BROWN-FORMAN

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February 26, 2007

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Public Company Accounting Oversight Board
Office of the Secretary
1666 K Street N.W.
Washington, D.C. 20006-2803

Re: Proposed Interpretive Guidance, Rules and Auditing Standard Related to Management's Report on Internal Control Over Financial Reporting, PCAOB Rulemaking Docket Matter No. 021

Dear Ms. Morris and the Public Company Accounting Oversight Board:

Our company is very pleased that the Securities and Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB) have closely monitored the effects of Sarbanes Oxley (SOX) Section 404 and the Auditing Standard No. 2 (AS2) over the last two annual reporting cycles. We agree with your assessment that the audit of internal controls over financial reporting has produced significant benefits but that benefit has come at a significant cost. We are encouraged by the initial draft of the proposed new standard.

Our company responded to the SEC *Concept Release Concerning Management's Reports on Internal Control over Financial Reporting* on September 18, 2006. Our letter included a number of recommendations aimed at improving the efficiency of complying with SOX 404. We are encouraged the SEC and the PCAOB have addressed many of the issues discussed in our previous letter through the PCAOB's proposed Auditing Standard No. 5 (AS5), *An Audit of Internal Controls Over Financial Reporting That Is Integrated with An Audit of Financial Statements* and the SEC's proposed interpretive guidance and rules related to management's report on internal control over financial reporting as set forth in Release No. 33-8762. However, there are two points that we believe have not yet been adequately addressed but that should be in keeping with the spirit and reasoning of the newly proposed Auditing Standard. In particular, we strongly encourage the SEC and the PCAOB to:

- Consider abandoning multiple classifications of deficiencies in favor of focusing on material weaknesses, leaving to management the discretion as to how to communicate lesser deficiencies to its audit committee , outside auditors and shareholders; and
- Clarify the definition of what constitutes strong entity-wide controls and articulate how such strong entity-wide controls may lessen the transactional testing requirements.

<u>Reassess the Need for Three Deficiency Classifications</u>

We believe that the SEC and the PCAOB need to reassess the necessity of having three classifications of deficiencies. Shareholders should be informed of material weaknesses, but knowledge of minor control deficiencies or those that are the consequence of unintentional, human error does not benefit investors. We recommend focusing only on material weaknesses, and allowing the company to determine how lesser deficiencies are communicated to its audit committee, outside auditors and shareholders. With this approach, we would recommend that a company continue to track and communicate all deficiencies to its outside auditor so that issues can be assessed and aggregated as needed.

More Guidance Needed on Entity-Wide Controls

Although much focus has been placed on the need for strong entity-wide controls, the majority of the work required to assess internal controls for SOX 404 purposes involves documentation and testing of detailed, transactional based controls. This approach, in our experience, results in excessive documentation and testing without providing much additional assurance that controls are effective.

Currently, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework provides some examples of entity wide controls, but determining which controls directly impact "financial reporting" is challenging in the absence of clear guidance. Additionally, the control environment components are often difficult to assess. For example, COSO states that the critical factors in a company's control environment are driven by the people and the individual attributes of the company including integrity, ethical values, and competence. But, how do we further measure these attributes, and against what standard? No real guidance is provided. COSO states that the entire financial statement process should be monitored. Again, no real guidance has been provided in terms of the degree of monitoring required, and level of detail that shall be marked.

We applaud the SEC's and the PCAOB's recognition that external auditors can rely on some of the work of other companies when testing the control environment. However, to make SOX 404 more effective and efficient, we believe a better definition or standard of what entity wide controls should be tested would be highly beneficial. If a clearer definition or standard existed for measuring the effectiveness of the control environment, we believe a company with strong entity-wide controls should undergo less detailed transaction control testing (for SOX 404 purposes) and less substantive work (in connection with the Financial Statement audit) should be performed by our auditor. We believe this is consistent with the spirit of the proposed new Auditing Standard.

Furthermore, we strongly urge the SEC and the PCAOB to continue to identify ways to improve the “integrated audit” approach to minimize the overall work performed. We hope that you will consider our recommendations to continue to improve the process.

We would like to commend the SEC and the PCAOB for their continued efforts to improve the effectiveness of SOX 404. We hope our suggestions, along with others you receive, will assist in improving and refining the standard.

Please feel free to contact us if you would look to discuss our suggestions. We are pleased to participate in this process to moderate these standards.

Sincerely,

Jane Morreau
Vice President and Controller

Andy Kim
Director Internal Auditor