Sarbanes-Oxley Act Law and Explanation (July 2002), FOREWORD

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[Historical material. Published July 2002, upon enactment of legislation.]

FOREWORD

The Sarbanes-Oxley Act of 2002 was signed into law by President George W. Bush on July 30, 2002. The Act is a landmark and comprehensive piece of legislation that will fundamentally change the way public companies do business and how the accounting profession performs its statutorily required audit function. The Act makes structural changes in the auditing of financial statements and the corporate disclosure regime. It establishes a comprehensive framework to modernize and reform the oversight of public company auditing, improve the quality and transparency of corporate financial reporting, and strengthen the independence of auditors and audit committees alike. As a corollary, it enhances investor decisionmaking throughout the capital markets and seeks to correct shortcomings that have threatened the reputation of those markets for integrity.

The Act creates a strong and independent accounting oversight board to oversee the conduct of the auditors of public companies and strengthens auditor independence from corporate management by limiting the scope of non-audit services that auditors can offer their audit clients.

The Act also requires steps to enhance the direct responsibility of senior corporate management for financial reporting and for the quality of financial disclosures made by public companies. The Act clearly establishes that CEOs and CFOs are responsible for the presentation of material in their company's financial reports.

Sarbanes-Oxley establishes clear statutory rules to limit, and expose to public view, possible conflict of interests affecting securities analysts. The Act also authorizes substantially higher funding for the SEC.

Under the Act, company audit committees would be responsible for the appointment, compensation, and oversight of the work of their auditors. The independence of audit committees is enhanced by barring committee members from accepting consulting fees or being affiliated persons of the company other than in their capacity as board members.

The Act prohibits insider trades during pension fund blackout periods. It also requires prompt disclosure of insider transactions in company stock, which must be reported by the second day following the transaction. Finally, Sarbanes-Oxley establishes a new federal crime of securities fraud, with a tough 25-year prison sentence.

In addition to a detailed explanation of the Sarbanes-Oxley Act provisions, the book includes the full text of the Act, selected portions of the legislative history, a table of statutes added and amended, and a topical index.

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