



STATE STREET.

Edward J. Resch
Executive Vice President and
Chief Financial Officer

State Street Financial Center
One Lincoln Street
Boston, MA 02111

Telephone: 617 664 1110
Facsimile: 617 664 4299
eresch@statestreet.com

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Ms. Laura Philips
Office of the Secretary, PCAOB
1666 K Street N.W.
Washington, D.C. 20006-2803

Comments on File No. S7-24-06 and PCAOB Rule-Mailing Docket Matter No. 021

February 26, 2007

Dear Ms. Morris and Ms. Philips:

State Street Corporation (STT) is pleased to share with you our views derived from our experience with the requirements of Section 404 of the Sarbanes - Oxley Act of 2002 (the "Act") and related regulations, standards and guidance issued by the Securities Exchange Commission ("SEC") and the Public Company Accounting Oversight Board ("PCAOB").

We are appreciative of the SEC and PCAOB's proposed standards (superseding Auditing Standard No. 2) that focuses the auditor and management on the matters most important to ensuring the effectiveness of internal control over financial reporting. We believe that this aspect of the proposed guidance provides needed clarity to both registered public accounting firms and public companies. In summary, we support the following PCAOB proposed standard clarifications that:

- Clarifies the role of materiality in an audit;
- Removes the requirement to evaluate management's assessment process;
- Permits prior audit knowledge to be utilized in the audit;
- Provides more realistic guidance for smaller, less complex organizations;
- Refocuses the multi location testing requirements on risk;
- Recalibrates the walkthrough requirements;
- Proposes a revised standard on using the work of others;

Additionally, we concur with the two principles articulated within the SEC's proposed interpretation (File No. S7-24-06) that focuses management on a "top-down", "risk-based" approach to evaluating and evidencing the adequacy of internal controls over financial reporting. We are also encouraged by the SEC's acknowledgement of the importance of the organizational control environment and the focus of testing on key controls that mitigate the risk of material



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misstatement. Both principles will properly align management and the auditor's assessment efforts to better protect the investor community.

We also commend the SEC and PCAOB for encouraging the auditor to rely on the work of others. We believe that if the standard is to be effective in reducing the excessive cost and testing burden on corporations, the standard should direct the auditor to place reliance on the work done by others except in cases where the auditor demonstrates that the quality of work does not meet the standards for reasonable reliance.

We appreciate the PCAOB and SEC's guidance clarifications and updated proposals, however, we continue to see complexities with the practical implementation of the updated guidance. Although we support the repeal of management's assessment we do not believe that it will result in significantly decreasing the work of management and the auditor. We however, do believe that the independent attestation of internal control is the primary factor that results in excessive work and implementation challenges by registrants. We also see a conflict between the PCAOB's requirement of an independent attestation and the Sarbanes-Oxley Act in that we see no reference to a requirement of independent auditor attestation in Section 404. We propose that the PCAOB rules conform to the Sarbanes Oxley Act of 2002, eliminate the requirement of a stand alone opinion of internal control, and focus on consistently implementing the requirements of AU Section 319 in the requirements of a financial statement audit.

If the PCAOB continues to require a stand alone opinion on internal control, the updated guidance, which incorporates the use of judgment, will conflict with the registered public accounting firm's procedural requirements for a stand alone opinion on internal control. In practice, the registered public accounting firm procedure requires the attainment of a 95% confidence interval, thus dictating specific testing levels. The standards for an independent attestation of internal controls are uniform in the profession and enforce similar testing levels for service organizations reports on internal control. Should the PCAOB continue to require an opinion, we believe that this revised standard will create more confusion and result in the same testing levels as currently implemented rather than the reduction in testing the PCAOB is indicating in its exposure draft.

We believe that AU Section 319 provides adequate guidance to the auditor on tests of internal control in a financial statement audit and the flexibility to modify testing procedures based on the entities size, complexity and automation. For an auditor to opine on the financial statements, they are inherently required to attest to the adequacy of internal control. With prior guidance, the auditor had the ability to combine the nature and extent of substantive and control procedures to determine a level of comfort with the financial statements as a whole. For example, in a highly complex, automated organization, the auditor was required to rely more heavily on controls and less on substantive procedures. In a smaller, less complex organization, the auditor had the ability to place a heavier reliance on the substantive procedures and less reliance on control procedures. The stand alone opinion does not offer the auditor this flexibility and will result in a conflict between the independent attestation requirement and the proposed standard.



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Through Section 404, we believe that management should continue to be accountable for assessing the design and operation of internal control over financial reporting. Management should utilize the two clarifying principles presented by the SEC in the most recent proposed interpretation to focus their assessment on areas of risk that could lead to material misstatement. Management should also be permitted to leverage various organizational assessment practices to render their consolidated conclusion on the adequacy of internal controls over financial reporting and have the ability to utilize a testing rotation plan that is risk based.

PCAOB Rule 3525:

We oppose Rule 3525 that “requires auditors to take certain steps as part of seeking audit committee pre-approval of internal control related non-audit services.” We believe that it is the responsibility of management to request required public accounting services. Title II, SEC.202, of the Act requires that all auditing and non-auditing services be pre-approved by the audit committee. The Act does not require the firm to approach the Audit Committee. We believe that Rule 3525 and similar rules requiring the registered public accounting firm to approach the Audit Committee places the firm in the role of management which could result in impairing a firm’s independence. Existing rules and regulations require the registered public accounting firm to assess the independence and ensure that the firm does not provide services that would breach independence requirements.

General Computer Controls:

We agree that General Computer Controls are important considerations in highly complex and automated organizations. However, we believe that additional guidance is required to reconcile the most recent SEC interpretation and General Computer Control requirements. There appear to be numerous sources of authoritative guidance and frameworks for General Computer Controls and we request that the SEC provide specific direction.

Also, we request that additional guidance be provided to reconcile the SEC’s two principles and the requirements of General Computer Control testing. PCAOB FAQ #35 issued in November of 2004 indicates that General Computer Controls alone cannot yield a material weakness within the financial statements and that the specific General Computer Control deficiency must be evaluated in conjunction with the application control to determine significance. Given the SEC and PCAOB’s focus on risk of material misstatement, we believe that an organization should be able to omit certain General Computer Controls if management believed that key control environment and transactional controls mitigated any risk at the General Computer Control or Application Control level. The guidance should be amended to bridge the gap between the updated pronouncement and the General Computer Control requirements.

Acquisitions:

We understand that when a registrant completes an acquisition late in a quarter or annual reporting period, the registrant has the option of including or excluding the acquisition from the scope of the report and documenting the omission as a scope limitation in management’s assessment. We recommend that the PCAOB and SEC’s guidance be clarified or modified to allow organizations to



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consider materiality (as of the current reporting period) as a factor in determining whether the acquisition should be included in management's report. We recommend that the guidance be further expanded to permit an organization to omit immaterial acquisitions without the requirement of a scope limitation.

Changes to Technical Interpretations:

The proposed guidance notes that restatement of previously issued financial statements to reflect the correction of material misstatement is a strong indicator that a material weakness in ICFR exists. We believe that changes in industry or registered public accounting firm interpretations of GAAP should not be considered to be a material weakness.

We thank you for the opportunity to provide our comments to you and look forward to your response and final release.

Sincerely,

/s/ Edward J. Resch
Edward J. Resch
Executive Vice President and Chief Financial Officer