

B. Collection of Information Employing Statistical Methods

1. Description of potential respondent universe and any sampling or other respondent selection method to be used.

The universe of potential respondents includes approximately 10,000 public companies subject to the Section 404 requirements and an estimated 100 other interested parties, such as audit firms and investor groups. Sample selection will occur in three distinct parts. First, all 10,000 companies will be invited by general solicitation to participate in the web-based survey, to be offered over the SEC website. Second, as many as 500 companies will be invited through targeted outreach to participate in a follow-on web-based survey, also to be offered over the SEC website and potentially using the same survey instrument. Finally, 75-100 interested parties – including representatives of public companies, will be invited through active outreach to participate in in-depth interviews. At each stage, sample selection will occur through the OEA staff’s identification of the sample of target respondents – 10,000 companies, 500 companies, or 75-100 respondents – and the choice of the target respondent whether to participate in the survey or interview.

See Appendix A for the survey instrument in draft form. The survey instrument will be updated through a process of extensive pre-testing before being delivered over the SEC website. Potential respondents will earn of the survey through general solicitation, and the SEC will provide live support for the survey through a 1-800 number.

See Appendix B for the in-depth interview scripts in draft form. The interview scripts will e updated through a process of pre-testing before being delivered over the telephone (or, in some instances, in person) to the selected sample of respondents.

The statistical processes for sample selection and analysis will be more rigorous for the survey than for the interviews, as explained below.

To inform the analysis of costs and benefits of the Commission’s rules under Section 404, representatives of companies subject to these rules will be invited to participate in a web-based survey, to be posted on the SEC website. Thus, representatives of about 10,000 companies will be invited to participate in the voluntary-response survey, which will serve as a key source of data for the OEA staff’s empirical analysis of the costs and benefits of Section 404 implementation to date.

A review of the evidence of response rates from past 404-related surveys of public companies reveals that response rate have varied markedly, such as from 0.93% and 21.87%, depending on the survey. It is the OEA staff’s assessment that response rates tend to vary with size and other factors. Since these factors might also be related to 404 costs, there is a risk that respondents may not report costs representative of the general population of 404-compliant companies. This is known as “sample selection bias.” As a result, we will conduct a follow-up survey of as many as 500 companies sampled at random – and thus less subject to selection bias – from the initial sample of 10,000

companies. Evidence from a comparison of the factors that affect sample selection in the initial and follow-up surveys will inform the OEA staff's analysis of the applicability of the responses from the initial voluntary-response survey to the population of all 404-compliant companies generally.

Turning to the in-depth interviews, the interview subjects will be drawn at random (and, in some instances, through self-selection of volunteers) from the universe of all companies to which Section 404 applies, as well as from the universe of individuals who represent knowledgeable audit firms and investor groups. The 75-100 interviews will be distributed across these different types of interested parties, in contrast with the web-based survey, which is designed to obtain response data from the companies whose financial reporting practices are the subject of Section 404. We expect the evidence collected from the in-depth interviews to be largely anecdotal. The objective of the in-depth interviews is to facilitate the preliminary testing of survey questions and to give the staff timely access to qualitative information with which to enrich its interpretation of the quantitative survey findings.

2. Describe the procedures to be used for the collection of information.

Data on survey responses will be collected through a web-based survey instrument, to be posted on the SEC website and supported live through a 1-800 number.

For purposes of the follow-up survey, the OEA staff will select at random a sample of companies from the universe of companies to which the Section 404 rules apply. The number of companies from which responses will be actively solicited is likely not to exceed 500, with the ultimate number depending on the response rate from the initial survey, the statistical properties of the response data, and other factors.

For the in-depth interviews, the OEA staff will select as candidate respondents a random sample of companies and audit firms for inclusion in the interview sample. Among companies and audit firms, the targeted number of actual participants has been set at 75-100, so the number of candidate respondents that the OEA staff identifies by statistical methods will exceed this number by an amount that leaves room for the possibility that some individuals who are invited to participate may decline to participate.

3. Describe methods to maximize response rates and to deal with issues of non-response.

The OEA staff will attempt to maximize response rates and deal with issues of non-response through a variety of methods. General outreach by senior SEC personnel will help to increase awareness of the survey and its practical value, thereby encourage responses. The survey instrument will be delivered over the SEC website. Live support to respondents will be provided over a 1-800 line that potential respondents can call in order to obtain additional information regarding questions. In the case of the follow-on survey, outreach by the SEC staff and assigned contractor personnel will be directed to the specific companies that are selected at random for the follow-on survey, and to

specific personnel within those companies. The sizes of the target samples for the follow-on survey and interviews will be adjusted to factor in a cushion for non-responses. Other methods to be used by the SEC staff and assigned contractor personnel to maximize response rates and deal with issues of non-response will include making multiple contacts with each company, including headquarters and local offices, as necessary; contacting companies by letter describing the research, followed by a telephone call and additional follow-up calls as needed to schedule interviews; and, as appropriate, choosing office locations and facilities for any in-depth (or focus group) interviews that are undertaken in person, so as to offer ample potential for recruiting each category of participants.

4. Describe any tests of procedures or methods to be undertaken.

The OEA staff will engage in the express testing of procedures and methods in areas that include the following. First, the staff will extensively pre-test the wording and sequencing of questions to be included in the survey instrument and interview scripts, some of which reflect questions from previous 404-related surveys. Pre-testing will lead to modification of the survey questions before they are delivered through the SEC website.

Second, the staff will assess the sample selection properties of the survey response data relative to the underlying population of all companies to which Section 404 applies. This will include univariate and multivariate regression analysis of the response types and frequencies, and the application of standard statistical methods to illuminate and, as appropriate, adjust for any factors that are found to introduce a bias into the response statistics. Standard statistical methods will be considered in evaluating the extent to which corrections for response bias are suitable, and any implemented corrections will be made transparent in any reports that are produced using these data.

5. Name and telephone of individual consulted on statistical aspects of the design.

The OEA staff designed the statistical aspects of the study and will collect and analyze the information for use in its report to the Commission. The project leader is Dr. Cindy R. Alexander (202-551-6602), and project technical staff includes Dr. Kathleen Weiss Hanley, Dr. Yoon-Ho (Alex) Lee, and Dr. Scott Bauguess – all staff members of the Office of Economic Analysis. All research and analysis within the Office of Economic Analysis occurs under the supervision of Dr. James A. Overdahl (202-551-6644), Chief Economist, Securities & Exchange Commission.