Sarbanes-Oxley Act (SOX)

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The **Sarbanes-Oxley Act** (SOX) was designed to improve the quality of financial reporting by public companies. It was written in response to the fraudulent reporting of Enron Corporation, Worldcom, and several other businesses, and was passed in 2002. Key provisions of the Act are as follows:

- The CEO and CFO must certify the accuracy of the financial statements (Section 302).
- It is illegal to improperly influence how an audit is conducted (Section 303).
- Material off-balance sheet items must be disclosed (Section 401).
- Management must establish internal controls and report on their scope and accuracy, while the company's auditors must certify the reliability of those controls (Section 404).
- Substantial fines are imposed on anyone falsifying, stealing, or destroying records (section 802).
- Provides for the protection of whistleblowers from retaliation (Section 806).
- Sets criminal penalties when corporate officers do not certify the accuracy of the financial statements (Section 906).

The provisions of the Act made it significantly more expensive for firms to be publicly-held. The result was a decline in the number of public companies, especially among the smaller firms that could no longer afford the regulatory costs associated with being publicly-held. In particular, the requirements of Section 404 were considered to have the largest impact on the cost increase.

The official name of the Sarbanes-Oxley Act is the Corporate Responsibility Act of 2002.

Source: Sarbanes-Oxley Act