Sarbanes-Oxley Exercise

What is the Act and what are its key components?

The Sarbanes-Oxley act was passed by U.S. Congress in July of 2002 that helps shield investors from false financial reporting by corporations. The act dictates reforms and four key areas:

1. Corporate responsibility
2. Increased criminal punishment
3. Accounting regulation
4. New protections

There are three key sections to the act. The first is Section 302 which says that "senior corporate officers personally certify in writing that the company's [financial statements] "comply with SEC disclosure requirements and fairly present in all material aspects the operations and financial condition of the issuer."" The second is Section 404 which require management and auditors to create controls and reporting methods for those controls. The third is Section 802 has three rules for record keeping. "The first deals with destruction and falsification of records. The second strictly defines the retention period for storing records. The third rule outlines the specific business records that companies need to store, which includes electronic communications."

> Kenton, W. (2021, May 19). *Sarbanes-Oxley (SOX) Act of 2002 Definition*. Investopedia. https://www.investopedia.com/terms/s/sarbanesoxleyact.asp.

Why did the U.S. Congress feel such an Act was necessary?

Congress, specifically Paul Sarbanes (D-MD) and Michael G. Oxley (R-OH), felt that the bill was necessary due to a recent number of major corporate and accounting scandals. All told, the scandals cost investors billions of dollars when the value of company shares collapsed and created mistrust in the US securities markets.

> https://en.wikipedia.org/wiki/Sarbanes%E2%80%93Oxley_Act

What responsibility does the Act place on a CEO and CFO of a corporation?

The act requires that CEOs and CFOs certify publicly that the company's financial statements and disclosures are an accurate representation of the operations and financial status of the company. Thus, if anything is wrong with the status of the company, responsibility for these crimes rests with the CEO and CFO.

> http://archives.cpajournal.com/2003/0703/features/f073603.htm