

We derived our new burden hour estimates for the annual report forms by estimating the total amount of time that it will take a company's management to conduct the annual evaluation of its internal control over financial reporting and to prepare the required management report.<sup>166</sup> Our annual burden estimate is based on several assumptions. First, we assumed that the annual number of responses for each form would be consistent with the number of filings that we received in fiscal year 2002.<sup>167</sup> Second, we assumed that there is a direct correlation between the extent of the burden and the size of the reporting company, with the burden increasing commensurate with the size of the company. We believe that there will be a marked disparity of burdens and costs resulting from the new internal control requirements between the largest and smallest reporting companies. Our estimates reflect an average burden for all sizes of companies. Third, we assumed that the first-year burden would be greater than that for subsequent years, as a portion of the costs will reflect one-time expenditures associated with complying with the rule, such as compiling documentation, implementing new processes, and training staff. We also adjusted the second and third year estimates to account for the fact that management should become more efficient at conducting its internal control assessment and preparing the disclosure after the first year as the process becomes more routine.<sup>168</sup> Under these assumptions, we estimate that the

average incremental burden for an annual filing will be 383 hours per company and the portion of that burden that is reflected as the cost associated with outside professionals is approximately \$34,300 per company. For large corporations, we expect that this burden will be substantially higher. Indeed, we received estimates in the thousands of hours for some large and complex companies. Conversely, we expect small companies to find their burden to be less than this average. We also believe that many companies will experience costs well in excess of this average in the first year of compliance with the final rules. We believe that costs will decrease in subsequent years. This burden will also vary among companies based on the complexity of their organization and the nature of their current internal control procedures. We therefore calculated our estimates by averaging the estimated burdens over a three-year period.

We derived our burden estimates for the quarterly report forms by estimating the total amount of time that it will take a company's management to conduct the quarterly evaluation of material changes to the company's internal control over financial reporting and for the company to prepare the required disclosure about such changes. We believe that these quarterly evaluations will impose little additional burden, as much of the structure to conduct these evaluations will be established in connection with the annual evaluations. We estimate that the quarterly reporting will impose an additional burden of five hours per company in connection with

each quarterly report. Accordingly, we did not revise our original burden hour estimates for the quarterly report forms.

We estimate the total annual incremental burden (for annual and quarterly reports) associated with the new internal control evaluation and disclosure requirements for all companies to be approximately 3,792,888 hours of company personnel time and a cost of \$481,013,550 for the services of outside professionals.<sup>169</sup>

Table 1 below presents these burdens and costs for each form affected by the final rules implementing Section 404 of Sarbanes-Oxley. We calculated the burden by multiplying the estimated number of affected responses by the estimated average number of hours that management will spend conducting its assessment of the company's internal control over financial reporting and preparing the related disclosure. For Exchange Act annual reports, we estimate that 75% of the burden of preparation is carried by the company internally and that 25% of the burden of preparation is carried by outside professionals retained by the company at an average cost of \$300 per hour.<sup>170</sup> The portion of the burden carried by outside professionals is reflected as a cost, while the portion of the burden carried by the company internally is reflected in hours. There is no change to the estimated burden of the collections of information entitled "Regulation S-K," "Regulation S-B" and "Regulation S-X" because the burdens that these regulations impose are reflected in our revised estimates for the forms.

TABLE 1.—INCREMENTAL PAPERWORK BURDEN FOR THE RULES IMPLEMENTING SECTION 404

	Annual responses (A)	Incremental hours/form (B)	Total burden (C)=(A)*(B)	75% Company (D)=(C)*0.75	25% Professional (E)=(C)*0.25	Professional costs (F)=(E)*\$300
10-K .....	8,484	383	3,249,372	2,437,029	812,343	243,702,900
10-KSB .....	3,820	383	1,463,606	1,097,295	365,765	109,729,500
20-F .....	1,194	383	457,302	114,326	342,977	102,892,950
40-F .....	134	383	51,322	12,831	37,989	11,547,450
10-Q .....	23,743	5	118,715	89,036	29,679	8,903,625
10-QSB .....	11,299	5	56,495	42,371	14,124	4,237,125
Reg. S-K .....	N/A	1	1	N/A	N/A	N/A
Reg. S-B .....	N/A	1	1	N/A	N/A	N/A
Reg. S-X .....	N/A	1	1	N/A	N/A	N/A
<b>Total .....</b>	<b>.....</b>	<b>.....</b>	<b>.....</b>	<b>3,792,888</b>	<b>.....</b>	<b>\$481,013,550</b>

<sup>166</sup> Our estimates are based on information from with several large and small firms, accounting firms and trade and professional associations.

<sup>167</sup> The estimates used in the releases proposing these rules were based on the number of filings that we received in fiscal year 2001.

<sup>168</sup> We assumed the estimated burdens in the second and third years would decline by 75% from the first year estimate.

<sup>169</sup> Our PRA estimates do not include any additional burdens or costs that a company will incur as a result of having to obtain an auditor's attestation report on management's internal control report because the PCAOB, rather than the Commission, is responsible for establishing the attestation standards and the Sarbanes-Oxley Act itself requires companies to obtain such an attestation. We have, however, included an

estimated 0.5 hour burden in our revised annual burden estimates to account for the filing by the company of the attestation report.

<sup>170</sup> The burden allocation for Forms 20-F and 40-F, however, use a 25% internal to 75% outside professional allocation to reflect the fact that foreign private issuers rely more heavily on outside professionals for the preparation of these forms.