



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

THE CHAIRMAN

October 16, 2009

The Honorable Paul E. Kanjorski
Chairman
Financial Services Subcommittee on
Capital Markets, Insurance and Government
Sponsored Enterprises
U.S. House of Representatives
2188 Rayburn House Office Building
Washington, DC 20515-3811

Dear Chairman Kanjorski:

Thank you for requesting my views regarding the importance of reforms implemented through enactment of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), specifically Section 404. I appreciate your interest in this important issue.

As you know, the corporate scandals earlier this decade had a devastating impact on investor trust and confidence in financial reporting, the lifeblood of our capital markets. To help restore investor confidence, Congress enacted Sarbanes-Oxley.

Section 404(a) requires a public company to disclose the effectiveness of its internal controls over financial reporting. Companies have been required to maintain effective internal controls since 1977, with the enactment of the Foreign Corrupt Practices Act. Section 404(a) adds a public disclosure component to this requirement that has been in place for over 30 years. Section 404(b) requires auditors to independently assess the effectiveness of these controls and provide a report to investors. This is similar to the auditor's role with regard to a company's financial statements under the original Federal securities laws, as well as the auditors' role in the assessment of internal controls under the Federal Deposit Insurance Corporation Improvement Act (FDICIA) of 1991.

Internal controls are a key element of assuring financial reporting integrity. Weaknesses in internal controls create more opportunities for fraud, as well as unintentional accounting estimation and reporting errors -- both of which tend to decrease investor confidence. A "clean" audit, however, is often only achieved after a company makes numerous year-end changes required by its auditor to its draft financial reports. Effective internal controls, particularly when combined with an audit of the financial statements, provide investors with a much greater level of assurance that the company's financial reports are accurate, even without the intervention of the auditor.

In my opinion, Section 404's disclosure requirements create a powerful driver not only of investor confidence, but also of company compliance. Just as the audit of the financial statements creates powerful incentives for management to prepare reliable financial statements, the requirement for independent auditor assurance likewise creates incentives for a more effective system of controls than might otherwise exist.

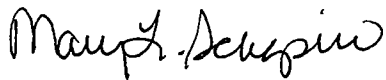
Since the enactment of Sarbanes-Oxley, the Commission and the Public Company Accounting Oversight Board (PCAOB) have been committed to a Section 404 process that is both effective and efficient. Both organizations have conducted numerous public outreach forums, considered thousands of suggestions from interested parties, and ultimately provided both company managers and auditors with significant implementing guidance.

As the Commission and PCAOB worked to implement Section 404 appropriately, the Commission provided the smallest public companies (known as "non-accelerated filers") with considerable additional time before implementing Congress' direction. Implementation has been phased-in, starting with Section 404(a) and concluding with Section 404(b) with reports filed on or after June 15, 2010.

As the Commission most recently considered this issue, I have been guided by the needs of investors. According to our staff's recent study of the costs and benefits of Section 404, surveyed investors indicated that Section 404 compliance has "significantly impacted their confidence in companies' financial reports." In addition to an improvement in investor confidence, investors also generally believe that Section 404 compliance leads management to better understand financial reporting risks, put in place appropriate controls to address financial reporting risks, and address internal control deficiencies in a more timely fashion. Investors indicated that they have greater confidence when a Section 404 audit is performed.

For all of these reasons, I believe that the enactment by Congress of Section 404 continues to significantly improve investor confidence in the integrity of companies' financial reports and financial reporting. If you would like to discuss this matter further, please do not hesitate to contact me at (202) 551-2100 or Eric J. Spitzler, Director of the Office of Legislative and Intergovernmental Affairs, at (202) 551-2028.

Sincerely,



Mary L. Schapiro
Chairman