April 11, 2005

Mr. Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20459

Dear Mr. Katz:

In response to the Commission's request for information pertaining to the implementation of the auditing and reporting requirements of Section 404 of the Sarbanes-Oxley Act, the undersigned accounting firms wish to share with the Commission a sampling of data on compliance costs and remediation of internal control deficiencies. As you know, each of the firms has provided its own individual submission with detailed discussions of its views and some specific suggestions for enhancing the 404 implementation process.

To further assist the Commission in its consideration of issues related to 404 and to provide all participants in this matter with new empirical information, the firms jointly commissioned Charles Rivers Associates (CRA) to conduct the attached research project with information for 90 clients from among the *Fortune* 1000 companies that they audit.

We believe the data provides important perspective on some of the most relevant issues in the current public debate. The key findings are:

Costs

- The sampled companies had revenue averaging $8.1 billion and spent an average of $7.8 million on Section 404 compliance in 2004.

- Compliance costs represented about 0.10 percent of total company revenue for these companies.

- Section 404 audit fees averaged about $1.9 million and accounted for one-fourth of the total Section 404 costs in 2004.

- Section 404 audit fees represented about 0.02 percent of these companies' total company revenue.

- Total Section 404 compliance costs may drop as much as 46 percent in 2005 for these companies, according to the auditors sampled.

Control Deficiency Remediation

- Of the companies whose data was included in the sample, there were an average of 271 control deficiencies (some of which possibly would have been classified as significant deficiencies or material weaknesses) identified and remediated in 2004.
- An average of an additional 77 deficiencies are expected to be remediated in 2005.
- Of the deficiencies expected to be remediated in 2005, a vast majority (about 96 percent) are categorized as control deficiencies, but not as significant deficiencies or material weaknesses. An *aggregate* of five material weaknesses were unremediated at the year-end assessment date across the 90 companies sampled.

Quantifying the future benefits of improved, more reliable financial reporting is not fully possible. Nonetheless, we believe the large number of remediated deficiencies observed in the CRA data suggests a level of effort leading to improvement in internal control over financial reporting. While almost all of the identified deficiencies in the CRA report likely did not rise to the level of a material weakness, we believe that investors, our capital markets, and public companies are well served by the improvements that resulted from the 404 process.

In its separate submission on this issue, one of the firms submitting this letter noted that an internal analysis of 225 registrants revealed that more than 40 percent of that group of companies remediated or newly implemented more than 25 percent of their key controls in year one of Section 404. Another of the firms observed that as of March 30, 2005, approximately 140 calendar year-end companies had reported material weaknesses. In our view, the identification of these issues and their resolution are important public benefits. A third firm estimated that about 10 percent of the SEC issuers currently filing 404 reports as part of their annual reports will disclose one or more material weaknesses that were unremediated at the end of their fiscal year. This firm also noted that identification and remediation of control deficiencies and significant deficiencies will improve internal control over financial reporting and, in some cases, prevent the development of material weaknesses.

As also noted in separate submissions by the undersigned firms in advance of the April 13 Roundtable, each of the firms has witnessed an almost universal increase in attention and commitment to internal control over financial reporting on the part of public companies since the enactment of Sarbanes-Oxley. Some of the firms also report that, in addition to the positive effect on internal control over financial reporting, the Section 404 process has benefited public companies and their shareholders by identifying efficiencies in business processes. In the firms' experience, the new reporting requirements also have generated a renewed focus on ethics, anti-fraud policies, and accountability.

Moreover, as indicated in the CRA survey, there is strong reason to believe that the costs associated with 404 compliance will generally decline in 2005. For some issuers, the declines likely will be significant. The firms believe that a number of one-time factors contributed to relatively high costs in the first year, including initial documentation and remediation of key controls, the general challenge of responding to any complex new reporting requirements and some uncertainties about thresholds for "how much is enough." We believe all of these factors will diminish as cost drivers in year two.

Auditors, regulators, and issuers alike all should benefit from a "learning curve" that will bias costs downward. The firms also expect that the ability to perform an "integrated audit" generally will be increased in the second year. The timing of rulemaking and guidance as well as the preparatory process for first-year implementation limited the ability to perform fully integrated audits in 2004.

The firms look forward to participating in the April 13 Roundtable. We hope that the additional data provided today will assist the Commission in carrying out its public responsibilities.

Very truly yours,

Deloitte & Touche LLP
Ernst & Young LLP
KPMG LLP
PricewaterhouseCoopers LLP