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FOR IMMEDIATE RELEASE

**SOX Proposal from Capital Markets Committee Needs
More Balance to be Effective, Says IMA**

The following is commentary from Paul A. Sharman, ACMA, president and CEO, Institute of Management Accountants (IMA®), in response to the Committee on Capital Markets Regulation interim report, released on November 30, 2006.

While IMA applauds the Committee on Capital Markets Regulation for its effort toward enhancing shareholders rights and reducing excessive regulation and litigation, more rigorous steps are needed to get Sarbanes-Oxley (SOX) right. IMA has reviewed the Committee's interim report and believes that, while some of the recommendations are generally helpful, they are not the bold actions required to restore shareholder confidence and stop the erosion of shareholder wealth and U.S. global competitiveness.

We agree with the Committee's report in that the SEC must more rigorously, methodically, and empirically assess the cost-benefit equation at initial stages and on an ongoing basis for major new regulations. In other words, the SEC needs to ask and answer this question: Is the regulation actually resulting in the desired outcomes at the projected cost? To achieve this, the SEC will need to devote greater resources than have been allocated to date.

IMA also agrees that the SEC must develop practical guidance for management that is risk-based and scalable for organizations of all sizes to improve the cost-benefit of compliance. This requires knowledge of the latest risk-based disciplines that is currently lacking by the SEC and elimination of all controls-centric language in the current Public Company Accounting Oversight Board (PCAOB) guidance.

Unfortunately, there are several areas where IMA believes the Committee is perpetuating the status quo and an imbalance in the accounting profession toward the auditing community, which is resulting in massive shareholder erosion, loss of U.S. global competitiveness, and record audit fees. While IMA generally agrees that SOX problems are related to guidance, rather than the law itself, there is room to improve the Act and/or clarify the associated regulatory guidance for management as follows:

- External auditors should not report their own subjective views on pass-fail effectiveness. Rather, IMA believes external auditors should report on the process that management uses to identify and assess the risk of producing materially correct financial statements. This view is not consistent with the Committee's recommendation in favor of external auditors retaining this role, which we believe will perpetuate costly and inefficient assessments.

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- IMA believes the way the PCAOB has interpreted Section 404 Part B (the external auditor attestation) must be significantly changed to align with what Congress asked for – a report on management’s risk and control assessment process.
- Current PCAOB rules require auditors to arrive at the subjective pass-fail opinion on “how much control is enough”. This regulatory interpretation is at the root of an inordinately high burden on management and litigation-wary auditors, leading to excessive testing and record audit fees.

IMA is also concerned with the composition of the Committee. For example, the Section V (SOX 404) task force is heavily weighted (80 percent) with Big 4 audit executives. The SOX task force lacks the perspectives of CFOs and management accountants directly impacted by SOX 404, and perhaps consciously overlooked a key issue relating to the need for systematic analysis of the root causes of wrong opinions issued in an unacceptably high number of cases by external auditors.

While we agree with the Committee’s overarching goals, we find it troubling that the issue of ineffective external audit practices is untouched by the Committee. Unreliable audit opinions on financial statements is a key element of what has shaken shareholder confidence and U.S. global competitiveness. Frankly, it is hardly surprising that this Committee – heavily weighted with lawyers and external auditors – would suggest that Congress should explore protecting audit firms against catastrophic loss (through the provision of caps or safe harbors) without first conducting a serious research study as to why an alarming number of audit opinions have historically been proven to be wrong.

It is time that audit firms cooperated in this endeavor in a serious and thoughtful manner for the benefit of investors, corporations and the U.S. economy. If recommendations to cap auditor liability are accepted without careful study of why external auditors have gotten it wrong in the past, it would be a major disservice to users of financial statements around the world. We hope that transformational changes are made to SOX regulations, but let’s not miss for a second time applying the age old adage of measure twice and cut once. The hemorrhaging due to hasty regulatory intervention has to stop and have the real root causes addressed.

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