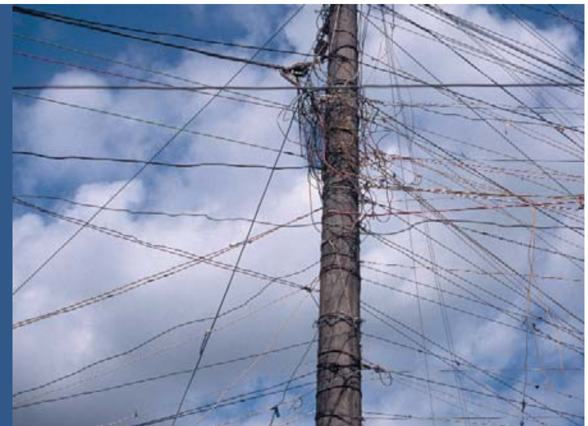
Sarbanes-Oxley Year-End Preparation: *What's on your Mind?*



Banking & Capital Markets Industry Conference Call Recap | December 13, 2005

On December 13, PwC Banking & Capital Markets industry specialists hosted an interactive conference call to discuss Sarbanes-Oxley Section 404. The call was designed primarily to help companies benchmark their status and process as we approached the end of Year 2 and began planning for Year 3, both from a practical execution standpoint and as part of the migration to sustainability.

The discussions focused on:

- SEC and PCAOB rule-making and guidance initiatives
- Sustainability initiatives, including roles and responsibilities
- Year 2 observations related to scoping, including locations, significant accounts, key controls and coverage
- Documentation and testing, including considerations regarding the nature, timing and extent of testing
- Results of testing, such as common problem areas and number and magnitude of deficiencies
- Deficiency analysis
- External reporting

The following PwC subject matter professionals hosted and shared their insights and answered questions during the call:

- **Bill Lewis**, Managing Partner, Leader of the U.S. Banking & Capital Markets Practice
- **Jim Lee**, Partner, National Office Assurance Policy Leader
- **Lee Dixon**, Partner, Banking and Specialty Finance Practice
- **Darin Wettengel**, Partner, Systems and Process Assurance Practice
- **Rick Bennett**, Partner, Banking and Specialty Finance Practice
- **Jay Harris**, Partner Banking and Specialty Finance Practice
- **Rick Moyer**, Senior Manager, National Office Assurance Policy Practice

We are pleased by the large number of participants which indicated continuing interest in learning more about how the industry is addressing the challenges of Section 404, as well as the positive feedback we received from the call participants, which included compliance, internal auditor, finance, treasury and legal professionals.

Please note that the replay of the conference call is available through February 28, 2006 and may be accessed by dialing:

USA: 800.475.6701
International: 320.365.3844
Access Code: 804688

Following are key highlights from the call that you might find helpful as you evaluate your current status and your ongoing efforts to refine your Section 404 process as you enter Year 3. More detailed insights are included in the conference call replay.

SEC and PCAOB Rule-Making and Guidance:

Both the SEC and PCAOB have open positions in key policy-making roles, which may impact the substance and timing of additional rule-making or guidance. Meanwhile, the PCAOB issued their report on November 30 related to their review of the first year implementation of Section 404, which confirmed many of the observations of the public accounting profession and SEC registrants. The PCAOB Standing Advisory Group, which includes representatives from a broad group of constituents, continues to evaluate how well Auditing Standard No. 2 for auditors is working. In addition, for smaller companies the SEC has recently formed an Advisory Group to address implementation of Section 404, and COSO recently released their revised framework for smaller companies.

Overall Year 2 Observations:

The banking and capital markets industry did not make as much progress as had been hoped for in the Year 1 to Year 2 “migration to sustainability” given the “hangover” from Year 1, timing of release of the SEC and PCAOB guidance in May 2005, and loss of the “adrenaline factor” after Year 1. Most companies expect to make more progress in Year 3 but believe that true sustainability may not come until Year 4 or Year 5. However, in general we have seen a decline in overall effort in Year 2 due to better project management; updating versus creating control documentation and test plans; more reliance on information technology and company level controls; varying the nature, timing and extent of testing; and less remediation work. In addition, companies have spent time rationalizing and defining their 404 project organization and roles and responsibilities.

Information Technology and Application Controls:

In Year 2, we have observed a move towards automating previously manual controls as a way of gaining efficiencies and improving risk management. In addition, some companies are more effectively employing benchmarking or base lining strategies. As companies continue to refine their testing approaches and timing, testing information technology controls earlier in the year and leveraging the results of that testing can lead to significant efficiencies.

Nature, Timing and Extent of Testing:

Companies have made some progress in altering the overall mix of testing, thinking through the interaction between nature, timing, and extent of testing, including the implications (positive or negative) of the test results of information technology and company level controls. In general, the industry has reduced the overall level of testing (in part driven by a reduced number of key controls), and more clearly defined the timing to achieve cost/benefit objectives in coordination with their external auditors. Two areas in particular continue to receive a lot of attention: spreadsheets and models. In addition to basic controls around access and calculations, controls should be in place for data inputs, assumptions, modeling theory and formula logic, queries and extracts, and reasonableness of outputs. In addition, companies continue to face challenges in certain processes that aren’t inherently “operationalized”, such as accounting policy and taxes, to better document and test the manual and qualitative controls embedded in those processes.

Deficiency Analysis:

Deficiency analysis starts with an effective process for accumulating a comprehensive list of deficiencies on a timely basis, whether manually on a spreadsheet or through the use of a more automated access database or purchased technology tool. After being analyzed individually, deficiencies then need to be grouped by common themes, such as significant account or disclosure, or COSO component. Using the Deficiency Analysis Framework published a year ago is helpful in this process, but not required. Also, in Year 2 and beyond, companies need to evaluate deficiencies on a quarterly basis based on interim materiality. Given that, in terms of internal reporting, many companies now report their deficiencies, both data on a summary level, and specific deficiencies that could be significant or material, to the audit committee on a quarterly basis.

Reporting:

With all the attention on Section 404, audit committees are keenly interested in the process, status and the results of the testing. Accordingly, many companies are having discussions with the audit committee throughout the year related to the “major decisions” in the process, such as scope (locations, business units and accounts), status of documentation and testing, deficiencies (including preliminary classification), and cost (internal and external). In terms of deficiencies, an evolving best practice is to engage the audit committee in the conclusions and rationale around “close calls” that ended up not being classified as a significant deficiency or material weakness. From an external reporting standpoint, several sources provide data on the number of material weaknesses and the underlying reasons. Lastly, companies have begun to better integrate their Section 404 and Section 302 processes.