developing SOX compliance information, programs, tools and services for small public issuers.

Creating a "compliance facility" that focuses on creating systemic solutions is a viable way to actualize the Levitt group's recommendation to develop tools. And, when this facility is operational it can also take on the task of providing accessible assistance to small business issuers.

The following two findings from our SB-2 and 10KSB Auditors Survey and related research report mentioned above generate support for the Levitt group's recommended solutions.

1. The gap between small issuers producing financial information and auditors accepting it has been widened because of the Sarbanes Oxley Law and solutions[xii] must be developed to address this gap.

2. SB-2 and 10KSB Auditor respondents believe that small issuers are not well equipped to address the new SEC regulatory compliance requirements that are imposed by SOX.

Both items can effectively be addressed under the Levitt group's recommendations to develop tools and provide accessible information sources by developing a small issuer compliance facility.

Moreover, people who have worked on projects to develop programs and tools (COSO, COBIT, enterprise governance, risk, and compliance (GRC) management) generally state that they lack the resources and/or the right level of access to harmonize with third party entities that that have developed regulatory and governance policies.

The following two comments by a knowledgeable observer reflect a profound understanding about this situation.

1. The SEC should issue some helpful guidance for management setting forth what controls are expected to exist in a small company environment. To date, there is absolutely NO GUIDANCE WHATSOEVER for management of small companies.

2. The auditors in turn need to do a much, much better job of tailoring their audit approach to the specific control environment that exists at a small company. I have discussed this with a number of them and do not think they have done a very good job of this and need to make great strides and improvement in their audit approach, audit tools and audit training in this respect.

Upon completion of its tool development tasks the "compliance facility's" mission can be extended so that it supports issuer compliance by providing their management access to the right levels of SEC expertise necessary to address audit engagement issues.

Conceptually I believe that this recommendation ought to be viewed as a task force / project to create a small public company compliance facility. Elements from other successful models can be instilled into this facility. For example the recently announced S&P SME Rating Service[xiii] may help generate ideas about possibilities.

I envision that a compliance facility can help increase the number of companies that comply with SEC reporting requirements by mitigating their costs and supporting them through the process. This approach empowers the Levitt group recommendations.

Moreover I believe that the approach of a task force creating a facility helps answer the challenge that Chairman Cox stated in his quote in a recent New York Times article[xiv] "with respect to 404 compliance, the question is not whether but how."

I recommend that SEC decision makers enable a third party task force to develop a facility that supports small issuer compliance.

Moreover, as it pertains to “Reconfiguring the SEC to more readily provide accessible assistance to small business issuers”, the survey of SB-2 and 10KSB Auditors revealed that they believe the SEC Office of Small Business Policy must take the lead in educating small business issuers about SEC accounting and reporting issues.

The fundamental problem is that regulatory regimes directed at small business issuers must be thought about and addressed differently. This fact was the driver that created the SEC Small Business Issuer Regime and before it the SEC Office of Small Business Policy.

Studying the SEC Advisory Committee on Smaller Public Company Recommendations causes me to conclude 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 that this approach is not likely to produce more public reporting entities.

An overview of the Small Business Issuer Regime at its inception is presented at http://www.nysscpa.org/cpajournal/old/16349293.htm. I can also provide a research report that demonstrates SB-2 registrations have become the market place favorite from the list of initiatives that were offered when the SEC SBI regime was introduced.

Moreover, small business issuers that file SB-2 registrations are SEC financial reporting entities and from my perspective investors and the public interest are better served by having more SEC reporting small business issuers rather than fewer.

Policy makers, regulators and advocates fail to be good stewards as next iterations of their work create securities regulatory regimes that enable small issuers to raise capital from third party investors without providing financial reports that can only be presented after some level of oversight. The SEC SB-2 registration and 10QSB and 10KSB financial reporting programs

supported by OTCBB secondary market trading frame a functioning and viable small business issuer capital market system.

Policy makers, regulators, market participants, service providers and advocates ought to focus on how they can improve this system to bring more issuers into it because this produces SEC financial reporting entities and that serves the public interest.

Now is not the time to terminate the SEC small business issuer program, the SB-2 registration program and/or allow the SEC Office of Small Business Policy to move away from a core mission that addresses 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. Adjustments have been made to this regime as problems emerged. Advocates for SOX relief ought not to allow higher level market cap value problems implementing SOX drive terminating the SEC small business issuer regime and/or significantly altering the mission of the SEC Office of Small Business Policy.

Any outcome of the SEC Advisory Committee on Smaller Public Company Recommendations that terminates the SEC Small Business Issuer regime is not good public policy and all aspects of this recommendation ought to be removed from the list of SEC ACSPC Recommendations.

At this moment the possibility for an entry level small business issuer capital market segment is enabled by the SEC Small Business Issuer Regime, SB-2 registrations, 10QSB and 10KSB financial reporting and OTCBB trading. Love or hate the OTCBB the fact is its traded companies must be SEC financial reporting entities and this is a better “in the public interest” situation over any other securities regulatory regime that allows companies to raise and spend third party investor capital without presenting audited financial statements and regulator over sighted information pieces to potential investors.

Moreover, designing securities regulatory policy under a theory that only fully developed companies can enter the capital market fails to recognize the reality that lower threshold regulatory regimes are necessary for entry level small business issuers to raise small amounts of capital so they can organize and develop their business to 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. SB-2 registrations, 10KSB financial reporting and OTCBB trading fulfill this function.

I strongly recommend that the SEC and small issuer advocates focus on making the SB-2 registration, 10QSB and 10KSB and OTCBB trading market a better capital market segment for

small business issuers that must go through organization and development processes before they can qualify for exchange listing status.

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 are problematic.

One quickly realizes how weak the committee's 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 were filed and 27,570 10KSB filings have been made.

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 will provide a research report about the SB-2 registration program to anyone who wants to develop a better understanding about this capital market segment. Among other things this research report reveals that the SB-2 program is a value creation mechanism and that small business issuers are willing to become SEC financial reporting entities. It also provides content to prove that the SBI program ought not to be terminated based on the arguments presented in the SEC Advisory Committee on Smaller Public Company Recommendations.

More importantly resources allocated to the SEC Office of Small Business Policy ought to be expended focusing its mission on the small business issuer segment and on developing solutions that will help this segment solve its SOX compliance and reporting problems.

The Advisory Committee's arguments for terminating the SEC small business issuer regime break down upon examination and are therefore not a meaningful reason to terminate a functioning and viable SEC Small Business Issuer regime and capital market segment that serves investors by providing them access to higher quality SEC financial reporting information.

Hopefully my comments will help SEC decision makers understand that there is deeper dimension to "it is in the public interest" to work on making the SEC Small Business Issuer regime work better and this is to pursue a policy goal that maintains the highest possible number of small SEC financial reporting entities (small public companies).

I fail to comprehend why 800 years of accounting practice and financial reporting knowledge[xv] cannot be applied to help small business issuers solve the problems that they encounter to achieve and maintain SEC financial reporting status. From my perspective the Levitt Group's recommendations are the best way to address these problems. Now it is time to act on the recommendations that were produced by their wisdom.

And, this is not the time to terminate a viable and functioning SB-2 Registration, 10QSB and 10KSB reporting program because its users prove that small issuers are willing to work under SEC financial reporting and auditing regulatory requirements.

Thank you for this opportunity to comment on the SEC Advisory Committee on Smaller Public Company Recommendations. Please contact me if you have any questions.

Sincerely,
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WBS&A, Ltd.
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End Notes

[i] William Bradford "Brad" Smith II has served as an adviser to Stephen Brock since 2002 and chairs Public Company Management Corporation's Advisory Board http://www.publiccompanymanagement.com/experience/boa.html

[ii] Beginning in the early 1990's I worked with the Texas State Securities Board, Federal Reserve Bank of Dallas and several other entities to introduce the North American Securities Administrators Association's SCOR Form U7 and SCOR program to the small issuer market place because I believe that the Form U7 provided a superior form of disclosure to investors and because it was supported by Audited Financial Statements, as the SB-2, 10SB Registration and 10KSB and 10KSB programs gained market acceptance it became obvious that these were preferred by market participants, issuers and investors over the Form U7 / SCOR Program. My work to instill small business issuer programs into the market place included working with the SEC Office of Small Business Policy to organize and present 6 SEC Townhall meetings on Small Business Capital Formation during the 1990's. I also served on the NASD / NASDAQ OTCBB Advisory Board for more than 4 years where I forcefully advocated that the OTCBB should be kept in place because it is the only OTC market that requires quoted issuers to be current in their SEC financial reporting requirements. In each of these endeavors I sought to improve the situation for entry-level small business issuers in a policy context that develops the greatest number of small public reporting issuers

because it is in the public interest for investors to have access to financial information that is governed by SEC regulatory oversight.

[iii] SB-2 Capital Market Research Report, February 2006, Brad Smith, SME Capital Markets, http://www.smecapitalmarkets.net/sb2researchreport

Abstract

2005 was a record high year for the SB-2 registration program enabled July 1992 to April 1993 by the U.S. Securities and Exchange Commission adopting Regulation SB rules and new registration forms for small business issuers (SBI). Those SB rules addressed registration requirements under the Securities Act of 1933, modified rules for small business issuers and lessened the periodic reporting burden of the Securities Exchange Act of 1934 with Forms 10-SB, 10-QSB, and 10-KSB. Regulation S-B rules simplify the registration and reporting requirements of the securities act for small business issuers. This research report demonstrates that value is created in the SB-2 capital market niche. Information in this research report can benefit business owners, professional service providers, broker-dealers, market makers, entry level capital market stakeholders and vendors of products services. Since 1995, **5,606** SB-2s have been filed. **881** SB-2 registrations were filed during 2005 making it a new record high year. This Research Report covers in detail **792** SB-2 registrations that were filed during 2005. SB-2s filed by these **792** companies plan to register **56.6** billion shares with a maximum aggregate offering price of **$11.5** billion. **511** (64%) of the SB-2 registration companies trade on an exchange or OTC market and **442** (86%) trade on the OTCBB. **$16.2** billion of market cap value has been created by the **511** companies with trading symbols that filed SB-2s during 2005. SB-2 registrations were supported by professional service providers including: **257** Accounting Firms; **435** Law Firms and **67** Stock Transfer Agents. Top ten lists for each service provider category are presented and the SB-2 Research Report includes a list of these service providers and the number of SB-2s that each worked on. This Research report offers a profile of information about companies that filed SB-2 registrations during 2005. It presents market intelligence that generates **25** New Business Opportunity Recommendations in the SB-2 capital market niche. An SB-2 Worksheet that lists data elements for each of the 792 Companies that Filed SB-2's during 2005 can also be purchased as a companion piece.

[iv] SB-2 and 10KSB Auditors Survey

Abstract

This report is based on the findings of a survey of SB-2 and 10KSB Auditors, correspondence with leading financial experts and a review of a wide range of information sources, particularly responses to the SEC public consultation on the reporting requirements for small public companies. The aim of the research has been to investigate what might be done to help entry-level Small Business Issuers achieve and maintain public reporting status.

Regulatory reporting standards for public companies are becoming increasingly rigorous, and many concerns have been expressed about the burden of these on small firms, and the likely impact on their willingness to become or remain public reporting entities. In comparison, relatively little attention has given to developing solutions to enable small public companies to comply with the regulatory requirements at lower cost.

The study highlights a significant gap in the provision of support, guidance, tools and services which are tailored to the needs of small public companies, and makes recommendations for action to address this gap. It is recommended that government and the private sector work together to develop specialist services and products designed to ease the regulatory burden on small firms and increase their operational efficiency. Many specific business opportunities for financial service providers, training consultants, IT developers and others are identified in the report.

[v] **STATE BOARD OF ADMINISTRATION OF FLORIDA**

February 27, 2006

Christopher Cox
Chairman, U.S. Securities and Exchange Commission
100 F Street, NE

Washington, DC 20549-9303

Re: Section 404 Internal Control Application to Small Companies

Dear Chairman Cox:

The State Board of Administration (SBA) of Florida is writing to express our views on the recommendations of the Small Business Advisory Committee. Managed by the SBA, the Florida Retirement System (FRS) is the fourth largest public pension plan in the United States with approximately 920,000 beneficiaries and retirees, and assets totaling approximately $121 billion.

As you know, a subcommittee of the SEC Small Company Committee has recommended that the SEC and the Public Company Accounting Oversight Board ("PCAOB") either eliminate or significantly weaken the internal control requirements of Section 404 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"). We urge the SEC *not* to accept the recommendation of the SEC Small Company Committee, which would effectively eliminate an important investor protection provision of the Sarbanes-Oxley Act. **As a large passive investor in the U.S. equity markets, we hold ownership stakes in almost every company within the Russell 3000 stock index. The Committee's proposal would exempt almost 1,300—or over 42 percent—of all public companies within this index.** Such a large-scale exemption would have the effect of increasing the cost of capital for those companies the SEC Small Company Committee's recommendation is intended to benefit.

We believe Sarbanes-Oxley is working as evidenced by the high rate of errors detected in financial statements and corrected during 2004 and 2005 as companies implemented Section 404. We respectfully request that you do not adopt the recommendation of the SEC Small Company Committee. If you have any questions, please contact myself or Michael McCauley, Director of Investment Services & Communications, at (850) 413-1252.

Sincerely,
Coleman Stipanovich
Executive Director

cc: Commissioner Paul Atkins
Commissioner Roel Campos
Commissioner Cynthia Glassman
Commissioner Annette Nazareth
Ms. Ann Yerger, Executive Director, Council of Institutional Investors
Ms. Anne Simpson, Executive Director, International Corporate Governance Network
Mr. Kurt Schacht, Executive Director, CFA Centre for Financial Market Integrity

[vi] **The Levitt Group** comprises the following gentlemen. February 13, 2006 Former Securities and Exchange Chairman Arthur Levitt, former Federal Reserve Chairman Paul Volcker and former U.S. Comptroller General Charles Bowsher joined John Biggs, former chairman and chief executive of TIAA-CREF, and John Bogle, former chairman of the Vanguard Group Inc., signed a letter that was addressed to current SEC Chairman Christopher Cox and the acting chairman of the Public Company Accounting Oversight Board, William Gradison asking that no public company be exempted from the internal controls provisions of the Sarbanes-Oxley Act.

[vii] **The Wall Street Journal Online**
Financial Stars Urge Regulators
To Not Dilute Sarbanes-Oxley
By MICHAEL RAPOPORT
February 21, 2006; Page C3
A group of financial notables has urged regulators to reject a proposal to exempt thousands of smaller public companies from Sarbanes-Oxley-imposed rules on internal controls.

Former Securities and Exchange Chairman Arthur Levitt and former Federal Reserve Chairman Paul Volcker and others warn in a Feb. 13 letter that such a rule relaxation is "misguided" and "simply goes too far" in addressing the concerns of small companies.

The letter was addressed to the current SEC chairman, Christopher Cox, and William Gradison, acting chairman of the Public Company Accounting Oversight Board.

Internal Controls

A section of Sarbanes-Oxley, a 2002 corporate-governance law, requires public companies to review their financial-reporting systems and safeguards -- so-called internal controls -- to ensure their financial statements aren't susceptible to errors or fraud. Hundreds of companies have spotted internal-control problems and many have had to restate earnings since the internal-controls rules went into effect in late 2004, but smaller companies have complained the rules are disproportionately costly and burdensome for them.

In response, an SEC advisory panel made a recommendation in December that would lead to exempting an estimated 80% of public companies from at least part of the rules. For example, companies with market values below about $125 million would be exempt from the rules entirely; others would face relaxed variations on the rules.

The advisory panel's recommendations are subject to SEC approval. The panel is scheduled to meet today in Washington to discuss issuing a draft of its final report, including the exemption recommendations, for public comment. Officials from the SEC advisory panel couldn't be reached for comment.

'Who Was Responsible'

Exempting smaller companies from the internal-controls rules would be a mistake, according to the letter writers. "When new accounting and corporate-fraud scandals develop, as they surely will, people will ask who was responsible for a policy decision resulting in such sweeping exemptions," they wrote.

The letter was also signed by John Bogle, the former chairman of Vanguard Group Inc.; John Biggs, the former chairman and chief executive of pension company TIAA-CREF; and Charles Bowsher, former U.S. comptroller general and former head of the Public Oversight Board, the PCAOB's predecessor in regulating the accounting industry.

Mr. Bowsher said in an interview that he is concerned that exempting all those companies would allow financial improprieties to go undetected. The exemption proposal "basically is undermining the whole thrust of the Sarbanes-Oxley legislation -- to get better reporting, better audits," he said.

Write to Michael Rapoport at Michael.Rapoport@dowjones.com[1]
URL for this article: http://online.wsj.com/article/SB114049341489878791.html
Hyperlinks in this Article: **mailto:Michael.Rapoport@dowjones.com**

[viii] **February 26, 2006, Consumer Federation of America letter to Chairman Cox** re the SEC Advisory Committee on Smaller Public Companies supporting the Levitt group's recommendation as the starting point for a policy discussion.

[ix] **Donald H. Chapman, CPA March 15, 2006 Comment Letter Re: File No. 265.23,** http://www.sec.gov/rules/other/265-23/dhchapin031506.pdf

[x] **Capitol Hill Tackles Complexity**

In hearings Wednesday, Congress sought advice on ways to improve accuracy and reduce the complexity of financial reporting.

Tim Reason,

CFO.com
March 30, 2006

What would make financial reporting simpler? A host of regulators, business groups, and investor advisory firms converged on Capitol Hill yesterday to debate that question. The hearings are the latest in what appears to be an organized push — led by the Financial Accounting Standards Board — to turn the long-running debate over "principles vs. rules-based accounting" into concrete action.

Held by the Capital Markets subcommittee of the House Financial Services Committee, the hearings featured testimony from the PCAOB, FASB, SEC, U.S. Chamber of Commerce, the Securities Industry Association, FEI, AICPA, CFA Institute, Merrill Lynch & Co, and the Investment Company Institute.

The hearings appear to be a response to a push by FASB Chairman Robert Herz, who first took aim at the "complexity" issue in a December speech before the AICPA. Herz, whose previous appearances on Capitol Hill were marked by hostile questioning from congressmen about stock option expensing, has now

emerged as the de facto leader of a plan "bring about broad-based improvements to the U.S. financial reporting system." This effort, he noted, "would not be easy and would take time, [but] we believe it is one of national importance."

Several issues dominated the debate, including the elimination of earnings guidance, the adoption of a principles-based accounting system, the need for tort reform, FASB's push for fair value accounting, and the use of technology to create "real-time" financial disclosures. Several participants repeatedly stressed that any effort to reduce complexity would require public companies, auditors, and lawyers to actively support such an effort — apparently suggesting that those groups would be most resistant to relying more on judgment than bright-line rules.

Colleen Cunningham, president of Financial Executives International, responded that regulators often second-guess reasonable interpretations and pleaded with Congress for help in reducing litigation over financial reporting. She also tweaked FASB, noting that the standard setter needed to finalize the "conceptual framework" upon which accounting standards are based. "Recently issued accounting standards are not always reflective of the current conceptual framework, but rather rely on changes to the conceptual framework that have not yet been proposed, let alone finalized as 'generally accepted,'" she testified. "FEI has voiced its concern about this 'cart-before-the-horse' approach of standard-setting numerous times."

Another frequently raised topic was the use of extensible business reporting language (XBRL), a method of tagging financial data so it can easily be compared. SEC Chairman Christopher Cox has adopted "interactive data" as a key initiative during his tenure. The SEC is working to update its existing electronic filing system and has also offered public companies incentives if they file their financial reports in XBRL format. Rep. Michael Oxley (R-Ohio), chairman of the House Financial Services Committee, commended Cox for his efforts in his opening statements, noting that he looked forward to hearing from witnesses about how "they believe XBRL will revolutionize the reporting and analysis of financial information."

In fact, witnesses had mixed response. FEI's Cunningham warned that "interactive data is not a 'panacea'" and that it "will not reduce the 'operational' complexity imposed on preparers and auditors to develop the numbers provided in financial reports, nor will such transparency improve the understandability of the underlying numbers to investors." U.S. Chamber of Commerce vice president David Hirschmannn echoed that sentiment, noting that "while numbers are important," XBRL was no substitute for investor understanding of industry factors and corporate strategy.

By contrast, Barry Melancon, CEO of the AICPA, heavily emphasized the use of XBRL as part of a program of "enhanced business reporting," arguing that the technology is "essential to the future of the U.S. economy, the proper functioning of capital markets, and investor confidence. Its promise is extraordinary."

[xii] **From, Grant Thornton, 2006, Comment Letter, Re: File Number 265-23**

“Every public company, regardless of size, should have good controls over their financial reporting processes. It follows, then, that management of every public company should be in a position to state, at least annually, that they have good controls over their financial reporting processes. If these two statements are true, then the accounting and auditing profession and regulators should be able to agree upon the criteria against which management and auditors would base their conclusions on internal controls. They should also be able to develop reasonable audit procedures that would allow an auditor to say whether they agree with management’s assessment.

To date, we have not succeeded in accomplishing that goal. The Committee of Sponsoring Organizations (COSO) made a valiant attempt to draft guidance for smaller public companies, but COSO never had the resources to develop the type of case-study material required to address the underlying disparity.

Appropriate guidance that would be useful to *both* companies and auditors can be developed. We recommend that a body of professionals composed of auditors, accountants from industry, regulators and academics author such guidelines, including case studies highlighting appropriate control and audit procedures relevant for a range of companies in varying circumstances. This approach would quickly eliminate the most egregious execution expense for *all* companies and gradually help the profession establish a point of equilibrium in which every public company is held to an appropriate—and shared—standard of quality in financial reporting.”

[xiii] **S&P Launches World's First SME Rating Service In Japan--Initiative should enhance capital raising opportunities for smaller Japanese companies,** http://www2.standardandpoors.com/servlet/Satellite?pagename=sp/sp_article/ArticleTemplate&c=sp_article&cid=1133548280019&s=&ig=&b=5&dct=34

[xiv] **New York Times, Why Not Let Companies Ignore a Law?** By FLOYD NORRIS, March 10, 2006

WHEN Christopher Cox, a California congressman, was named to head a bitterly divided Securities and Exchange Commission nine months ago, many doubted that he would be a tough regulator.

This was, after all, a Republican politician who had supported an effort to block accounting rules on stock options.

Mr. Cox set out to calm such fears, saying he did not intend to revisit any of the decisions made by the commission on 3-to-2 votes. His major initiative, to force better disclosure of executive pay, has been widely supported. And, as a politician who is used to dealing with others who hold differing views, he seems to have calmed the internal battles.

Now, however, Mr. Cox faces three decisions that are likely to determine his reputation as a chairman. If he makes choices being advocated by some, the Sarbanes-Oxley law could be largely neutered for most American companies.

Two of the choices are personnel matters. A new S.E.C. chief accountant and a new chairman of the Public Company Accounting Oversight Board must be chosen. They are critical jobs.

One of the less well-conceived actions of William H. Donaldson, Mr. Cox's predecessor, was to appoint an advisory committee on smaller public companies, stocked in significant part with people who profited from selling such shares to the public. There were investor advocates, but they were outnumbered.

The commission is seeking public comment on the advisory committee's recommendations, which are stunning. Managers of most public companies would no longer be required to assess the state of the company's internal controls, as is required by Section 404 of the Sarbanes-Oxley law. For another quarter of the companies, management would have to assess the controls, but auditors would not be involved.

The excuse for this is that smaller companies -- defined by this committee as having market values of less than $787 million -- are simply too burdened to pay the costs.

It is far from clear that the S.E.C. could legally do that, but the very idea needs to be rejected by the S.E.C., which has delayed enacting Section 404 for companies with market values under $700 million.

Mr. Cox was diplomatic when I asked him about the committee, but he said that "with respect to 404 compliance, the question is not whether but how." That implies he has no intention of offering a blanket exemption from complying with the law.

But even if that is true, there is a risk that some other panel recommendations will be adopted. The committee would not only exempt "microcap" companies, those with market values under $125 million, from Section 404, but it also would make it easier for them to raise money from the public and -- after they had the cash -- to stop complying with the burdensome rule of sending audited financial statements to the S.E.C.

That fraud occurs most often at such companies, usually traded on the O.T.C. Bulletin Board, does not really bother the committee.

But it is worried that companies may have to restate results when they have not done anything too outrageous. It proposes that even if bad accounting seriously misstated a company's quarterly report, it should be ignored if the company expects that the error won't have a large effect on annual results.

The commission needs to consign this report to a basement file cabinet, and appoint a chief accountant and a chairman of the accounting oversight board dedicated both to assuring that all companies comply with the law and to finding ways to assure that the costs of certifying internal controls are reasonable.

In the next few months, we will see which avenue Mr. Cox chooses.

[xv] **Mills, Geofrey T , Early accounting in Northern Italy: The role of commercial development and the printing press in the expansion of double-entry from Genoa, Florence and Venice,** http://www.findarticles.com/p/articles/mi_qa3657/is_199406/ai_n8722129/print