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Does It Cost Too Much To Follow the New Rules?

SEC Commissioner Cites Companies' High Burdens To Pay for 'Internal Controls'

By **JUDITH BURNS**
DOW JONES NEWSWIRES
November 26, 2005; Page B3

U.S. regulators may need to revisit internal-controls requirements for public companies if compliance costs remain high, according to Securities and Exchange Commissioner Cynthia Glassman.

In a recent speech in Denmark, posted on the SEC's Web site Friday, Ms. Glassman said she is concerned about excessive compliance costs associated with the requirement and raised the possibility of revisiting the rules, which were written by the SEC and the Public Company Accounting Oversight Board. She also said she would be "receptive" to recommendations to modify the internal-controls requirements for smaller companies, both in and outside the U.S.



**Cynthia A.
Glassman**

"What was intended to be a top-down, risk-based management exercise has become a bottom-up, nonrisk-based process with an apparent focus on controls for controls' sake," Ms. Glassman said in her prepared remarks. She gave the usual disclaimer that she was expressing her own views, not those of the commission or its staff. Her Nov. 17 remarks to a conference for publicly listed companies and legislators organized by the Danish Ministry of Economic and Business Affairs concentrated on accounting issues, including the internal-controls requirement adopted by Congress in 2002.

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Congress enacted sweeping accounting overhauls as part of the Sarbanes-Oxley Act, including rules requiring public companies to conduct an annual assessment of their internal controls over financial reporting, subject to review by the firm's outside auditor. Larger U.S. companies became subject to the requirement in 2004, and many corporate executives complained that the exercise was time-consuming and costly.

The SEC and the accounting oversight board issued a statement last spring urging companies and their auditors to use an approach that focuses efforts on areas that might pose the biggest risk to investors. But Ms. Glassman said it isn't clear that the jawboning has reduced "unintended and unnecessary costs" of complying with the internal-controls rules.

If regulators don't see a meaningful refocus of efforts and downward trend in costs, Ms. Glassman said, the SEC and the accounting oversight board ought to consider ways to make the process more effective and less burdensome, including possibly revisiting the oversight board's standard for internal-control audits.

Overseas companies still aren't required to comply with the internal-controls rules, as the SEC has twice delayed the date they go into effect. Ms. Glassman said the delays make sense given that European companies are moving to new international financial reporting standards this year. Smaller U.S. firms also have been given additional time before coming under the requirement, which Ms. Glassman said is justified because the requirement itself may change.

Write to Judith Burns at judith.burns@dowjones.com

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