

November 8, 2012

Board of Directors
Committee of Sponsoring Organizations of the Treadway Commission
Website submission: www.ic.coso.org

Re: Post Public Exposure Draft: Internal Control – Integrated Framework

Ladies and Gentlemen:

The American Bankers Association (ABA) appreciates the opportunity to comment on the “Post Public” Exposure Draft: *Internal Control – Integrated Framework* (“the Post Public Draft”) and the accompanying Drafts for Discussion of the documents *Internal Control over External Financial Reporting: A Compendium of Approaches and Examples* (Financial Reporting Approaches) and *Illustrative Tools for Assessing Effectiveness of a System of Internal Control* (Illustrative Tools). ABA brings together banks of all sizes and charters into one association. ABA works to enhance the competitiveness of the nation’s banking industry and strengthen America’s economy and communities. Under the Sarbanes-Oxley Act of 2002 (SOX), publicly-held banking institutions are required to assess and (when applicable) obtain independent attestation as to the effectiveness of internal controls over financial reporting, using a framework such as the current one issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Framework). In addition, all banks with over \$1 billion in assets – public or private – are subject to a yearly attestation of the effectiveness of internal controls over financial reporting under the FDIC Improvement Act of 1991 (FDICIA). With this in mind, we believe that changes to the COSO Framework will impact bankers more than any other industry.

The ABA understands that the Post Public Draft attempts to integrate common themes and comments provided to COSO through the public comment period relative to the original Public Exposure Document (“the Original Draft”) that was issued in 2011. Attached is ABA’s comment letter related to the Original Draft for use as a reference document. With the Original Draft and the Post Public Draft, COSO is primarily updating the original framework that was originally issued in 1992. The most significant change is the introduction of seventeen principles, representing the fundamental concepts associated with the five integrated components of internal control from the original framework (control environment, risk assessment, control activities, information and communication, and monitoring activities). Supporting each of the principles are eighty-one “points of focus”, which comprise characteristics associated with each principle. COSO representatives have stated that the principles and points of focus are not meant to represent new thoughts or ideas related to the evaluation of internal controls, but they more explicitly codify and organize what COSO believes to be existing practice.

Consistent with our comments related to the Original Draft, we believe the Post Exposure Draft is written in a consistent and logical manner and, for companies that are new to the assessment or

attestation process, can greatly assist in the documentation and assessment of an entity's internal control system. However, we continue to have specific concerns that should be addressed prior to issuance of a final framework.

The Framework and Supporting Documents Should be Restructured

In our previous comment letter, the ABA stated that the inclusion of the 81 attributes (which are primarily activities that address each of the principles) provides too much detail and will result in confusion as to how organizations should document and assess their internal control systems. The Framework would then cease to be a framework and become a mere checklist for both companies and their auditors.

Our review of the Post Public Draft noted a concerted focus by COSO to respond to the checklist mentality concerns raised by changing the term "attribute" to "point of focus" and adding language to deemphasize the necessity of the points of focus. However, significant discussion within the Post Public Draft revolves virtually exclusively around the points of focus in illustrating how principles are satisfied. The Financial Reporting Approach further emphasizes this by centering the examples on how different procedures address the points of focus, which are highlighted in the margins of the document. Based on this, we feel COSO has actually increased the importance of the points of focus and not decreased them – the points of focus are now the centerpiece of the Framework. We do not believe this is the intent of COSO. However, upon review of each of the documents, it is clear to us that the points of focus are "points" that must be "focused" on if implementing the Framework.

As a result of the significant emphasis in the detailed use of the points of focus, we strongly believe that the Post Public Draft conveys a checklist approach to internal control -- more so than the Original Draft. While there is language that expresses COSO's objective that the relevant points of focus are to assist management in designing, implementing, and conducting internal control and in assessing whether the relevant principles are, in fact, present and functioning, we feel this minimal language does not go far enough in expressing COSO's intent that the points of focus are provided as guidance to assist management in their consideration of relevant internal controls.

Further, while judgment is advocated, the length and level of detail provided by the points of focus will exhaust most companies' internal control personnel. At best, it appears that this detail will cause significant remapping of documentation while providing little, if any, benefit. The Framework is no longer a framework as it is now a detailed audit work plan. This is further compounded by the Illustrative Tools and Financial Reporting Approach documents that appear to support the notion that they are the only way to implement the Framework.

We do not believe COSO intended this to be the approach for the updated Framework nor would we support such a Framework. As noted in the Post Public Draft, the Framework is to help the management better control the organization. We believe this should also include (or primarily include) the Board of Directors. As written and organized, however, the overriding purpose appears to be to help auditors identify and test the internal controls.

With this in mind, we recommend the following:

1. Change the term “points of focus” to “internal control considerations.” “Internal Control Considerations” denotes guidance being provided to management, as opposed to directions being provided to auditors.
2. Exclude discussion of the resulting Internal Control Considerations from the Framework document. The Framework document, thus, addresses only the principles. A Framework should provide a structure for decision-making for management, rather than a laundry list of procedures for auditors.
3. Develop a new document titled “*Guidance for Identifying Internal Control Considerations*”, which discusses the Internal Control Considerations and how they can benefit management’s assessment of internal control. This document should not be included as a part of the Framework (though it may refer to the Framework in the body of the document). For practical purposes, this document can then be updated (without having to update the Framework document) on a regular, periodic basis or as new considerations and practices develop.
4. Omit reference to the Framework in the titles of the final versions of the Financial Reporting Approach document and the Illustrative Tools document. COSO should continue to reduce, within these documents, the perception that any of the supporting documents are a necessary part of the Framework.

We believe that making these simple changes will greatly enhance the effectiveness of the Framework. Specifically, they will:

1. Ensure the Framework remains as a tool intended to benefit management, ensuring that company executives and audit committee members will better understand the framework.
2. Better emphasize the importance of judgment in the Framework, while still allowing users of the Framework to benefit from the implementation guidance of the supplemental documents (which includes the *Guidance on Identifying Internal Control Considerations*).
3. Allow greater flexibility relative to how the Framework is implemented.

Transition Must be Better Addressed

Within the September 2012 Frequently Asked Questions document, COSO notes that it intends to make the original Framework available “until it becomes clear in the marketplace that transition is substantially completed”. This expectation of transition is too vague, considering the members of COSO primarily serve the largest companies – those that are able to transition relatively quickly. We believe transition should be addressed through field testing and other outreach activities to determine practical time lines (see our comment below related to due process).

As the original Framework is currently considered to be a suitable internal control framework by regulating agencies, if COSO retains the points of focus as key parts of the Framework (and not, as recommended above, as thought-provoking internal control considerations that management may consider), we recommend that COSO continue to make available the current Framework without “retiring” it. Intent to cease availability of the original Framework will indicate that the original Framework is, or will be, deficient in some way. COSO has not provided any indication of their belief that the original Framework would become deficient upon release of the updated Framework. We, therefore, see no need to suspend availability and we see no significant cost to COSO for making it available if the Post Public Draft, along with the Financial Reporting Approaches and the Illustrative Tools, are issued in their current form.

COSO is the De Facto Standard Setter: Due Process Must be Expanded

We appreciate COSO’s issuance of the Post Public Draft, along with concurrent issuances of the Financial Reporting Approaches and the Illustrative Tools. Further, we recognize and value the opportunity to provide comment to COSO relative to the proposed changes. However, as noted in our previous letter, the COSO framework is, by far, the most widely-used internal control frameworks for the purpose of internal control assessment and attestation in the United States. As a result, many consider the COSO Framework to be “the standard” for internal control assessment¹. We realize that COSO members believe COSO is a “thought leader”, and not a standard-setter. We appreciate that COSO representatives preface most conversations in public settings by stating that COSO is not a standard setter. However, the wide general acceptance of the COSO Framework for SOX Section 404 assessments and attestations has virtually made the Framework *the* generally accepted internal control standard. Like it or not: COSO is the de facto standard setter. As a result, we recommend that an open process be expanded that helps ensure sufficient review of the Draft. Adequate due process has a higher yardstick for a standard setter.

¹ While SOX does not refer specifically to the COSO Framework, subsequent documents by the SEC acknowledge the Framework’s suitability as an internal control framework and also that the vast majority of issuers use the COSO Framework in evaluating internal controls.

With this in mind, we still believe COSO must do more. Such a due process includes:

- Conducting and documenting concerted outreach to specific key constituents, such as:
 - Regulated industries (like banking),
 - smaller auditing firms,
 - businesses that would qualify as a “smaller entity”
- Holding roundtable discussions that include all constituents – audit committee members, chief accounting officers, regulators, financial statement users, external auditors of all sizes, and internal auditors– to debate the anticipated impact of the change. We further recommend different discussions are conducted to focus on specific industries.
- Conducting cost studies and field tests across a wide range of entities and sharing the results of those activities prior to finalization and prior to communicating any expectation as to transition.

To summarize, we believe the proposed Framework represents a huge change for most companies. Thousands of hours of remapping and re-documenting existing internal control systems is expected to be required without any clear benefit. Many questions exist in how auditors and regulators will interpret and use the new Framework. Better understanding the interpretations and intent of key constituents, as well as the costs of compliance, is key to finalizing any standard.

With that in mind, the Framework should be reorganized to better serve management’s purposes and to keep it as a “Framework”, as opposed to a “checklist”. We also believe that significantly greater outreach is needed before issuing the new Framework. Further, if the points of focus remain in the final version, the 1992 Framework should continue to be considered valid without any retirement plans.

Thank you for your attention to these matters and for considering our views. Please feel free to contact me (mgullette@aba.com; 202-663-4986) if you would like to discuss our views.

Sincerely,



Michael L. Gullette