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June 26, 2006

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The Honorable Olympia J. Snowe
Chair
Committee on Small Business & Entrepreneurship
United States Senate
SR-428A Russell Senate Office Building
Washington, DC 20510-6350

Dear Olympia:

Thank you for your May 18, 2006 letter expressing your concern for the U.S. market for initial public offerings of securities, especially the IPO market for securities of smaller companies.

I share your view that a vibrant capital market is extremely important for financing the growth of smaller U.S. companies. I believe that the U.S. continues to have the strongest capital market for companies large and small. I also believe that companies with good potential to increase shareholder value will be able to find the funds they need to grow and expand.

The U.S. markets offer many advantages to small businesses considering an IPO. I believe the depth of liquidity, the size of the U.S. market, investor interest in equity securities and in smaller companies, and analyst and press coverage are all much greater in the United States than in other countries. Historically, the U.S. markets often have offered a pricing premium and superior pricing mechanisms. I believe these advantages will continue to encourage U.S. small businesses to raise capital in the U.S., as the U.S. markets offer the best opportunity to find capital at the lowest possible cost.

I am aware that smaller companies often face particular challenges in complying with the requirements of the federal securities laws, including the Sarbanes-Oxley Act, in gaining access to the capital markets. In this regard, the Commission has for many years maintained an Office of Small Business Policy in its Division of Corporation Finance. One of the primary missions of that office is to assist small businesses preparing to meet the regulatory requirements of an initial public offering. In addition, the Commission's Advisory Committee on Smaller Public Companies recently provided us with 33 recommendations, each of which reflects the culmination of a thoughtful, comprehensive, and open process that lasted over a year. The Advisory Committee's recommendations touch on the same issues you note, and they will provide us with significant insight as we consider how to best address the challenges faced by smaller companies.

The U.S. regulatory scheme is based on companies providing investors with full and fair information about themselves, including financial statements and business and management information. While the U.S. regulatory scheme does impose certain informational and governance standards that are not present in foreign regulatory schemes, those additional requirements have been established with the intention of increasing transparency and providing investors with the information they need to make their own decisions regarding the merits of an investment. The U.S. regulatory scheme does not limit investment opportunities or capital raising opportunities by setting minimum standards – such as asset or revenue size, capitalization, public float, or years in business – for companies to raise capital publicly; rather, our regulatory scheme provides the market with the information necessary to assess opportunity.

I am committed to ensuring that the regulatory requirements related to smaller public companies are consistent with the SEC's mission to protect investors, to maintain fair, orderly, and efficient markets, and to promote capital formation. I am very much aware of the concerns that you and the owners of our nation's smaller public companies have raised. With the Advisory Committee's recommendations and the informative discussions we are having about the implementation of the Sarbanes-Oxley Act and other matters, we have a unique opportunity to evaluate all points of view thoroughly.

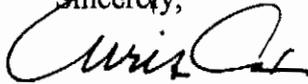
As you noted, the SEC is undertaking a series of actions to improve the application of the internal control requirements in Section 404 of the Act. Specifically, we will be providing a further extension — beyond the two previous extensions granted smaller companies — so the smallest public companies will not have to perform their first management assessments under section 404(a) until the end of 2007. We also will be developing guidance for performing the required management assessment that will be particularly tailored for small businesses and will be designed to help them achieve a risk-based, scalable system at a considerable cost savings. Following public notice and comment, management guidance will be available to assist companies in performing their initial assessments, which, again, will now not be required until the end of 2007.

The separate requirement contained in section 404(b), that the company retain outside auditors to attest to the assessment made by management, will *not* become applicable to smaller public companies at any time earlier than the end of 2008. During this interval, the Commission will be working closely with the Public Company Accounting Oversight Board to ensure that its Auditing Standard No. 2, which governs the auditor attestation on internal controls, is amended to reduce costs and provide a more efficient and scalable standard that, among other things, meets the needs of smaller public companies and their auditors. Once those amendments are completed and approved by the Commission, then and only then would smaller companies be expected to comply with the section 404(b) auditor attestation requirement. Because there is as yet no projected date for completion of this work, there is no firm date by which smaller companies will begin to be covered by the attestation requirement. But it will not be earlier than the end of 2008.

The Honorable Olympia J. Snowe
Page Two

Thank you again for your thoughtful comments. I assure you that the Commission will continue to make every effort to establish a clear, practical, and right-sized regulatory scheme for all companies, large and small, in order to promote their fullest participation in the U.S. capital markets. Please call me at (202) 551-2100 or have your staff call Jane Cobb, Director of the Office of Legislative Affairs, at (202) 551-2010 if you have any questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Chris Cox", written in a cursive style.

Christopher Cox
Chairman