The Sarbanes–Oxley Act of 2002 is also known as the "Public Company Accounting Reform and Investor Protection Act” in the Senate and "Corporate and Auditing Accountability, Responsibility, and Transparency Act" in the House representatives and more commonly called Sarbanes–Oxley, Sarbox or SOX. The act is also known as the public responsibility act of 2002. It is a United States federal law that set new or expanded requirements for all U.S. public company boards, management and public accounting firms.

The bill, which contains eleven sections, was enacted as a reaction to a number of major corporate and accounting scandals, including Enron and WorldCom. The Act was in response to accounting malpractice in the early 2000s when public scandals such as Enron Corporation, Tyco International plc and WorldCom shook investor confidence in financial statements and demanded an overhaul of regulatory standards. The sections of the bill cover responsibilities of a public corporation's board of directors, adds criminal penalties for certain misconduct, and requires the Securities and Exchange Commission to create regulations to define how public corporations are to comply

Governance aspect

The House passed Rep. Oxley's bill (H.R. 3763) on April 24, 2002, by a vote of 334 to 90. The House then referred the "Corporate and Auditing Accountability, Responsibility, and Transparency Act" or "CAARTA" to the Senate Banking Committee with the support of President George W. Bush and the SEC. At the time, however, the Chairman of that Committee, Senator Paul Sarbanes (D-MD), was preparing his own proposal, Senate Bill 2673.

Senator Sarbanes's bill passed the Senate Banking Committee on June 18, 2002, by a vote of 17 to 4. On June 25, 2002, WorldCom revealed it had overstated its earnings by more than $3.8 billion during the past five quarters (15 months), primarily by improperly accounting for its operating costs. Senator Sarbanes introduced Senate Bill 2673 to the full Senate that same day, and it passed 97–0 less than three weeks later on July 15, 2002.

The House and the Senate formed a Conference Committee to reconcile the differences between Sen. Sarbanes's bill (S. 2673) and Rep. Oxley's bill (H.R. 3763). The conference committee relied heavily on S. 2673 and "most changes made by the conference committee strengthened the prescriptions of S. 2673 or added new prescriptions."

The Committee approved the final conference bill on July 24, 2002, and gave it the name "the Sarbanes–Oxley Act of 2002". The next day, both houses of Congress voted on it without change, producing an overwhelming margin of victory: 423 to 3 in the House; and 99 to 0 in the Senate.

On July 30, 2002, President George W. Bush signed it into law, stating it included "the most far-reaching reforms of American business practices since the time of Franklin D. Roosevelt”.

The act was approved in the House by a vote of 423 in favor, 3 opposed, and 8 abstaining and in the Senate with a vote of 99 in favor and 1 abstaining. President George W. Bush signed it into law, stating it included "the most far-reaching reforms of American business practices since the time of Franklin D. Roosevelt. The era of low standards and false profits is over; no boardroom in America is above or beyond the law."

MAJOR ELEMENTS

* Public Company Accounting Oversight Board (PCAOB)

Title I consists of nine sections and establishes the Public Company Accounting Oversight Board, to provide independent oversight of public accounting firms providing audit services ("auditors"). It also creates a central oversight board tasked with registering auditors, defining the specific processes and procedures for compliance audits, inspecting and policing conduct and quality control, and enforcing compliance with the specific mandates of SOX.

* Auditor Independence

Title II consists of 9 sections and establishes standards for external auditor independence, to limit conflicts of interest. It also addresses new auditor approval requirements, audit partner rotation, and auditor reporting requirements. It restricts auditing companies from providing non-audit services (e.g., consulting) for the same clients.

* Corporate Responsibility

Title III consists of eight sections and mandates that senior executives take individual responsibility for the accuracy and completeness of corporate financial reports. It defines the interaction of external auditors and corporate audit committees, and specifies the responsibility of corporate officers for the accuracy and validity of corporate financial reports. It enumerates specific limits on the behaviors of corporate officers and describes specific forfeitures of benefits and civil penalties for non-compliance. For example, Section 302 requires that the company's "principal officers" (typically the Chief Executive Officer and Chief Financial Officer) certify and approve the integrity of their company financial reports quarterly.[6]

* Enhanced Financial Disclosures

Title IV consists of nine sections. It describes enhanced reporting requirements for financial transactions, including off-balance-sheet transactions, pro-forma figures and stock transactions of corporate officers. It requires internal controls for assuring the accuracy of financial reports and disclosures, and mandates both audits and reports on those controls. It also requires timely reporting of material changes in financial condition and specific enhanced reviews by the SEC or its agents of corporate reports.

* Analyst Conflicts of Interest

Title V consists of only one section, which includes measures designed to help restore investor confidence in the reporting of securities analysts. It defines the codes of conduct for securities analysts and requires disclosure of knowable conflicts of interest.

* Commission Resources and Authority

Title VI consists of four sections and defines practices to restore investor confidence in securities analysts. It also defines the SEC's authority to censure or bar securities professionals from practice and defines conditions under which a person can be barred from practicing as a broker, advisor, or dealer.

* Studies and Reports

Title VII consists of five sections and requires the Comptroller General and the SEC to perform various studies and report their findings. Studies and reports include the effects of consolidation of public accounting firms, the role of credit rating agencies in the operation of securities markets, securities violations, and enforcement actions, and whether investment banks assisted Enron, Global Crossing, and others to manipulate earnings and obfuscate true financial conditions.

* Corporate and Criminal Fraud Accountability

Title VIII consists of seven sections and is also referred to as the "Corporate and Criminal Fraud Accountability Act of 2002". It describes specific criminal penalties for manipulation, destruction or alteration of financial records or other interference with investigations, while providing certain protections for whistle-blowers.

* White Collar Crime Penalty Enhancement

Title IX consists of six sections. This section is also called the "White Collar Crime Penalty Enhancement Act of 2002". This section increases the criminal penalties associated with white-collar crimes and conspiracies. It recommends stronger sentencing guidelines and specifically adds failure to certify corporate financial reports as a criminal offense.

* Corporate Tax Returns

Title X consists of one section. Section 1001 states that the Chief Executive Officer should sign the company tax return.

* Corporate Fraud Accountability

Title XI consists of seven sections. Section 1101 recommends a name for this title as "Corporate Fraud Accountability Act of 2002". It identifies corporate fraud and records tampering as criminal offenses and joins those offenses to specific penalties. It also revises sentencing guidelines and strengthens their penalties. This enables the SEC to resort to temporarily freezing transactions or payments that have been deemed "large" or "unusual".