

## OVERVIEW OF THE MAIN PROVISIONS OF THE US PUBLIC COMPANY ACCOUNTING REFORM AND INVESTOR PROTECTION ACT OF 2002 (SARBANES-OXLEY ACT OF 2002)

- **Oversight board.** The Act establishes the Public Company Accounting Oversight Board, to be organised as a non-profit corporation, with SEC administration and oversight. The PCAOB's mission is to oversee the audits of public companies and related matters.
- **Auditor registration.** All auditors of public companies must register with the PCAOB, identify public audit clients, identify all accountants associated with those clients, list fees earned for audit and non-audit services, explain their audit quality control procedures, and identify all criminal, civil, administrative, and disciplinary proceedings against the firm or any of its associated persons in connection with an audit.
- **Inspection of CPA firms.** The PCAOB must inspect all CPA firms that audit public companies to assess compliance with the law, SEC regulations, rules established by the PCAOB, and professional standards. Firms that audit more than 100 public companies will be inspected annually. Firms that audit 100 or fewer public companies must be inspected at least once every three years. If violations are found, the PCAOB must take disciplinary action.
- **Audit committees.** All audit committee members must be independent (non-executive) directors. Audit firms will be appointed by, and will report directly to, the audit committee. Audit committees must establish procedures to deal with complaints about accounting, auditing, and internal controls.
- **Audit, quality control, ethics, and independence standards.** The PCAOB must adopt audit, quality control, ethics, and independence standards. In doing so, the PCAOB may look to standards established by recognised professional organisations such as the AICPA.
- **Quality control.** The PCAOB's quality control standards must require that registered firms properly supervise all work, monitor compliance with ethics and independence rules, and establish internal systems for consultation, professional development, and client acceptance and retention.
- **Restrictions on services to audit clients.** The Act restricts consulting work auditors can do for their audit clients. Restricted services include (with certain exceptions) bookkeeping, financial systems design, appraisal and valuation, actuarial, internal audit, management functions, human resources, broker-dealer, investment banking, and legal. PCAOB may enumerate additional prohibited services. The registrant's audit committee must pre-approve engaging the auditor for other non-audit services, including tax work.
- **Partner rotation.** The Act requires 5-year rotation of the audit partner and second reviewing partner.
- **Mandatory audit firm rotation.** The Comptroller General must study and report on this within one year.
- **Loans to company executives.** The Act prohibits most personal loans to company executives.
- **Financial analyst conflicts of interest.** Financial analysts cannot be involved in marketing securities (detailed rules to be developed by the SEC).
- **Rules of conduct for lawyers.** The SEC must develop rules of professional responsibility for attorneys who represent securities issuers.
- **Conflicts of interest.** An audit firm may not audit a public company whose officers worked for the audit firm within the previous year.
- **Certification of financial statements.** The Act requires certification of financial statements by the company's chief executive officer and chief financial officer.
- **Disclosures.** The Act requires certain disclosures in financial reports, including information about off-balance sheet transactions, and orders the SEC to develop rules regarding pro forma disclosures.
- **Restatements.** The Act specifically prohibits improper influence on audits and requires forfeiture of executive bonuses and equity gains if financial statements must be restated.
- **Principles-based standards.** The SEC is required to study the "adoption by the United States financial reporting system of a principles-based accounting system" and, within one year, submit a report to specified committees of the US Senate and House of Representatives.
- **Corporate and criminal fraud.** The Act provides for criminal penalties for corporate fraud and document shredding.
- **Whistleblower protection.** The Act provides legal protection to any employee who assists a federal agency, a member or committee of the Congress, or a supervisory employee.
- **Funding.** The Act provides a fee-based funding mechanism. Accounting firms must pay registration fees and annual fees to cover the costs of certain functions, and remaining costs will be borne, pro rata based on each issuer's market capitalisation, by all publicly held companies.
- **Accounting standards.** The law permits the SEC to recognise standards established by a private-sector accounting standard-setter provided that the standard-setter is deemed acceptable by the SEC and considers international convergence in developing standards.