The International Association of Small Broker Dealers and Advisors

1620 Eye Street, NW, Suite 210 Washington, DC 20006

202-785-8940 ext. 108

pchepucavage@plexusconsulting.com

www.iasbda.com

The following comments are submitted on behalf of the The International Association of Small Broker-Dealers and Advisors.www.iasbda.com.The Association generally agrees with the comments of Frank Gorrell, MSA, CPA as follows and wishes to add further support to his recommendation regarding delay of implementation for small companies;

There is no way for me to quantify how much money will be spent or saved. My concern continues to be that external auditors will feel compelled to perform audit procedures to gain comfort with management's work, as well as performing independent tests of controls. This will not lead to reduced auditing fees to external audit firms unless management's work is utilized. Management may have to expend for software and competent individuals to perform the work. The wild-card will be played with compensation in an effort to keep these competent persons objective in fact and appearance.Smaller companies were already wary of costs. Delaying their full compliance requirements until after this guidance and that of the PCAOB is settled would be helpful. I would suggest that these proposals take effect for fiscal years ending on or after December 15, 2008........... These smaller companies may have no choice but to use paper documentation that accelerated filers have started to leave on the shelves. Storage requirements under SOX will add some level of overhead for companies who do not use electronic document storage. "

We agree that these audit proposals should not be applied to small companies until after some experience with the larger companies and we think that would mean at least one year's cost results leading to implementation after the 2008 results are analyzed.One factor of costs that is completely missing from the proposal is auditor liability. We do not understand how any assessment of costs can be made without knowing how much of auditor costs is attributable to potential liability. While there are proposals such as the Paulsen Committee's for limiting such liability and from the Commission staff, we think the first step is to quantify it by specifically requesting the audit community to address it.An emphasis on materiality in an audit does nothing for potential liability as that is where the greatest concern lies.While Mr.. Morrell honestly says he cannot quantify money spent or saved, the commission and staff should at least try to do so.This proposal was specifically generated by excessive and unexpected costs, yet there appears to be no analysis of where those costs come from or what will be a successful benchmark in reduction. Some areas of inquiry might include auditor's insurance costs,their internal allocation of liability costs and how they judge the current regulatory climate in terms of potential liability.Of course the difficulty for small firms here is a multiple of big firms' costs.

Potential liability for a small firm audit may be the same while the cost of the audit is limited by the firm's size.As recently noted by William A. Niskanen,"SOX failed to resolve the major conflict of interest created when auditing firms are paid by the companies they audit" NY Times 1/3/07,p.A 23.In the case of small firms auditors, are being asked to accept a limited fee in return for unlimited liability so their incentive to control costs is conflicted.As noted by the Paulsen committee,they are compelled to practice defensive auditing where the marginal costs exceed the marginal benefits.Peter Wallison of the American Enterprise Institute makes the same point in his comment letter. But there is no effort in this proposal to determine what those marginal costs are. The application of these provisions to small firms requires that the Commission have some idea of all the costs involved.

Finally we believe that one idea for limiting costs is the creation of a small firm audit association where small issuers might share costs in return for a limitation on auditor liability and direct PCAOB oversight. As Mr. Niskanen indicates, payment by the auditees just does not work and it especially does not work for small firms.

Peter J. Chepucavage
General Counsel
Plexus Consulting
202-785-8940 ext 108.

Donate to fallenheroesfund.org