HIGHLIGHTS OF SARBANES-OXLEY ACT OF 2002

Sarbanes-Oxley Act of 2002 is named after its authors Senator Paul S Sarbanes and Congressman Michael G Oxley and has been enacted to improve the corporate responsibility among American firms. Major concerns that were addressed:

- To oversee the audit of public companies which are subject to the securities laws;
- To establish audit report standards and rules;
- To inspect, investigate, and enforce compliance on the part of registered public
- Accounting firms, certified public accountants, and their associated persons.

The major provisions of the Act:

Independence of auditors: Amendment to the Securities Exchange Act of 1934 to prohibit an auditor from performing specified non-audit services simultaneously with an audit. The non-audit services that are not expressly forbidden by this Act can be undertaken only after prior approval by the audit committee of the issuer.

Corporate Responsibility: Confers responsibility upon audit committees of public companies for the appointment, compensation, and oversight of any registered public accounting firm employed to perform audit services. An audit committee member has to be

- Member of the board of directors of the issuer ;and
- To be independent otherwise.

Enhanced Financial Disclosures: The financial reports filed with the SEC must disclose all material correcting adjustments that have been identified by a registered public accounting firm in accordance with SEC rules and generally accepted accounting principles (GAAP).

Analyst Conflicts of Interest: It requires the SEC to adopt rules governing securities analysts' potential conflicts of interest, including:

- Restricting the prepublication clearance or approval of research reports by persons either engaged in investment banking activities, or not directly responsible for investment research;
- Limiting the supervision and compensatory evaluation of securities analysts to officials who are not engaged in investment banking activities;
- Prohibiting a broker or dealer involved with investment banking activities from retaliating against a securities analyst as a result of an unfavorable research report that may adversely affect the investment banking relationship of the broker or dealer with the subject of the research report;
- Establishing safeguards to assure that securities analysts are separated within the investment firm from the review, pressure, or oversight of those

whose involvement in investment banking activities might potentially bias their judgment or supervision;

- Directs the SEC to adopt rules requiring securities analysts and broker/dealers to disclose specified conflicts of interest.

Commission Resources and Authority: Authorizes appropriations for FY 2003 to the SEC for:

- Additional staff compensation;
- Enhanced oversight of auditors and audit services; and
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- Additional professional staff for fraud prevention, risk management, market regulation, and investment management.

Studies and Reports: Mandates a GAO report to Congress on:

- The factors leading to the consolidation of public accounting firms and the subsequent reduction in the number of firms providing audit services to businesses subject to the securities laws; and
- The impact of such consolidation upon the capital formation and securities markets.

Corporate and Criminal Fraud Accountability: Corporate and Criminal Fraud Accountability Act of 2002 - Amends Federal criminal law to impose criminal penalties for:

- Knowingly destroying, altering, concealing, or falsifying records with intent to obstruct or influence either a Federal investigation or a matter in bankruptcy; and
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- Auditor failure to maintain for a five-year period all audit or review work papers pertaining to an issuer of securities.

White-Collar Crime Penalty Enhancements: White-Collar Crime Penalty Enhancement Act of 2002 - Amends Federal criminal law to:

- Establish criminal penalties for attempt and conspiracy to commit criminal fraud offenses; and
- Increase criminal penalties for mail and wire fraud.

Corporate Fraud Accountability: Corporate Fraud Accountability Act of 2002 Amends Federal criminal law to establish a maximum 20-year prison term for tampering with a record or otherwise impeding an official proceeding.