

**Consumer Federation of America**  
**Americans for Financial Reform**  
**AARP**  
**Accountable America**  
**Arizona PIRG**  
**ASFCME**  
**Consumers for Auto Reliability and Safety**  
**Consumer Action**  
**CtW Investment Group**  
**Consumer Federation of California**  
**Campaign for America's Future**  
**Consumer Watchdog**  
**National Consumers League**  
**National Association of Shareholder and Consumer Attorneys (NASCAT)**  
**Oregon Consumer League**  
**Poverty Law Center**  
**Shareowners.org**  
**US PIRG**  
**SEIU**  
**Virginia Citizens Consumer Council**

December 9, 2009

**Protect Investors from Accounting Fraud**  
**Vote YES on Kanjorski-Frank-Sarbanes-Cohen Amendment**

Dear Member of the House of Representatives:

We are writing on behalf of vulnerable investors to urge you to support the Kanjorski-Frank-Sarbanes-Cohen amendment to preserve essential protections against accounting fraud. Without this amendment, investors in roughly half of all public companies will face a heightened risk that their investments will be wiped out by avoidable frauds or devastated by costly financial restatements.

The Sarbanes-Cohen amendment would fix this problem by deleting a provision, added to the Investor Protection Act during committee mark-up, that would permanently exempt public companies with under \$75 million in market capitalization from the requirement that their annual financial statement audit include an evaluation of the company's policies and procedures to prevent fraud and ensure accurate financial reporting. These auditor reviews are particularly important at the smaller companies covered by the exemption, as these companies are more prone both to accounting fraud and to reporting errors. Moreover, when fraud does occur at these companies, it almost always involves the CEO and CFO, making the management assessment of controls all but meaningless without the backing of an independent third-party review.

The good news is that recent research shows that the auditor reviews are both affordable and effective.

- A comprehensive Securities and Exchange Commission (SEC) study released last fall found that compliance costs associated with the reviews had dropped 29 percent over two years since the SEC and Public Company Accounting Oversight Board made sweeping revisions to the standards

to make them less prescriptive and more scalable based on the size and complexity of the company.

- A new study from Audit Analytics has found that, among companies where management claimed their controls were effective, financial restatements were 46 percent higher at the companies where an auditor had not reviewed the controls than at the companies where controls had been subject to auditor review.
- Other findings from the Audit Analytics study suggest that, when control problems exist, they are uncovered and acted on sooner when an outside auditor is involved in the process.

Given the devastating impact that surprise restatements can have on stock price and previous research which shows that companies with poor controls dramatically underperform the market, the benefits to investors of requiring auditor reviews are unequivocal.

As the authors of this amendment clearly understand, a lasting economic recovery cannot be built on a foundation of lax regulation and unreliable financial reporting. Vote yes on the Kanjorski-Frank-Sarbanes-Cohen amendment to protect investors from accounting fraud and promote sustainable economic growth.

Respectfully submitted,

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