

**The Nightly Business Report**  
**SOX 404 – Will the Regulators See the Light?**  
**April 26, 2005**

Two weeks ago I participated in a Roundtable hosted by the Securities and Exchange Commission. The subject was the implementation of Section 404 of the Sarbanes-Oxley Act. Sox 404, as it's called, requires management to represent that the company's internal controls are effective and then the outside auditor must attest to this.

I, and other participants, stressed the enormous efforts that went into compliance last year – and that the costs outweighed the benefits. On the benefit side, better internal controls should lead to more accurate financial reporting. But, managements' efforts to document and test controls and fix the deficient ones were costly. A lot of time was diverted from strategic and other business activities. Auditor's fees also went up, in some cases dramatically.

Small and mid-cap companies have had the most difficulty. My recommendation is to give these companies more time to comply and lighten the requirements.

The US system of entrepreneurial capitalism is unique and has always been an American competitive edge. I worry that regulatory overkill dampens creativity and the incentive for growing companies to go public. I believe it's possible to do both things: preserve our system and improve financial reporting. Regulators must seek the right balance.

We expect additional guidance about 2005 compliance by the end of May. Let's hope the regulators see the light.

I'm Barbara Hackman Franklin