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Sarbanes-oxley act

**Introduction:**

The Sarbanes-Oxley Act of 2002 (SOX) is a major piece of legislation passed by the United States Congress to safeguard investors by increasing the accuracy and dependability of business disclosures. The Act, named for Senator Paul Sarbanes and Representative Michael Oxley, seeks to improve corporate governance, accountability, and openness in financial reporting.

**History:**

SOX was established in reaction to big business and accounting scandals that damaged investor trust in the early 2000s. High-profile instances involving firms such as Enron, Tyco International, and WorldCom exposed serious flaws in corporate governance and financial management. These events highlighted the critical need for significant changes to restore trust in the financial markets and avoid future instances of corporate fraud and wrongdoing.

**Provisions:**

1. **Section 302:** CEOs and CFOs must confirm the accuracy and completeness of business financial reporting.
2. **Section 404:** Requires management and auditors to set up internal controls over financial reporting and to report on how effective they are.
3. **Section 802:** Defines the retention time for audit records and imposes penalties for destroying, altering, or falsifying records in federal investigations.

**Statistics:**

1. Initial SOX compliance, particularly Section 404, was anticipated to cost major corporations around $2 million per year.
2. SOX has resulted in improved corporate governance processes that prioritise internal controls and financial reporting accuracy.
3. Studies show that organisations that comply with SOX have a lower cost of capital, indicating increased investor trust in the credibility of financial statements.

**Conclusion:**

The Sarbanes-Oxley Act is still a cornerstone of company governance and financial reporting rules in the United States. It continues to shape the roles of corporate executives, auditors, and boards of directors, allowing investors to make educated decisions based on solid financial data. SOX has played an important role in recovering and preserving investor trust in the financial system.

**Conclusion:**

Basel III, SEC rules, the Dodd-Frank Act, and Sarbanes-Oxley have changed the American financial environment by addressing previous crises and scandals. They increased capital rules, market monitoring, systemic risk management, and corporate governance. Despite the costs of compliance, these laws improve stability, transparency, and investor protection, and they will continue to be critical to the integrity and resilience of the United States financial system.