

Calendar No. 442107TH CONGRESS
2^D SESSION**S. 2673**

To improve quality and transparency in financial reporting and independent audits and accounting services for public companies, to create a Public Company Accounting Oversight Board, to enhance the standard setting process for accounting practices, to strengthen the independence of firms that audit public companies, to increase corporate responsibility and the usefulness of corporate financial disclosure, to protect the objectivity and independence of securities analysts, to improve Securities and Exchange Commission resources and oversight, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JUNE 25, 2002

Mr. SARBANES, from the Committee on Banking, Housing, and Urban Affairs, reported the following original bill; which was read twice and placed on the calendar

A BILL

To improve quality and transparency in financial reporting and independent audits and accounting services for public companies, to create a Public Company Accounting Oversight Board, to enhance the standard setting process for accounting practices, to strengthen the independence of firms that audit public companies, to increase corporate responsibility and the usefulness of corporate financial disclosure, to protect the objectivity and inde-

pendence of securities analysts, to improve Securities and Exchange Commission resources and oversight, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
 2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the
 5 “Public Company Accounting Reform and Investor Pro-
 6 tection Act of 2002”.

7 (b) TABLE OF CONTENTS.—The table of contents for
 8 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Definitions.
- Sec. 3. Commission rules and enforcement.

TITLE I—PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

- Sec. 101. Establishment; administrative provisions.
- Sec. 102. Registration with the Board.
- Sec. 103. Auditing, quality control, and independence standards and rules.
- Sec. 104. Inspections of registered public accounting firms.
- Sec. 105. Investigations and disciplinary proceedings.
- Sec. 106. Foreign public accounting firms.
- Sec. 107. Commission oversight of the Board.
- Sec. 108. Accounting standards.
- Sec. 109. Funding.

TITLE II—AUDITOR INDEPENDENCE

- Sec. 201. Services outside the scope of practice of auditors.
- Sec. 202. Preapproval requirements.
- Sec. 203. Audit partner rotation.
- Sec. 204. Auditor reports to audit committees.
- Sec. 205. Conforming amendments.
- Sec. 206. Conflicts of interest.
- Sec. 207. Study of mandatory rotation of registered public accounting firms.
- Sec. 208. Commission authority.
- Sec. 209. Considerations by appropriate State regulatory authorities.

TITLE III—CORPORATE RESPONSIBILITY

- Sec. 301. Public company audit committees.
- Sec. 302. Corporate responsibility for financial reports.
- Sec. 303. Improper influence on conduct of audits.

- Sec. 304. Forfeiture of certain bonuses and profits.
 Sec. 305. Officer and director bars and penalties.
 Sec. 306. Insider trades during pension fund blackout periods prohibited.

TITLE IV—ENHANCED FINANCIAL DISCLOSURES

- Sec. 401. Disclosures in periodic reports.
 Sec. 402. Enhanced conflict of interest disclosures.
 Sec. 403. Disclosures of transactions involving management and principal stockholders.
 Sec. 404. Management assessment of internal controls.
 Sec. 405. Exemption.
 Sec. 406. Code of ethics for senior financial officers.
 Sec. 407. Disclosure of audit committee financial expert.

TITLE V—ANALYST CONFLICTS OF INTEREST

- Sec. 501. Treatment of securities analysts by registered securities associations.

TITLE VI—COMMISSION RESOURCES AND AUTHORITY

- Sec. 601. Authorization of appropriations.
 Sec. 602. Appearance and practice before the Commission.
 Sec. 603. Federal court authority to impose penny stock bars.
 Sec. 604. Qualifications of associated persons of brokers and dealers.

TITLE VII—STUDIES AND REPORTS

- Sec. 701. GAO study and report regarding consolidation of public accounting firms.
 Sec. 702. Commission study and report regarding credit rating agencies.

1 **SEC. 2. DEFINITIONS.**

2 (a) IN GENERAL.—In this Act, the following defini-
 3 tions shall apply:

4 (1) APPROPRIATE STATE REGULATORY AU-
 5 THORITY.—The term “appropriate State regulatory
 6 authority” means the State agency or other author-
 7 ity responsible for the licensure or other regulation
 8 of the practice of accounting in the State or States
 9 having jurisdiction over a registered public account-
 10 ing firm or associated person thereof, with respect to
 11 the matter in question.

1 (2) AUDIT.—The term “audit” means an exam-
2 ination of the financial statements of any issuer by
3 an independent public accounting firm in accordance
4 with the rules of the Board or the Commission (or,
5 for the period preceding the adoption of applicable
6 rules of the Board under section 103, in accordance
7 with then-applicable generally accepted auditing and
8 related standards for such purposes), for the pur-
9 pose of expressing an opinion on such statements.

10 (3) AUDIT COMMITTEE.—The term “audit com-
11 mittee” means—

12 (A) a committee (or equivalent body) es-
13 tablished by and amongst the board of directors
14 of an issuer for the purpose of overseeing the
15 accounting and financial reporting processes of
16 the issuer and audits of the financial state-
17 ments of the issuer; and

18 (B) if no such committee exists with re-
19 spect to an issuer, the entire board of directors
20 of the issuer.

21 (4) AUDIT REPORT.—The term “audit report”
22 means a document or other record—

23 (A) prepared following an audit performed
24 for purposes of compliance by an issuer with
25 the requirements of the securities laws; and

1 (B) in which a public accounting firm
2 either—

3 (i) sets forth the opinion of that firm
4 regarding a financial statement, report, or
5 other document; or

6 (ii) asserts that no such opinion can
7 be expressed.

8 (5) BOARD.—The term “Board” means the
9 Public Company Accounting Oversight Board estab-
10 lished under section 101.

11 (6) COMMISSION.—The term “Commission”
12 means the Securities and Exchange Commission.

13 (7) ISSUER.—The term “issuer” means an
14 issuer (as defined in section 3 of the Securities Ex-
15 change Act of 1934 (15 U.S.C. 78c)), the securities
16 of which are registered under section 12 of that Act
17 (15 U.S.C. 78l), or that is required to file reports
18 pursuant to section 15(d) of that Act (15 U.S.C.
19 78o(d)), or that will be required to file such reports
20 at the end of a fiscal year of the issuer in which a
21 registration statement filed by such issuer has be-
22 come effective pursuant to the Securities Act of
23 1933 (15 U.S.C. 77a et. seq.), unless its securities
24 are registered under section 12 of the Securities Ex-

1 change Act of 1934 (15 U.S.C. 78c) on or before the
2 end of such fiscal year.

3 (8) NON-AUDIT SERVICES.—The term “non-
4 audit services” means any professional services pro-
5 vided to an issuer by a registered public accounting
6 firm, other than those provided to an issuer in con-
7 nection with an audit or a review of the financial
8 statements of an issuer.

9 (9) PERSON ASSOCIATED WITH A PUBLIC AC-
10 COUNTING FIRM.—

11 (A) IN GENERAL.—The terms “person as-
12 sociated with a public accounting firm” (or with
13 a “registered public accounting firm”) and “as-
14 sociated person of a public accounting firm” (or
15 of a “registered public accounting firm”) mean
16 any individual proprietor, partner, shareholder,
17 principal, accountant, or other professional em-
18 ployee of a public accounting firm, or any other
19 independent contractor or entity that, in con-
20 nection with the preparation or issuance of any
21 audit report—

22 (i) shares in the profits of, or receives
23 compensation in any other form from, that
24 firm; or

1 (ii) participates as agent or otherwise
2 on behalf of such accounting firm in any
3 activity of that firm.

4 (B) EXEMPTION AUTHORITY.—The Board
5 may, by rule, exempt persons engaged only in
6 ministerial tasks from the definition in subpara-
7 graph (A), to the extent that the Board deter-
8 mines that any such exemption is consistent
9 with the purposes of this Act, the public inter-
10 est, or the protection of investors.

11 (10) PROFESSIONAL STANDARDS.—The term
12 “professional standards” means—

13 (A) accounting principles that are—

14 (i) established by the standard setting
15 body described in section 19(b) of the Se-
16 curities Act of 1933, as amended by this
17 Act, or prescribed by the Commission
18 under section 19(a) of that Act (15 U.S.C.
19 17a(s)) or section 13(b) of the Securities
20 Exchange Act of 1934 (15 U.S.C. 78a(m));
21 and

22 (ii) relevant to audit reports for par-
23 ticular issuers, or dealt with in the quality
24 control system of a particular registered
25 public accounting firm; and

1 (B) auditing standards, standards for at-
2 testation engagements, quality control policies
3 and procedures, ethical and competency stand-
4 ards, and independence standards (including
5 rules implementing title II) that the Board or
6 the Commission determines—

7 (i) relate to the preparation or
8 issuance of audit reports for issuers; and

9 (ii) are established or adopted by the
10 Board under section 103(a), or are pro-
11 mulgated as rules of the Commission.

12 (11) PUBLIC ACCOUNTING FIRM.—The term
13 “public accounting firm” means—

14 (A) a proprietorship, partnership, incor-
15 porated association, corporation, limited liability
16 company, limited liability partnership, or other
17 legal entity that is engaged in the practice of
18 public accounting or preparing or issuing audit
19 reports; and

20 (B) to the extent so designated by the
21 rules of the Board, any associated person of
22 any entity described in subparagraph (A).

23 (12) REGISTERED PUBLIC ACCOUNTING
24 FIRM.—The term “registered public accounting

1 firm” means a public accounting firm registered
2 with the Board in accordance with this Act.

3 (13) RULES OF THE BOARD.—The term “rules
4 of the Board” means the bylaws and rules of the
5 Board (as submitted to, and approved, modified, or
6 amended by the Commission, in accordance with sec-
7 tion 107), and those stated policies, practices, and
8 interpretations of the Board that the Commission,
9 by rule, may deem to be rules of the Board, as nec-
10 essary or appropriate in the public interest or for
11 the protection of investors.

12 (14) SECURITY.—The term “security” has the
13 same meaning as in section 3(a) of the Securities
14 Exchange Act of 1934 (15 U.S.C. 78c(a)).

15 (15) SECURITIES LAWS.—The term “securities
16 laws” means the provisions of law referred to in sec-
17 tion 3(a)(47) of the Securities Exchange Act of
18 1934 (15 U.S.C. 78c(a)(47)), as amended by this
19 Act, and includes the rules, regulations, and orders
20 issued by the Commission thereunder.

21 (16) STATE.—The term “State” means any
22 State of the United States, the District of Columbia,
23 Puerto Rico, the Virgin Islands, or any other terri-
24 tory or possession of the United States.

1 (b) CONFORMING AMENDMENT.—Section 3(a)(47) of
2 the Securities Exchange Act of 1934 (15 U.S.C.
3 78c(a)(47)) is amended by inserting “the Public Company
4 Accounting Reform and Investor Protection Act of 2002,”
5 before “the Public”.

6 **SEC. 3. COMMISSION RULES AND ENFORCEMENT.**

7 (a) REGULATORY ACTION.—The Commission shall
8 promulgate such rules and regulations, as may be nec-
9 essary or appropriate in the public interest or for the pro-
10 tection of investors, and in furtherance of this Act.

11 (b) ENFORCEMENT.—

12 (1) IN GENERAL.—A violation by any person of
13 this Act, any rule or regulation of the Commission
14 issued under this Act, or any rule of the Board shall
15 be treated for all purposes in the same manner as
16 a violation of the Securities Exchange Act of 1934
17 (15 U.S.C. 78a et seq.) or the rules and regulations
18 issued thereunder, consistent with the provisions of
19 this Act, and any such person shall be subject to the
20 same penalties, and to the same extent, as for a vio-
21 lation of that Act or such rules or regulations.

22 (2) INVESTIGATIONS, INJUNCTIONS, AND PROS-
23 ECUTION OF OFFENSES.—Section 21 of the Securi-
24 ties Exchange Act of 1934 (15 U.S.C. 78u) is
25 amended

1 (A) in subsection (a)(1), by inserting “the
2 rules of the Public Company Accounting Over-
3 sight Board, of which such person is a reg-
4 istered public accounting firm or a person asso-
5 ciated with such a firm,” after “is a partici-
6 pant,”;

7 (B) in subsection (d)(1), by inserting “the
8 rules of the Public Company Accounting Over-
9 sight Board, of which such person is a reg-
10 istered public accounting firm or a person asso-
11 ciated with such a firm,” after “is a partici-
12 pant,”;

13 (C) in subsection (e), by inserting “the
14 rules of the Public Company Accounting Over-
15 sight Board, of which such person is a reg-
16 istered public accounting firm or a person asso-
17 ciated with such a firm,” after “is a partici-
18 pant,”; and

19 (D) in subsection (f), by inserting “or the
20 Public Company Accounting Oversight Board”
21 after “self-regulatory organization” each place
22 that term appears.

23 (3) CEASE-AND-DESIST PROCEEDINGS.—Section
24 21C(c)(2) of the Securities Exchange Act of 1934
25 (15 U.S.C. 78u–3(c)(2)) is amended by inserting

1 “registered public accounting firm (as defined in
2 section 2 of the Public Company Accounting Reform
3 and Investor Protection Act of 2002),” after “gov-
4 ernment securities dealer,”.

5 (c) EFFECT ON COMMISSION AUTHORITY.—Nothing
6 in this Act or the rules of the Board shall be construed
7 to impair or limit—

8 (1) the authority of the Commission to regulate
9 the accounting profession, accounting firms, or per-
10 sons associated with such firms for purposes of en-
11 forcement of the securities laws;

12 (2) the authority of the Commission to set
13 standards for accounting or auditing practices or
14 auditor independence, derived from other provisions
15 of the securities laws or the rules or regulations
16 thereunder, for purposes of the preparation and
17 issuance of any audit report, or otherwise under ap-
18 plicable law; or

19 (3) the ability of the Commission to take, on
20 the initiative of the Commission, legal, administra-
21 tive, or disciplinary action against any registered
22 public accounting firm or any associated person
23 thereof.

1 **TITLE I—PUBLIC COMPANY AC-**
2 **COUNTING OVERSIGHT**
3 **BOARD**

4 **SEC. 101. ESTABLISHMENT; ADMINISTRATIVE PROVISIONS.**

5 (a) ESTABLISHMENT OF BOARD.—There is estab-
6 lished the Public Company Accounting Oversight Board,
7 to oversee the audit of public companies that are subject
8 to the securities laws, and related matters, in order to pro-
9 tect the interests of investors and further the public inter-
10 est in the preparation of informative, accurate, and inde-
11 pendent audit reports for companies the securities of
12 which are sold to, and held by and for, public investors.
13 The Board shall be a body corporate, operate as a non-
14 profit corporation, and have succession until dissolved by
15 an Act of Congress.

16 (b) STATUS.—The Board shall not be an agency or
17 establishment of the United States Government, and, ex-
18 cept as otherwise provided in this Act, shall be subject to,
19 and have all the powers conferred upon a nonprofit cor-
20 poration by, the District of Columbia Nonprofit Corpora-
21 tion Act. No member or person employed by, or agent for,
22 the Board shall be deemed to be an officer or employee
23 of or agent for the Federal Government by reason of such
24 service.

1 (c) DUTIES OF THE BOARD.—The Board shall, sub-
2 ject to action by the Commission under section 107, and
3 once a determination is made by the Commission under
4 subsection (d) of this section—

5 (1) register public accounting firms that pre-
6 pare audit reports for issuers, in accordance with
7 section 102;

8 (2) establish or adopt, or both, by rule, audit-
9 ing, quality control, ethics, independence, and other
10 standards relating to the preparation of audit re-
11 ports for issuers, in accordance with section 103;

12 (3) conduct inspections of registered public ac-
13 counting firms, in accordance with section 104 and
14 the rules of the Board;

15 (4) conduct investigations and disciplinary pro-
16 ceedings concerning, and impose appropriate sanc-
17 tions where justified upon, registered public account-
18 ing firms and associated persons of such firms, in
19 accordance with section 105;

20 (5) perform such other duties or functions as
21 the Board determines are necessary or appropriate
22 to promote high professional standards among, and
23 improve the quality of audit services offered by, reg-
24 istered public accounting firms and associated per-
25 sons thereof, or otherwise to carry out this Act, in

1 order to protect investors, or to further the public
2 interest;

3 (6) enforce compliance with this Act, the rules
4 of the Board, professional standards, and the securi-
5 ties laws relating to the preparation and issuance of
6 audit reports and the obligations and liabilities of
7 accountants with respect thereto, by registered pub-
8 lic accounting firms and associated persons thereof;
9 and

10 (7) set the budget and manage the operations
11 of the Board and the staff of the Board.

12 (d) COMMISSION DETERMINATION.—The members of
13 the Board shall take such action (including hiring of staff,
14 proposal of rules, and adoption of initial and transitional
15 auditing and other professional standards) as may be nec-
16 essary or appropriate to enable the Commission to deter-
17 mine, not later than 270 days after the date of enactment
18 of this Act, that the Board is so organized and has the
19 capacity to carry out the requirements of this title, and
20 to enforce compliance with this title by registered public
21 accounting firms and associated persons thereof.

22 (e) BOARD MEMBERSHIP.—

23 (1) COMPOSITION.—The Board shall have 5
24 members, appointed from among prominent individ-
25 uals of integrity and reputation who have a dem-

1 onstrated commitment to the interests of investors
2 and the public, and an understanding of the respon-
3 sibilities for and nature of the financial disclosures
4 required of issuers under the securities laws and the
5 obligations of accountants with respect to the prepa-
6 ration and issuance of audit reports with respect to
7 such disclosures.

8 (2) LIMITATION.—Two members, and only 2
9 members, of the Board shall be or have been cer-
10 tified public accountants pursuant to the laws of 1
11 or more States, provided that, if 1 of those 2 mem-
12 bers is the chairperson, he or she may not have been
13 a practicing certified public accountant for at least
14 5 years prior to his or her appointment to the
15 Board.

16 (3) FULL-TIME INDEPENDENT SERVICE.—Each
17 member of the Board shall serve on a full-time basis,
18 and may not, concurrent with service on the Board,
19 be employed by any other person or engage in any
20 other professional or business activity. No member
21 of the Board may share in any of the profits of, or
22 receive payments from, a public accounting firm (or
23 any other person, as determined by rule of the Com-
24 mission), other than fixed continuing payments, sub-
25 ject to such conditions as the Commission may im-

1 pose, under standard arrangements for the retire-
2 ment of members of public accounting firms.

3 (4) APPOINTMENT OF BOARD MEMBERS.—

4 (A) INITIAL BOARD.—Not later than 90
5 days after the date of enactment of this Act,
6 the Commission, after consultation with the
7 Chairman of the Board of Governors of the
8 Federal Reserve System and the Secretary of
9 the Treasury, shall appoint the chairperson and
10 other initial members of the Board, and shall
11 designate a term of service for each.

12 (B) VACANCIES.—A vacancy on the Board
13 shall not affect the powers of the Board, but
14 shall be filled in the same manner as provided
15 for appointments under this section.

16 (5) TERM OF SERVICE.—

17 (A) IN GENERAL.—The term of service of
18 each Board member shall be 5 years, and until
19 a successor is appointed, except that—

20 (i) the terms of office of the initial
21 Board members (other than the chair-
22 person) shall expire in annual increments,
23 1 on each of the first 4 anniversaries of
24 the initial date of appointment; and

1 (ii) any Board member appointed to
2 fill a vacancy occurring before the expira-
3 tion of the term for which the predecessor
4 was appointed shall be appointed only for
5 the remainder of that term.

6 (B) TERM LIMITATION.—No person may
7 serve as a member of the Board, or as chair-
8 person of the Board, for more than 2 terms,
9 whether or not such terms of service are con-
10 secutive.

11 (6) REMOVAL FROM OFFICE.—A member of the
12 Board may be removed by the Commission from of-
13 fice, in accordance with section 107(d)(3), for good
14 cause shown before the expiration of the term of
15 that member.

16 (f) POWERS OF THE BOARD.—In addition to any au-
17 thority granted to the Board otherwise in this Act, the
18 Board shall have the power, subject to section 107—

19 (1) to sue and be sued, complain and defend, in
20 its corporate name and through its own counsel,
21 with the approval of the Commission, in any Fed-
22 eral, State, or other court;

23 (2) to conduct its operations and maintain of-
24 fices, and to exercise all other rights and powers au-
25 thorized by this Act, in any State, without regard to

1 any qualification, licensing, or other provision of law
2 in effect in such State (or a political subdivision
3 thereof);

4 (3) to lease, purchase, accept gifts or donations
5 of or otherwise acquire, improve, use, sell, exchange,
6 or convey, all of or an interest in any property,
7 wherever situated;

8 (4) to appoint such employees, accountants, at-
9 torneys, and other agents as may be necessary or
10 appropriate, and to determine their qualifications,
11 define their duties, and fix their salaries or other
12 compensation (at a level that is comparable to pri-
13 vate sector self-regulatory, accounting, technical, su-
14 pervisory, or other staff or management positions);

15 (5) to allocate, assess, and collect accounting
16 support fees established pursuant to section 109, for
17 the Board, and other fees and charges imposed
18 under this title; and

19 (6) to enter into contracts, execute instruments,
20 incur liabilities, and do any and all other acts and
21 things necessary, appropriate, or incidental to the
22 conduct of its operations and the exercise of its obli-
23 gations, rights, and powers imposed or granted by
24 this title.

1 (g) RULES OF THE BOARD.—The rules of the Board
2 shall, subject to the approval of the Commission—

3 (1) provide for the operation and administration
4 of the Board, the exercise of its authority, and the
5 performance of its responsibilities under this Act;

6 (2) permit, as the Board determines necessary
7 or appropriate, delegation by the Board of any of its
8 functions to an individual member or employee of
9 the Board, or to a division of the Board, including
10 functions with respect to hearing, determining, or-
11 dering, certifying, reporting, or otherwise acting as
12 to any matter, except that—

13 (A) the Board shall retain a discretionary
14 right to review any action pursuant to any such
15 delegated function, upon its own motion;

16 (B) a person shall be entitled to a review
17 by the Board with respect to any matter so del-
18 egated, and the decision of the Board upon
19 such review shall be deemed to be the action of
20 the Board for all purposes (including appeal or
21 review thereof); and

22 (C) if the right to exercise a review de-
23 scribed in subparagraph (A) is declined, or if no
24 such review is sought within the time stated in
25 the rules of the Board, then the action taken by

1 the holder of such delegation shall for all pur-
 2 poses, including appeal or review thereof, be
 3 deemed to be the action of the Board;

4 (3) establish ethics rules and standards of con-
 5 duct for Board members and staff, including a bar
 6 on practice before the Board (and the Commission,
 7 with respect to Board-related matters) of 1 year for
 8 former members of the Board, and appropriate peri-
 9 ods (not to exceed 1 year) for former staff of the
 10 Board; and

11 (4) provide as otherwise required by this Act.

12 (h) ANNUAL REPORT TO THE COMMISSION.—The
 13 Board shall submit an annual report (including its audited
 14 financial statements) to the Commission, and the Commis-
 15 sion shall transmit a copy of that report to the Committee
 16 on Banking, Housing, and Urban Affairs of the Senate,
 17 and the Committee on Financial Services of the House of
 18 Representatives, not later than 30 days after the date of
 19 receipt of that report by the Commission.

20 **SEC. 102. REGISTRATION WITH THE BOARD.**

21 (a) MANDATORY REGISTRATION.—Beginning 180
 22 days after the date of the determination of the Commis-
 23 sion under section 101(d), it shall be unlawful for any per-
 24 son that is not a registered public accounting firm to pre-

1 pare or issue, or to participate in the preparation or
2 issuance of, any audit report with respect to any issuer.

3 (b) APPLICATIONS FOR REGISTRATION.—

4 (1) FORM OF APPLICATION.—A public account-
5 ing firm shall use such form as the Board may pre-
6 scribe, by rule, to apply for registration under this
7 section.

8 (2) CONTENTS OF APPLICATIONS.—Each public
9 accounting firm shall submit, as part of its applica-
10 tion for registration, in such detail as the Board
11 shall specify—

12 (A) the names of all issuers for which the
13 firm prepared or issued audit reports during
14 the immediately preceding calendar year, and
15 for which the firm expects to prepare or issue
16 audit reports during the current calendar year;

17 (B) the annual fees received by the firm
18 from each such issuer for audit services, other
19 accounting services, and non-audit services, re-
20 spectively;

21 (C) such other current financial informa-
22 tion for the most recently completed fiscal year
23 of the firm as the Board may reasonably re-
24 quest;

1 (D) a statement of the quality control poli-
2 cies of the firm for its accounting and auditing
3 practices;

4 (E) a list of all accountants associated
5 with the firm who participate in or contribute
6 to the preparation of audit reports, stating the
7 license or certification number of each such per-
8 son, as well as the State license numbers of the
9 firm itself;

10 (F) information relating to criminal, civil,
11 or administrative actions or disciplinary pro-
12 ceedings pending against the firm or any associ-
13 ated person of the firm in connection with any
14 audit report;

15 (G) copies of any periodic or annual disclo-
16 sure filed by an issuer with the Commission
17 during the immediately preceding calendar year
18 which discloses accounting disagreements be-
19 tween such issuer and the firm in connection
20 with an audit report furnished or prepared by
21 the firm for such issuer; and

22 (H) such other information as the rules of
23 the Board or the Commission shall specify as
24 necessary or appropriate in the public interest
25 or for the protection of investors.

1 (3) CONSENTS.—Each application for registra-
2 tion under this subsection shall include—

3 (A) a consent executed by the public ac-
4 counting firm to cooperation in and compliance
5 with any request for testimony or the produc-
6 tion of documents made by the Board in the
7 furtherance of its authority and responsibilities
8 under this title (and an agreement to secure
9 and enforce similar consents from each of the
10 associated persons of the public accounting firm
11 as a condition of their continued employment by
12 or other association with such firm); and

13 (B) a statement that such firm under-
14 stands and agrees that cooperation and compli-
15 ance, as described in the consent required by
16 subparagraph (A), and the securing and en-
17 forcement of such consents from its associated
18 persons, in accordance with the rules of the
19 Board, shall be a condition to the continuing ef-
20 fectiveness of the registration of the firm with
21 the Board.

22 (c) ACTION ON APPLICATIONS.—

23 (1) TIMING.—The Board shall approve a com-
24 pleted application for registration not later than 45
25 days after the date of receipt of the application, in

1 accordance with the rules of the Board, unless the
2 Board, prior to such date, issues a written notice of
3 disapproval to, or requests more information from,
4 the prospective registrant.

5 (2) TREATMENT.—A written notice of dis-
6 approval of a completed application under paragraph
7 (1) for registration shall be treated as a disciplinary
8 sanction for purposes of sections 105(d) and 107(c).

9 (d) PERIODIC REPORTS.—Each registered public ac-
10 counting firm shall submit an annual report to the Board,
11 and may be required to report more frequently, as nec-
12 essary to update the information contained in its applica-
13 tion for registration under this section, and to provide to
14 the Board such additional information as the Board or
15 the Commission may specify, in accordance with sub-
16 section (b)(2).

17 (e) PUBLIC AVAILABILITY.—Registration applica-
18 tions and annual reports required by this subsection, or
19 such portions of such applications or reports as may be
20 designated under rules of the Board, shall be made avail-
21 able for public inspection, subject to rules of the Board
22 or the Commission, and to applicable laws relating to the
23 confidentiality of proprietary, personal, or other informa-
24 tion contained in such applications or reports, provided
25 that, in all events, the Board shall protect from public dis-

1 closure information reasonably identified by the subject
2 accounting firm as proprietary information.

3 (f) **REGISTRATION AND ANNUAL FEES.**—The Board
4 shall assess and collect a registration fee and an annual
5 fee from each registered public accounting firm, in
6 amounts that are sufficient to recover the costs of proc-
7 essing and reviewing applications and annual reports.

8 **SEC. 103. AUDITING, QUALITY CONTROL, AND INDEPEND-**
9 **ENCE STANDARDS AND RULES.**

10 (a) **AUDITING, QUALITY CONTROL, AND ETHICS**
11 **STANDARDS.**—

12 “(1) **IN GENERAL.**—The Board shall, by rule,
13 establish, including, to the extent it determines ap-
14 propriate, through adoption of standards proposed
15 by 1 or more professional groups of accountants des-
16 igned pursuant to paragraph (3)(A) or advisory
17 groups convened pursuant to paragraph (4), and
18 amend or otherwise modify or alter, such auditing
19 and related attestation standards, such quality con-
20 trol standards, and such ethics standards to be used
21 by registered public accounting firms in the prepara-
22 tion and issuance of audit reports, as required by
23 this Act or the rules of the Commission, or as may
24 be necessary or appropriate in the public interest or
25 for the protection of investors.

1 (2) RULE REQUIREMENTS.—In carrying out
2 paragraph (1), the Board—

3 (A) shall include in the auditing standards
4 that it adopts, requirements that each reg-
5 istered public accounting firm shall—

6 (i) prepare, and maintain for a period
7 of not less than 7 years, audit work pa-
8 pers, and other information related to any
9 audit report, in sufficient detail to support
10 the conclusions reached in such report;

11 (ii) provide a concurring or second
12 partner review and approval of such audit
13 report (and other related information), and
14 concurring approval in its issuance, by a
15 qualified person (as prescribed by the
16 Board) associated with the public account-
17 ing firm, other than the person in charge
18 of the audit, or by an independent reviewer
19 (as prescribed by the Board); and

20 (iii) describe the scope of the auditor's
21 testing of the system of internal account-
22 ing controls of the issuer required by sec-
23 tion 13(b)(2) of the Securities Exchange
24 Act of 1934 (15 U.S.C. 78m(b)(2)), and

1 present (in such report or in a separate re-
2 port)—

3 (I) the findings of the auditor
4 from such testing;

5 (II) an evaluation of whether
6 such system of internal accounting
7 controls—

8 (aa) complies with the re-
9 quirements of that section
10 13(b)(2); and

11 (bb) provides reasonable as-
12 surance that receipts and expend-
13 itures of the issuer comply with
14 applicable law, and are being
15 made in accordance with proper
16 authorizations of the manage-
17 ment and directors of the issuer;
18 and

19 (III) a description of significant
20 defects in such internal controls, and
21 of any material noncompliance, of
22 which the auditor should know on the
23 basis of such testing; and

24 (B) shall include, in the quality control
25 standards that it adopts with respect to the

1 issuance of audit reports, requirements for
2 every registered public accounting firm relating
3 to—

4 (i) monitoring of professional ethics
5 and independence from issuers on behalf of
6 which the firm issues audit reports;

7 (ii) consultation within such firm on
8 accounting and auditing questions;

9 (iii) supervision of audit work;

10 (iv) hiring, professional development,
11 and advancement of personnel;

12 (v) the acceptance and continuation of
13 engagements;

14 (vi) internal inspection; and

15 (vii) such other requirements as the
16 Board may prescribe, subject to subsection
17 (a)(1).

18 (3) AUTHORITY TO ADOPT OTHER STAND-
19 ARDS.—

20 (A) IN GENERAL.—In carrying out this
21 subsection, the Board—

22 (i) may adopt as its rules, subject to
23 the terms of section 107, any portion of
24 any statement of auditing standards or
25 other professional standards that the

1 Board determines satisfy the requirements
2 of paragraph (1), and that were proposed
3 by 1 or more professional groups of ac-
4 countants that shall be designated or rec-
5 ognized by the Board, by rule, for such
6 purpose, pursuant to this paragraph or 1
7 or more advisory groups convened pursu-
8 ant to paragraph (4); and

9 (ii) notwithstanding clause (i), shall
10 retain full authority to modify, supplement,
11 revise, or subsequently amend, modify, or
12 repeal, in whole or in part, any portion of
13 any statement described in clause (i).

14 (B) INITIAL AND TRANSITIONAL STAND-
15 ARDS.—The Board shall adopt standards de-
16 scribed in subparagraph (A)(i) as initial or
17 transitional standards, to the extent the Board
18 determines necessary, prior to a determination
19 of the Commission under section 101(d), and
20 such standards shall be separately approved by
21 the Commission at the time of that determina-
22 tion, without regard to the procedures required
23 by section 107 that otherwise would apply to
24 the approval of rules of the Board.

1 (4) ADVISORY GROUPS.—The Board shall con-
2 vene, or authorize its staff to convene, such expert
3 advisory groups as may be appropriate, which may
4 include practicing accountants and other experts, as
5 well as representatives of other interested groups,
6 subject to such rules as the Board may prescribe to
7 prevent conflicts of interest, to make recommenda-
8 tions concerning the content (including proposed
9 drafts) of auditing, quality control, ethics, independ-
10 ence, or other standards required to be established
11 under this section.

12 (b) INDEPENDENCE STANDARDS AND RULES.—The
13 Board shall establish such rules as may be necessary or
14 appropriate in the public interest or for the protection of
15 investors, to implement, or as authorized under, title II
16 of this Act.

17 (c) COOPERATION WITH DESIGNATED PROFES-
18 SIONAL GROUPS OF ACCOUNTANTS AND ADVISORY
19 GROUPS.—

20 (1) IN GENERAL.—The Board shall cooperate
21 on an ongoing basis with professional groups of ac-
22 countants designated under subsection (a)(3)(A) and
23 advisory groups convened under subsection (a)(4) in
24 the examination of the need for changes in any
25 standards subject to its authority under subsection

1 (a), recommend issues for inclusion on the agendas
2 of such designated professional groups of account-
3 ants or advisory groups, and take such other steps
4 as it deems appropriate to increase the effectiveness
5 of the standard setting process.

6 (2) BOARD RESPONSES.—The Board shall re-
7 spond in a timely fashion to requests from des-
8 ignated professional groups of accountants and advi-
9 sory groups referred to in paragraph (1) for any
10 changes in standards over which the Board has au-
11 thority.

12 (d) EVALUATION OF STANDARD SETTING PROC-
13 ESS.—The Board shall include in the annual report re-
14 quired by section 101(h) the results of its standard setting
15 responsibilities during the period to which the report re-
16 lates, including a discussion of the work of the Board with
17 any designated professional groups of accountants and ad-
18 visory groups described in paragraphs (3)(A) and (4) of
19 subsection (a), and its pending issues agenda for future
20 standard setting projects.

21 **SEC. 104. INSPECTIONS OF REGISTERED PUBLIC ACCOUNT-**
22 **ING FIRMS.**

23 (a) IN GENERAL.—The Board shall conduct a con-
24 tinuing program of inspections to assess the degree of
25 compliance of each registered public accounting firm and

1 associated persons of that firm with this Act, the rules
2 of the Board, the rules of the Commission, or professional
3 standards, in connection with its performance of audits,
4 issuance of audit reports, and related matters involving
5 issuers.

6 (b) INSPECTION FREQUENCY.—

7 (1) IN GENERAL.—Subject to paragraph (2),
8 inspections required by this section shall be
9 conducted—

10 (A) annually with respect to each reg-
11 istered public accounting firm that regularly
12 provides audit reports for more than 100
13 issuers; and

14 (B) not less frequently than once every 3
15 years with respect to each registered public ac-
16 counting firm that regularly provides audit re-
17 ports for 100 or fewer issuers.

18 (2) ADJUSTMENTS TO SCHEDULES.—The
19 Board may, by rule, adjust the inspection schedules
20 set under paragraph (1) if the Board finds that dif-
21 ferent inspection schedules are consistent with the
22 purposes of this Act, the public interest, and the
23 protection of investors.

1 (c) PROCEDURES.—The Board shall, in each inspec-
2 tion under this section, and in accordance with its rules
3 for such inspections—

4 (1) identify any act or practice or omission to
5 act by the registered public accounting firm, or by
6 any associated person thereof, revealed by such in-
7 spection that may be in violation of this Act, the
8 rules of the Board, the rules of the Commission, the
9 firm’s own quality control policies, or professional
10 standards;

11 (2) report any such act, practice, or omission,
12 if appropriate, to the Commission and each appro-
13 priate State regulatory authority; and

14 (3) begin a formal investigation or take appro-
15 priate disciplinary action, if any, with respect to any
16 such violation, in accordance with this Act and the
17 rules of the Board.

18 (d) CONDUCT OF INSPECTIONS.—In conducting an
19 inspection of a registered public accounting firm under
20 this section, the Board shall—

21 (1) inspect and review selected audit and review
22 engagements of the firm (which may include audit
23 engagements that are the subject of ongoing litiga-
24 tion or other controversy between the firm and 1 or
25 more third parties), performed at various offices and

1 by various associated persons of the firm, as selected
2 by the Board;

3 (2) evaluate the sufficiency of the quality con-
4 trol system of the firm, and the manner of the docu-
5 mentation and communication of that system by the
6 firm; and

7 (3) perform such other testing of the audit, su-
8 pervisory, and quality control procedures of the firm
9 as are necessary or appropriate in light of the pur-
10 pose of the inspection and the responsibilities of the
11 Board.

12 (e) RECORD RETENTION.—The rules of the Board
13 may require the retention by registered public accounting
14 firms for inspection purposes of records whose retention
15 is not otherwise required by section 103 or the rules issued
16 thereunder.

17 (f) PROCEDURES FOR REVIEW.—The rules of the
18 Board shall provide a procedure for the review of and re-
19 sponse to a draft inspection report by the registered public
20 accounting firm under inspection. The Board shall take
21 such action with respect to such response as it considers
22 appropriate (including revising the draft report or con-
23 tinuing or supplementing its inspection activities before
24 issuing a final report), but the text of any such response,
25 appropriately redacted to protect information reasonably

1 identified by the accounting firm as confidential, shall be
2 attached to and made part of the inspection report.

3 (g) REPORT.—A written report of the findings of the
4 Board for each inspection under this section, subject to
5 subsection (h), shall be—

6 (1) transmitted, in appropriate detail, to the
7 Commission and each appropriate State regulatory
8 authority, accompanied by any letter or comments
9 by the Board or the inspector, and any letter of re-
10 sponse from the registered public accounting firm;
11 and

12 (2) made available in appropriate detail to the
13 public (subject to section 105(b)(5)(A), and to the
14 protection of such confidential and proprietary infor-
15 mation as the Board may determine to be appro-
16 priate, or as may be required by law), except that
17 no portions of the inspection report that deal with
18 criticisms of or potential defects in the quality con-
19 trol systems of the firm under inspection shall be
20 made public if those criticisms or defects are ad-
21 dressed by the firm, to the satisfaction of the Board,
22 not later than 12 months after the date of the in-
23 spection report.

24 (h) INTERIM COMMISSION REVIEW.—

1 (1) REVIEWABLE MATTERS.—A registered pub-
2 lic accounting firm may seek review by the Commis-
3 sion, pursuant to such rules as the Commission shall
4 promulgate, if the firm—

5 (A) has provided the Board with a re-
6 sponse, pursuant to rules issued by the Board
7 under subsection (f), to the substance of par-
8 ticular items in a draft inspection report, and
9 disagrees with the assessments contained in any
10 final report prepared by the Board following
11 such response; or

12 (B) disagrees with the determination of the
13 Board that criticisms or defects identified in an
14 inspection report have not been addressed to
15 the satisfaction of the Board within 12 months
16 of the date of the inspection report, for pur-
17 poses of subsection (g)(2).

18 (2) TREATMENT OF REVIEW.—Any decision of
19 the Commission with respect to a review under para-
20 graph (1) shall not be reviewable under section 25
21 of the Securities Exchange Act of 1934 (15 U.S.C.
22 78y), or deemed to be “final agency action” for pur-
23 poses of section 704 of title 5, United States Code.

24 (3) TIMING.—Review under paragraph (1) may
25 be sought during the 30-day period following the

1 date of the event giving rise to the review under sub-
2 paragraph (A) or (B) of paragraph (1).

3 **SEC. 105. INVESTIGATIONS AND DISCIPLINARY PRO-**
4 **CEEDINGS.**

5 (a) IN GENERAL.—The Board shall establish, by
6 rule, subject to the requirements of this section, fair proce-
7 dures for the investigation and disciplining of registered
8 public accounting firms and associated persons of such
9 firms.

10 (b) INVESTIGATIONS.—

11 (1) AUTHORITY.—In accordance with the rules
12 of the Board, the Board may conduct an investiga-
13 tion of any act or practice, or omission to act, by a
14 registered public accounting firm, any associated
15 person of such firm, or both, that may violate any
16 provision of this Act, the rules of the Board, the
17 provisions of the securities laws relating to the prep-
18 aration and issuance of audit reports and the obliga-
19 tions and liabilities of accountants with respect
20 thereto, including the rules of the Commission issued
21 under this Act, or professional standards, regardless
22 of how the act, practice, or omission is brought to
23 the attention of the Board.

24 (2) TESTIMONY AND DOCUMENT PRODUC-
25 TION.—In addition to such other actions as the

1 Board determines to be necessary or appropriate,
2 the rules of the Board may—

3 (A) require the testimony of the firm or of
4 any person associated with a registered public
5 accounting firm, with respect to any matter
6 that the Board considers relevant or material to
7 an investigation;

8 (B) require the production of audit work
9 papers and any other document or information
10 in the possession of a registered public account-
11 ing firm or any associated person thereof, wher-
12 ever domiciled, that the Board considers rel-
13 evant or material to the investigation, and may
14 inspect the books and records of such firm or
15 associated person to verify the accuracy of any
16 documents or information supplied;

17 (C) request the testimony of, and produc-
18 tion of any document in the possession of, any
19 other person, including any client of a reg-
20 istered public accounting firm that the Board
21 considers relevant or material to an investiga-
22 tion under this section, with appropriate notice,
23 subject to the needs of the investigation, as per-
24 mitted under the rules of the Board; and

1 (D) provide for procedures to seek issuance
2 by the Commission, in a manner established by
3 the Commission, of a subpoena to require the
4 testimony of, and production of any document
5 in the possession of, any person, including any
6 client of a registered public accounting firm,
7 that the Board considers relevant or material to
8 an investigation under this section.

9 (3) NONCOOPERATION WITH INVESTIGA-
10 TIONS.—

11 (A) IN GENERAL.—If a registered public
12 accounting firm or any associated person there-
13 of refuses to testify, produce documents, or oth-
14 erwise cooperate with the Board in connection
15 with an investigation under this section, the
16 Board may—

17 (i) suspend or bar such person from
18 being associated with a registered public
19 accounting firm, or require the registered
20 public accounting firm to end such associa-
21 tion;

22 (ii) suspend or revoke the registration
23 of the public accounting firm; and

1 (iii) invoke such other lesser sanctions
2 as the Board considers appropriate, and as
3 specified by rule of the Board.

4 (B) PROCEDURE.—Any action taken by
5 the Board under this paragraph shall be subject
6 to the terms of section 107(c).

7 (4) REFERRAL.—The Board may refer an in-
8 vestigation under this section—

9 (A) to the Commission;

10 (B) to any other Federal functional regu-
11 lator (as defined in section 509 of the Gramm-
12 Leach-Bliley Act (15 U.S.C. 6809)), in the case
13 of an investigation that concerns an audit re-
14 port for an institution that is subject to the ju-
15 risdiction of such regulator; and

16 (C) at the direction of the Commission,
17 to—

18 (i) the Attorney General of the United
19 States;

20 (ii) the attorney general of 1 or more
21 States; and

22 (iii) the appropriate State regulatory
23 authority.

24 (5) USE OF DOCUMENTS.—

1 (A) CONFIDENTIALITY.—Except as pro-
2 vided in subparagraph (B), all documents and
3 information prepared or received by or specifi-
4 cally for the Board, and deliberations of the
5 Board and its employees and agents, in connec-
6 tion with an inspection under section 104 or
7 with an investigation under this section, shall
8 be confidential and privileged as an evidentiary
9 matter (and shall not be subject to civil dis-
10 covery or other legal process) in any proceeding
11 in any Federal or State court or administrative
12 agency, and shall be exempt from disclosure, in
13 the hands of an agency or establishment of the
14 Federal Government, under the Freedom of In-
15 formation Act (5 U.S.C. 552a), or otherwise,
16 unless and until presented in connection with a
17 public proceeding or released in accordance with
18 subsection (c).

19 (B) AVAILABILITY TO GOVERNMENT AGEN-
20 CIES.—All information referred to in subpara-
21 graph (A) may, in the discretion of the Board,
22 when determined by the Board to be necessary
23 to accomplish the purposes of this Act or to
24 protect investors, and without the loss of its
25 status as confidential and privileged in the

1 hands of the Board, be made available to the
2 Commission, the Attorney General of the
3 United States, to the appropriate Federal func-
4 tional regulator (as defined in section 509 of
5 the Gramm-Leach-Bliley Act (15 U.S.C.
6 6809)), other than the Commission, with re-
7 spect to an audit report for an institution sub-
8 ject to the jurisdiction of such regulator, to
9 State attorneys general in connection with any
10 criminal investigation, and to any appropriate
11 State regulatory authority, which shall maintain
12 such information as confidential and privileged.

13 (6) IMMUNITY.—Any employee of the Board en-
14 gaged in carrying out an investigation under this
15 Act shall be immune from any civil liability arising
16 out of such investigation in the same manner and to
17 the same extent as an employee of the Federal Gov-
18 ernment in similar circumstances.

19 (c) DISCIPLINARY PROCEDURES.—

20 (1) NOTIFICATION; RECORDKEEPING.—The
21 rules of the Board shall provide that in any pro-
22 ceeding by the Board to determine whether a reg-
23 istered public accounting firm, or an associated per-
24 son thereof, should be disciplined, the Board shall—

1 (A) bring specific charges with respect to
2 the firm or associated person;

3 (B) notify such firm or associated person
4 of, and provide to the firm or associated person
5 an opportunity to defend against, such charges;
6 and

7 (C) keep a record of the proceedings.

8 (2) PUBLIC HEARINGS.—Hearings under this
9 section shall not be public, unless otherwise ordered
10 by the Board for good cause shown, with the consent
11 of the parties to such hearing.

12 (3) SUPPORTING STATEMENT.—A determina-
13 tion by the Board to impose a sanction under this
14 subsection shall be supported by a statement setting
15 forth—

16 (A) each act or practice in which the reg-
17 istered public accounting firm, or associated
18 person, has engaged (or omitted to engage), or
19 that forms a basis for all or a part of such
20 sanction;

21 (B) the specific provision of this Act, the
22 securities laws, the rules of the Board, or pro-
23 fessional standards which the Board determines
24 has been violated; and

1 (C) the sanction imposed, including a jus-
2 tification for that sanction.

3 (4) SANCTIONS.—If the Board finds, based on
4 all of the facts and circumstances, that a registered
5 public accounting firm or associated person thereof
6 has engaged in any act or practice, or omitted to
7 act, in violation of this Act, the rules of the Board,
8 the provisions of the securities laws relating to the
9 preparation and issuance of audit reports and the
10 obligations and liabilities of accountants with respect
11 thereto, including the rules of the Commission issued
12 under this Act, or professional standards, the Board
13 may impose such disciplinary or remedial sanctions
14 as it determines appropriate, subject to applicable
15 limitations under paragraph (5), including—

16 (A) temporary suspension or permanent
17 revocation of registration under this title;

18 (B) temporary or permanent suspension or
19 bar of a person from further association with
20 any registered public accounting firm;

21 (C) temporary or permanent limitation on
22 the activities, functions, or operations of such
23 firm or person (other than in connection with
24 required additional professional education or
25 training);

1 (D) a civil money penalty for each such
2 violation, in an amount equal to—

3 (i) not more than \$100,000 for a nat-
4 ural person or \$2,000,000 for any other
5 person; and

6 (ii) in any case to which paragraph
7 (5) applies, not more than \$750,000 for a
8 natural person or \$15,000,000 for any
9 other person;

10 (E) censure;

11 (F) required additional professional edu-
12 cation or training; or

13 (G) any other appropriate sanction pro-
14 vided for in the rules of the Board.

15 (5) INTENTIONAL OR OTHER KNOWING CON-
16 DUCT.—The sanctions and penalties described in
17 subparagraphs (A) through (C) and (D)(ii) of para-
18 graph (4) shall only apply to—

19 (A) intentional or knowing conduct, includ-
20 ing reckless conduct, that results in violation of
21 the applicable statutory, regulatory, or profes-
22 sional standard; or

23 (B) repeated instances of negligent con-
24 duct, each resulting in a violation of the appli-

1 cable statutory, regulatory, or professional
2 standard.

3 (6) FAILURE TO SUPERVISE.—

4 (A) IN GENERAL.—The Board may impose
5 sanctions under this section on a registered ac-
6 counting firm or upon the supervisory personnel
7 of such firm, if the Board finds that—

8 (i) the firm has failed reasonably to
9 supervise an associated person, either as
10 required by the rules of the Board relating
11 to auditing or quality control standards, or
12 otherwise, with a view to preventing viola-
13 tions of this Act, the rules of the Board,
14 the provisions of the securities laws relat-
15 ing to the preparation and issuance of
16 audit reports and the obligations and li-
17 abilities of accountants with respect there-
18 to, including the rules of the Commission
19 under this Act, or professional standards;
20 and

21 (ii) such associated person commits a
22 violation of this Act, or any of such rules,
23 laws, or standards.

24 (B) RULE OF CONSTRUCTION.—No associ-
25 ated person of a registered public accounting

1 firm shall be deemed to have failed reasonably
2 to supervise any other person for purposes of
3 subparagraph (A), if—

4 (i) there have been established in and
5 for that firm procedures, and a system for
6 applying such procedures, that comply with
7 applicable rules of the Board and that
8 would reasonably be expected to prevent
9 and detect any such violation by such asso-
10 ciated person; and

11 (ii) such person has reasonably dis-
12 charged the duties and obligations incum-
13 bent upon that person by reason of such
14 procedures and system, and had no reason-
15 able cause to believe that such procedures
16 and system were not being complied with.

17 (7) EFFECT OF SUSPENSION.—

18 (A) ASSOCIATION WITH A PUBLIC AC-
19 COUNTING FIRM.—It shall be unlawful for any
20 person that is suspended or barred from being
21 associated with a registered public accounting
22 firm under this subsection willfully to become
23 or remain associated with any registered public
24 accounting firm, or for any registered public ac-
25 counting firm that knew, or, in the exercise of

1 reasonable care should have known, of the sus-
2 pension or bar, to permit such an association,
3 without the consent of the Board or the Com-
4 mission.

5 (B) ASSOCIATION WITH AN ISSUER.—It
6 shall be unlawful for any person that is sus-
7 pended or barred from being associated with an
8 issuer under this subsection willfully to become
9 or remain associated with any issuer in an ac-
10 countancy or a financial management capacity,
11 and for any issuer that knew, or in the exercise
12 of reasonable care should have known, of such
13 suspension or bar, to permit such an associa-
14 tion, without the consent of the Board or the
15 Commission.

16 (d) REPORTING OF SANCTIONS.—

17 (1) RECIPIENTS.—If the Board imposes a dis-
18 ciplinary sanction, in accordance with this section,
19 the Board shall report the sanction to—

20 (A) the Commission;

21 (B) any appropriate State regulatory au-
22 thority or any foreign accountancy licensing
23 board with which such firm or person is li-
24 censed or certified; and

1 (C) the public (once any stay on the im-
2 position of such sanction has been lifted).

3 (2) CONTENTS.—The information reported
4 under paragraph (1) shall include—

5 (A) the name of the sanctioned person;

6 (B) a description of the sanction and the
7 basis for its imposition; and

8 (C) such other information as the Board
9 deems appropriate.

10 (e) STAY OF SANCTIONS.—

11 (1) IN GENERAL.—Application to the Commis-
12 sion for review, or the institution by the Commission
13 of review, of any disciplinary action of the Board
14 shall operate as a stay of any such disciplinary ac-
15 tion, unless and until the Commission orders (sum-
16 marily or after notice and opportunity for hearing on
17 the question of a stay, which hearing may consist
18 solely of the submission of affidavits or presentation
19 of oral arguments) that no such stay shall continue
20 to operate.

21 (2) EXPEDITED PROCEDURES.—The Commis-
22 sion shall establish for appropriate cases an expe-
23 dited procedure for consideration and determination
24 of the question of the duration of a stay pending re-

1 view of any disciplinary action of the Board under
2 this subsection.

3 **SEC. 106. FOREIGN PUBLIC ACCOUNTING FIRMS.**

4 (a) **APPLICABILITY TO CERTAIN FOREIGN FIRMS.—**

5 (1) **IN GENERAL.—**Any foreign public account-
6 ing firm that prepares or furnishes an audit report
7 with respect to any issuer, shall be subject to this
8 Act and the rules of the Board and the Commission
9 issued under this Act, in the same manner and to
10 the same extent as a public accounting firm that is
11 organized and operates under the laws of the United
12 States or any State, except that registration pursu-
13 ant to section 102 shall not by itself provide a basis
14 for subjecting such a foreign public accounting firm
15 to the jurisdiction of the Federal or State courts,
16 other than with respect to controversies between
17 such firms and the Board.

18 (2) **BOARD AUTHORITY.—**The Board may, by
19 rule, determine that a foreign public accounting firm
20 (or a class of such firms) that does not issue audit
21 reports nonetheless plays such a substantial role in
22 the preparation and furnishing of such reports for
23 particular issuers, that it is necessary or appro-
24 priate, in light of the purposes of this Act and in the
25 public interest or for the protection of investors, that

1 such firm (or class of firms) should be treated as a
2 public accounting firm (or firms) for purposes of
3 registration under, and oversight by the Board in ac-
4 cordance with, this title.

5 (b) PRODUCTION OF AUDIT WORKPAPERS.—

6 (1) CONSENT BY FOREIGN FIRMS.—If a foreign
7 public accounting firm issues an opinion or other-
8 wise performs material services upon which a reg-
9 istered public accounting firm relies in issuing all or
10 part of any audit report or any opinion contained in
11 an audit report, that foreign public accounting firm
12 shall be deemed to have consented—

13 (A) to produce its audit workpapers for the
14 Board or the Commission in connection with
15 any investigation by either body with respect to
16 that audit report; and

17 (B) to be subject to the jurisdiction of the
18 courts of the United States for purposes of en-
19 forcement of any request for production of such
20 workpapers.

21 (2) CONSENT BY DOMESTIC FIRMS.—A reg-
22 istered public accounting firm that relies upon the
23 opinion of a foreign public accounting firm, as de-
24 scribed in paragraph (1), shall be deemed—

1 (A) to have consented to supplying the
2 audit workpapers of that foreign public ac-
3 counting firm in response to a request for pro-
4 duction by the Board or the Commission; and

5 (B) to have secured the agreement of that
6 foreign public accounting firm to such produc-
7 tion, as a condition of its reliance on the opin-
8 ion of that foreign public accounting firm.

9 (c) EXEMPTION AUTHORITY.—The Commission, and
10 the Board, subject to the approval of the Commission,
11 may, by rule, regulation, or order, and as the Commission
12 (or Board) determines necessary or appropriate in the
13 public interest or for the protection of investors, either un-
14 conditionally or upon specified terms and conditions ex-
15 empt any foreign public accounting firm, or any class of
16 such firms, from any provision of this Act or the rules
17 of the Board or the Commission issued under this Act.

18 (d) DEFINITION.—In this section, the term “foreign
19 public accounting firm” means a public accounting firm
20 that is organized and operates under the laws of a foreign
21 government or political subdivision thereof.

22 **SEC. 107. COMMISSION OVERSIGHT OF THE BOARD.**

23 (a) GENERAL OVERSIGHT RESPONSIBILITY.—The
24 Commission shall have oversight and enforcement author-
25 ity over the Board, as provided in this Act.

1 (b) RULES OF THE BOARD.—

2 (1) DEFINITION.—In this section, the term
3 “proposed rule” means any proposed rule of the
4 Board, and any modification of any such rule.

5 (2) PRIOR APPROVAL REQUIRED.—No rule of
6 the Board shall become effective without prior ap-
7 proval of the Commission in accordance with this
8 section, other than as provided in section
9 103(a)(3)(B) with respect to initial or transitional
10 standards.

11 (3) APPROVAL CRITERIA.—The Commission
12 shall approve a proposed rule, if it finds that the
13 rule is consistent with the requirements of this Act
14 and the securities laws, or is necessary or appro-
15 priate in the public interest or for the protection of
16 investors.

17 (4) PROPOSED RULE PROCEDURES.—The provi-
18 sions of paragraphs (1) through (3) of section 19(b)
19 of the Securities Exchange Act of 1934 (15 U.S.C.
20 78s(b)) shall govern the proposed rules of the
21 Board, as fully as if the Board were a “registered
22 securities association” for purposes of that section
23 19(b), except that, for purposes of this paragraph—

24 (A) the phrase “consistent with the re-
25 quirements of this title and the rules and regu-

1 lations thereunder applicable to such organiza-
2 tion” in section 19(b)(2) of that Act shall be
3 deemed to read “consistent with the require-
4 ments of title I of the Public Company Ac-
5 counting Reform and Investor Protection Act of
6 2002, and the rules and regulations issued
7 thereunder applicable to such organization, or
8 as necessary or appropriate in the public inter-
9 est or for the protection of investors”; and

10 (B) the phrase “otherwise in furtherance
11 of the purposes of this title” in section
12 19(b)(3)(C) of that Act shall be deemed to read
13 “otherwise in furtherance of the purposes of
14 title I of the Public Company Accounting Re-
15 form and Investor Protection Act of 2002”.

16 (5) COMMISSION AUTHORITY TO AMEND RULES
17 OF THE BOARD.—The provisions of section 19(e) of
18 the Securities Exchange Act of 1934 (15 U.S.C.
19 78s(c)) shall govern the abrogation, deletion, or ad-
20 dition to portions of the rules of the Board by the
21 Commission as fully as if the Board were a “reg-
22 istered securities association” for purposes of that
23 section 19(e), except that the phrase “to conform its
24 rules to the requirements of this title and the rules
25 and regulations thereunder applicable to such orga-

1 nization, or otherwise in furtherance of the purposes
2 of this title” in section 19(c) of that Act shall, for
3 purposes of this paragraph, be deemed to read “to
4 assure the fair administration of the Public Com-
5 pany Accounting Oversight Board, conform the rules
6 promulgated by that Board to the requirements of
7 title I of the Public Company Accounting Reform
8 and Investor Protection Act of 2002, or otherwise
9 further the purposes of that Act, the securities laws,
10 and the rules and regulations thereunder applicable
11 to that Board”.

12 (c) COMMISSION REVIEW OF DISCIPLINARY ACTION
13 TAKEN BY THE BOARD.—

14 (1) NOTICE OF SANCTION.—The Board shall
15 promptly file notice with the Commission of any
16 final sanction on any registered public accounting
17 firm or on any associated person thereof, in such
18 form and containing such information as the Com-
19 mission, by rule, may prescribe.

20 (2) REVIEW OF SANCTIONS.—The provisions of
21 sections 19(d)(2) and 19(e)(1) of the Securities Ex-
22 change Act of 1934 (15 U.S.C. 78s (d)(2) and
23 (e)(1)) shall govern the review by the Commission of
24 final disciplinary sanctions imposed by the Board
25 (including sanctions imposed under section

1 105(b)(3) of this Act for noncooperation in an inves-
2 tigation of the Board), as fully as if the Board were
3 a self-regulatory organization and the Commission
4 were the appropriate regulatory agency for such or-
5 ganization for purposes of those sections 19(d)(2)
6 and 19(e)(1), except that, for purposes of this
7 paragraph—

8 (A) section 105(e) of this Act (rather than
9 that section 19(d)(2)) shall govern the extent to
10 which application for, or institution by the
11 Commission on its own motion of, review of any
12 disciplinary action of the Board operates as a
13 stay of such action;

14 (B) references in that section 19(e)(1) to
15 “members” of such an organization shall be
16 deemed to be references to registered public ac-
17 counting firms;

18 (C) the phrase “consistent with the pur-
19 poses of this title” in that section 19(e)(1) shall
20 be deemed to read “consistent with the pur-
21 poses of this title and title I of the Public Com-
22 pany Accounting Reform and Investor Protec-
23 tion Act of 2002”;

1 (D) references to rules of the Municipal
2 Securities Rulemaking Board in that section
3 19(e)(1) shall not apply; and

4 (E) the reference to section 19(e)(2) of the
5 Securities Exchange Act of 1934 shall refer in-
6 stead to section 107(e)(3) of this Act.

7 (3) COMMISSION MODIFICATION AUTHORITY.—

8 The Commission may enhance, modify, cancel, re-
9 duce, or require the remission of a sanction imposed
10 by the Board upon a registered public accounting
11 firm or associated person thereof, if the Commission,
12 having due regard for the public interest and the
13 protection of investors, finds, after a proceeding in
14 accordance with this subsection, that the sanction—

15 (A) is not necessary or appropriate in fur-
16 therance of this Act or the securities laws; or

17 (B) is excessive, oppressive, inadequate, or
18 otherwise not appropriate to the finding or the
19 basis on which the sanction was imposed.

20 (d) CENSURE OF THE BOARD; OTHER SANCTIONS.—

21 (1) RESCISSION OF BOARD AUTHORITY.—The
22 Commission, by rule, consistent with the public in-
23 terest, the protection of investors, and the other pur-
24 poses of this Act and the securities laws, may relieve
25 the Board of any responsibility to enforce compli-

1 ance with any provision of this Act, the securities
2 laws, the rules of the Board, or professional stand-
3 ards.

4 (2) CENSURE OF THE BOARD; LIMITATIONS.—
5 The Commission may, by order, as it determines
6 necessary or appropriate in the public interest, for
7 the protection of investors, or otherwise in further-
8 ance of the purposes of this Act or the securities
9 laws, censure or impose limitations upon the activi-
10 ties, functions, and operations of the Board, if the
11 Commission finds, on the record, after notice and
12 opportunity for a hearing, that the Board—

13 (A) has violated or is unable to comply
14 with any provision of this Act, the rules of the
15 Board, or the securities laws; or

16 (B) without reasonable justification or ex-
17 cuse, has failed to enforce compliance with any
18 such provision or rule, or any professional
19 standard by a registered public accounting firm
20 or an associated person thereof.

21 (3) CENSURE OF BOARD MEMBERS; REMOVAL
22 FROM OFFICE.—The Commission may, as necessary
23 or appropriate in the public interest, for the protec-
24 tion of investors, or otherwise in furtherance of the
25 purposes of this Act or the securities laws, remove

1 from office or censure any member of the Board, if
2 the Commission finds, on the record, after notice
3 and opportunity for a hearing, that such member—

4 (A) has willfully violated any provision of
5 this Act, the rules of the Board, or the securi-
6 ties laws;

7 (B) has willfully abused the authority of
8 that member; or

9 (C) without reasonable justification or ex-
10 cuse, has failed to enforce compliance with any
11 such provision or rule, or any professional
12 standard by any registered public accounting
13 firm or any associated person thereof.

14 **SEC. 108. ACCOUNTING STANDARDS.**

15 (a) AMENDMENT TO SECURITIES ACT OF 1933.—

16 Section 19 of the Securities Act of 1933 (15 U.S.C. 77s)
17 is amended—

18 (1) by redesignating subsections (b) and (c) as
19 subsections (c) and (d), respectively; and

20 (2) by inserting after subsection (a) the fol-
21 lowing:

22 “(b) RECOGNITION OF ACCOUNTING STANDARDS.—

23 “(1) IN GENERAL.—In carrying out its author-
24 ity under subsection (a) and under section 13(b) of
25 the Securities Exchange Act of 1934, the Commis-

1 sion may recognize, as ‘generally accepted’ for pur-
2 poses of the securities laws, any accounting prin-
3 ciples established by a standard setting body—

4 “(A) that—

5 “(i) is organized as a private entity;

6 “(ii) has, for administrative and oper-
7 ational purposes, a board of trustees (or
8 equivalent body) serving in the public in-
9 terest, the majority of whom are not, con-
10 current with their service on such board,
11 and have not been during the 2-year period
12 preceding such service, associated persons
13 of any registered public accounting firm;

14 “(iii) is funded as provided in section
15 109 of the Public Company Accounting
16 Reform and Investor Protection Act of
17 2002;

18 “(iv) has adopted procedures to en-
19 sure prompt consideration, by majority
20 vote of its members, of changes to account-
21 ing principles necessary to reflect emerging
22 accounting issues and changing business
23 practices;

24 “(v) considers, in adopting accounting
25 principles, the need to keep standards cur-

1 rent in order to reflect changes in the busi-
2 ness environment, the extent to which
3 international convergence on high quality
4 accounting standards is necessary or ap-
5 propriate in the public interest and for the
6 protection of investors; and

7 “(B) that the Commission determines has
8 the capacity to assist the Commission in ful-
9 filling the requirements of subsection (a) and
10 section 13(b) of the Securities Exchange Act of
11 1934, because, at a minimum, the standard set-
12 ting body is capable of improving the accuracy
13 and effectiveness of financial reporting and the
14 protection of investors under the securities
15 laws.

16 “(2) ANNUAL REPORT.—A standard setting
17 body described in paragraph (1) shall submit an an-
18 nual report to the Commission and the public, con-
19 taining audited financial statements of that standard
20 setting body.”.

21 (b) COMMISSION AUTHORITY.—The Commission
22 shall promulgate such rules and regulations to carry out
23 section 19(b) of the Securities Act of 1933, as added by
24 this section, as it deems necessary or appropriate in the
25 public interest or for the protection of investors.

1 (c) NO EFFECT ON COMMISSION POWERS.—Nothing
2 in this Act, including this section and the amendment
3 made by this section, shall be construed to impair or limit
4 the authority of the Commission to establish accounting
5 principles or standards for purposes of enforcement of the
6 securities laws.

7 (d) STUDY AND REPORT ON ADOPTING PRINCIPLES-
8 BASED ACCOUNTING.—

9 (1) STUDY.—

10 (A) IN GENERAL.—The Commission shall
11 conduct a study on the adoption by the United
12 States financial reporting system of a prin-
13 ciples-based accounting system.

14 (B) STUDY TOPICS.—The study required
15 by subparagraph (A) shall include an examina-
16 tion of—

17 (i) the extent to which principles-
18 based accounting and financial reporting
19 exists in the United States;

20 (ii) the length of time required for
21 change from a rules-based to a principles-
22 based financial reporting system;

23 (iii) the feasibility of and proposed
24 methods by which a principles-based sys-
25 tem may be implemented; and

1 (iv) a thorough economic analysis of
2 the implementation of a principles-based
3 system.

4 (2) REPORT.—Not later than 1 year after the
5 date of enactment of this Act, the Commission shall
6 submit a report on the results of the study required
7 by paragraph (1) to the Committee on Banking,
8 Housing, and Urban Affairs of the Senate and the
9 Committee on Financial Services of the House of
10 Representatives.

11 **SEC. 109. FUNDING.**

12 (a) IN GENERAL.—The Board, and the standard set-
13 ting body designated pursuant to section 19(b) of the Se-
14 curities Act of 1933, as amended by section 108, shall be
15 funded as provided in this section.

16 (b) ANNUAL BUDGETS.—The Board and the stand-
17 ard setting body referred to in subsection (a) shall each
18 establish a budget for each fiscal year, which shall be re-
19 viewed and approved according to their respective internal
20 procedures not less than 1 month prior to the commence-
21 ment of the fiscal year to which the budget pertains. The
22 budget of the Board shall be subject to approval by the
23 Commission.

24 (c) SOURCES AND USES OF FUNDS.—

1 (1) RECOVERABLE BUDGET EXPENSES.—The
2 budget of the Board (reduced by any registration or
3 annual fees received under section 102(e) for the
4 year preceding the year for which the budget is
5 being computed), and all of the budget of the stand-
6 ard setting body referred to in subsection (a), for
7 each fiscal year of each of those 2 entities, shall be
8 payable from annual accounting support fees, in ac-
9 cordance with subsections (d) and (e).

10 (2) FUNDS GENERATED FROM THE COLLEC-
11 TION OF MONETARY PENALTIES.—All funds collected
12 by the Board as a result of the assessment of mone-
13 tary penalties shall be used to fund a merit scholar-
14 ship program for undergraduate and graduate stu-
15 dents enrolled in accredited accounting degree pro-
16 grams, which program is to be administered by the
17 Board or by an entity or agent identified by the
18 Board.

19 (d) ANNUAL ACCOUNTING SUPPORT FEE FOR THE
20 BOARD.—

21 (1) ESTABLISHMENT OF FEE.—The Board shall
22 establish, with the approval of the Commission, a
23 reasonable annual accounting support fee (or a for-
24 mula for the computation thereof), as may be nec-

1 necessary or appropriate to establish and maintain the
2 Board.

3 (2) ASSESSMENTS.—The rules of the Board
4 under paragraph (1) shall provide for the equitable
5 allocation, assessment, and collection by the Board
6 (or an agent appointed by the Board) of the fee es-
7 tablished under paragraph (1), among issuers, in ac-
8 cordance with subsection (f), allowing for differentia-
9 tion among classes of issuers, as appropriate.

10 (e) ANNUAL ACCOUNTING SUPPORT FEE FOR
11 STANDARD SETTING BODY.—The annual accounting sup-
12 port fee for the standard setting body referred to in sub-
13 section (a)—

14 (1) shall be allocated in accordance with sub-
15 section (f), and assessed and collected against each
16 issuer, on behalf of the standard setting body, by 1
17 or more appropriate designated collection agents, as
18 may be necessary or appropriate to pay for the
19 budget and provide for the expenses of that standard
20 setting body, and to provide for an independent, sta-
21 ble source of funding for such body, subject to re-
22 view by the Commission; and

23 (2) may differentiate among different classes of
24 issuers.

1 (f) ALLOCATION OF ACCOUNTING SUPPORT FEES
2 AMONG ISSUERS.—Any amount due from issuers (or a
3 particular class of issuers) under this section to fund the
4 budget of the Board or the standard setting body referred
5 to in subsection (a) shall be allocated among and payable
6 by each issuer (or each issuer in a particular class, as ap-
7 plicable) in an amount equal to the total of such amount,
8 multiplied by a fraction—

9 (1) the numerator of which is the average
10 monthly equity market capitalization of the issuer
11 for the 12-month period immediately preceding the
12 beginning of the fiscal year to which such budget re-
13 lates; and

14 (2) the denominator of which is the average
15 monthly equity market capitalization of all such
16 issuers for such 12-month period.

17 (g) CONFORMING AMENDMENTS.—Section 13(b)(2)
18 of the Securities Exchange Act of 1934 (15 U.S.C.
19 78m(b)(2)) is amended—

20 (1) in subparagraph (A), by striking “and” at
21 the end;

22 (2) in subparagraph (B), by striking the period
23 at the end and inserting the following: “; and

24 “(C) notwithstanding any other provision of
25 law, pay the allocable share of such issuer of a rea-

1 sonable annual accounting support fee or fees, deter-
2 mined in accordance with section 109 of the Public
3 Company Accounting Reform and Investor Protec-
4 tion Act of 2002.”.

5 (h) **RULE OF CONSTRUCTION.**—Nothing in this sec-
6 tion shall be construed to render either the Board, the
7 standard setting body referred to in subsection (a), or
8 both, subject to procedures in Congress to authorize or
9 appropriate public funds, or to prevent such organization
10 from utilizing additional sources of revenue for its activi-
11 ties, such as earnings from publication sales, provided that
12 each additional source of revenue shall not jeopardize, in
13 the judgment of the Commission, the actual and perceived
14 independence of such organization.

15 **TITLE II—AUDITOR** 16 **INDEPENDENCE**

17 **SEC. 201. SERVICES OUTSIDE THE SCOPE OF PRACTICE OF** 18 **AUDITORS.**

19 (a) **PROHIBITED ACTIVITIES.**—Section 10A of the
20 Securities Exchange Act of 1934 (15 U.S.C. 78j–1) is
21 amended by adding at the end the following:

22 “(g) **PROHIBITED ACTIVITIES.**—It shall be unlawful
23 for a registered public accounting firm (and any associated
24 person of that firm, to the extent determined appropriate
25 by the Commission) that performs for any issuer any audit

1 required by this title or the rules of the Commission under
2 this title or, beginning 180 days after the date of com-
3 mencement of the operations of the Public Company Ac-
4 counting Oversight Board established under section 101
5 of the Public Company Accounting Reform and Investor
6 Protection Act of 2002 (in this section referred to as the
7 ‘Board’), the rules of the Board, to provide to that issuer,
8 contemporaneously with the audit, any non-audit service,
9 including—

10 “(1) bookkeeping or other services related to
11 the accounting records or financial statements of the
12 audit client;

13 “(2) financial information systems design and
14 implementation;

15 “(3) appraisal or valuation services, fairness
16 opinions, or contribution-in-kind reports;

17 “(4) actuarial services;

18 “(5) internal audit outsourcing services;

19 “(6) management functions or human re-
20 sources;

21 “(7) broker or dealer, investment adviser, or in-
22 vestment banking services;

23 “(8) legal services and expert services unrelated
24 to the audit; and

1 “(9) any other service that the Board deter-
2 mines, by regulation, is impermissible.

3 “(h) PREAPPROVAL REQUIRED FOR NON-AUDIT
4 SERVICES.—A registered public accounting firm may en-
5 gage in any non-audit service, including tax services, that
6 is not described in any of paragraphs (1) through (9) of
7 subsection (g) for an audit client, only if the activity is
8 approved in advance by the audit committee of the issuer,
9 in accordance with subsection (i).”.

10 (b) EXEMPTION AUTHORITY.—The Board may, on a
11 case by case basis, exempt any person, issuer, public ac-
12 counting firm, or transaction from the prohibition on the
13 provision of services under section 10A(g) of the Securities
14 Exchange Act of 1934 (as added by this section), to the
15 extent that such exemption is necessary or appropriate in
16 the public interest and is consistent with the protection
17 of investors, and subject to review by the Commission in
18 the same manner as for rules of the Board under section
19 107.

20 **SEC. 202. PREAPPROVAL REQUIREMENTS.**

21 Section 10A of the Securities Exchange Act of 1934
22 (15 U.S.C. 78j-1), as amended by this Act, is amended
23 by adding at the end the following:

24 “(i) PREAPPROVAL REQUIREMENTS.—

25 “(1) IN GENERAL.—

1 “(A) AUDIT COMMITTEE ACTION.—All au-
2 diting services (which may entail providing com-
3 fort letters in connection with securities
4 underwritings) and non-audit services, other
5 than as provided in subparagraph (B), provided
6 to an issuer by the auditor of the issuer shall
7 be preapproved by the audit committee of the
8 issuer.

9 “(B) DE MINIMUS EXCEPTION.—The
10 preapproval requirement under subparagraph
11 (A) is waived with respect to the provision of
12 non-audit services for an issuer, if—

13 “(i) the aggregate amount of all such
14 non-audit services provided to the issuer
15 constitutes not more than 5 percent of the
16 total amount of revenues paid by the issuer
17 to its auditor;

18 “(ii) such services were not recognized
19 by the issuer at the time of the engage-
20 ment to be non-audit services; and

21 “(iii) such services are promptly
22 brought to the attention of the audit com-
23 mittee of the issuer and approved by the
24 audit committee prior to the completion of
25 the audit, by 1 or more members of the

1 audit committee who are members of the
2 board of directors to whom authority to
3 grant such approvals has been delegated by
4 the audit committee.

5 “(2) DISCLOSURE TO INVESTORS.—Approval by
6 an audit committee of an issuer under this sub-
7 section of a non-audit service to be performed by the
8 auditor of the issuer shall be disclosed to investors
9 in periodic reports required by section 13(a).

10 “(3) DELEGATION AUTHORITY.—The audit
11 committee of an issuer may delegate to 1 or more
12 designated members of the audit committee who are
13 independent directors of the board of directors, the
14 authority to grant preapprovals required by this sub-
15 section. The decisions of any member to whom au-
16 thority is delegated under this paragraph to
17 preapprove an activity under this subsection shall be
18 presented to the full audit committee at each of its
19 scheduled meetings.

20 “(4) APPROVAL OF AUDIT SERVICES FOR
21 OTHER PURPOSES.—In carrying out its duties under
22 subsection (m)(2), if the audit committee of an
23 issuer approves an audit service within the scope of
24 the engagement of the auditor, such audit service

1 shall be deemed to have been preapproved for pur-
2 poses of this subsection.”.

3 **SEC. 203. AUDIT PARTNER ROTATION.**

4 Section 10A of the Securities Exchange Act of 1934
5 (15 U.S.C. 78j-1), as amended by this Act, is amended
6 by adding at the end the following:

7 “(j) **AUDIT PARTNER ROTATION.**—It shall be unlaw-
8 ful for a registered public accounting firm to provide audit
9 services to an issuer if the lead audit partner (having pri-
10 mary responsibility for the audit) or the audit partner re-
11 sponsible for reviewing the audit that is assigned to per-
12 form those audit services has performed audit services for
13 that issuer in each of the 5 previous fiscal years of that
14 issuer.”.

15 **SEC. 204. AUDITOR REPORTS TO AUDIT COMMITTEES.**

16 Section 10A of the Securities Exchange Act of 1934
17 (15 U.S.C. 78j-1), as amended by this Act, is amended
18 by adding at the end the following:

19 “(k) **REPORTS TO AUDIT COMMITTEES.**—Each reg-
20 istered public accounting firm that performs for any issuer
21 any audit required by this title shall timely report to the
22 audit committee of the issuer—

23 “(1) all critical accounting policies and prac-
24 tices to be used;

1 “(2) all alternative treatments of financial in-
2 formation within generally accepted accounting prin-
3 ciples that have been discussed with management of-
4 ficials of the issuer, ramifications of the use of such
5 alternative disclosures and treatments, and the
6 treatment preferred by the registered public account-
7 ing firm; and

8 “(3) other material written communications be-
9 tween the registered public accounting firm and the
10 management of the issuer, such as any management
11 letter or schedule of unadjusted differences.”.

12 **SEC. 205. CONFORMING AMENDMENTS.**

13 (a) DEFINITIONS.—Section 3(a) of the Securities Ex-
14 change Act of 1934 (15 U.S.C. 78c(a)) is amended by
15 adding at the end the following:

16 “(58) AUDIT COMMITTEE.—The term ‘audit
17 committee’ means—

18 “(A) a committee (or equivalent body) es-
19 tablished by and amongst the board of directors
20 of an issuer for the purpose of overseeing the
21 accounting and financial reporting processes of
22 the issuer and audits of the financial state-
23 ments of the issuer; and

1 “(B) if no such committee exists with re-
2 spect to an issuer, the entire board of directors
3 of the issuer.

4 “(59) REGISTERED PUBLIC ACCOUNTING
5 FIRM.—The term ‘registered public accounting firm’
6 has the same meaning as in section 3 of the Public
7 Company Accounting Reform and Investor Protec-
8 tion Act of 2002.”.

9 (b) AUDITOR REQUIREMENTS.—Section 10A of the
10 Securities Exchange Act of 1934 (15 U.S.C. 78j–1) is
11 amended—

12 (1) by striking “an independent public account-
13 ant” each place that term appears and inserting “a
14 registered public accounting firm”;

15 (2) by striking “the independent public ac-
16 countant” each place that term appears and insert-
17 ing “the registered public accounting firm”;

18 (3) in subsection (c), by striking “No inde-
19 pendent public accountant” and inserting “No reg-
20 istered public accounting firm”; and

21 (4) in subsection (b)—

22 (A) by striking “the accountant” each
23 place that term appears and inserting “the
24 firm”;

1 (B) by striking “such accountant” each
2 place that term appears and inserting “such
3 firm”; and

4 (C) in paragraph (4), by striking “the ac-
5 countant’s report” and inserting “the report of
6 the firm”.

7 (c) OTHER REFERENCES.—The Securities Exchange
8 Act of 1934 (15 U.S.C. 78a et seq.) is amended—

9 (1) in section 12(b)(1) (15 U.S.C. 78l(b)(1)),
10 by striking “independent public accountants” each
11 place that term appears and inserting “a registered
12 public accounting firm”; and

13 (2) in subsections (e) and (i) of section 17 (15
14 U.S.C. 78q), by striking “an independent public ac-
15 countant” each place that term appears and insert-
16 ing “a registered public accounting firm”.

17 **SEC. 206. CONFLICTS OF INTEREST.**

18 Section 10A of the Securities Exchange Act of 1934
19 (15 U.S.C. 78j–1), as amended by this Act, is amended
20 by adding at the end the following:

21 “(l) CONFLICTS OF INTEREST.—It shall be unlawful
22 for a registered public accounting firm to perform for an
23 issuer any audit service required by this title, if a chief
24 executive officer, controller, chief financial officer, chief
25 accounting officer or any person serving in an equivalent

1 position for the issuer was employed by that registered
2 independent public accounting firm and participated in
3 any capacity in the audit of that issuer during the 1-year
4 period preceding the date of the initiation of the audit.”.

5 **SEC. 207. STUDY OF MANDATORY ROTATION OF REG-**
6 **ISTERED PUBLIC ACCOUNTING FIRMS.**

7 (a) **STUDY AND REVIEW REQUIRED.**—The Comp-
8 troller General of the United States shall conduct a study
9 and review of the potential effects of requiring the manda-
10 tory rotation of registered public accounting firms.

11 (b) **REPORT REQUIRED.**—Not later than 1 year after
12 the date of enactment of this Act, the Comptroller General
13 shall submit a report to the Committee on Banking, Hous-
14 ing, and Urban Affairs of the Senate and the Committee
15 on Financial Services of the House of Representatives on
16 the results of the study and review required by this sec-
17 tion.

18 (c) **DEFINITION.**—For purposes of this section, the
19 term “mandatory rotation” refers to the imposition of a
20 limit on the period of years in which a particular reg-
21 istered public accounting firm may be the auditor of
22 record for a particular issuer.

23 **SEC. 208. COMMISSION AUTHORITY.**

24 (a) **COMMISSION REGULATIONS.**—Not later than 180
25 days after the date of enactment of this Act, the Commis-

1 sion shall issue final regulations to carry out each of sub-
2 sections (g) through (l) of section 10A of the Securities
3 Exchange Act of 1934, as added by this title.

4 (b) AUDITOR INDEPENDENCE.—It shall be unlawful
5 for any registered public accounting firm (or an associated
6 person thereof, as applicable) to prepare or issue any audit
7 report with respect to any issuer, if the firm or associated
8 person engages in any activity with respect to that issuer
9 prohibited by any of subsections (g) through (l) of section
10 10A of the Securities Exchange Act of 1934, as added
11 by this title, or any rule or regulation of the Commission
12 or of the Board issued thereunder.

13 **SEC. 209. CONSIDERATIONS BY APPROPRIATE STATE REGU-**
14 **LATORY AUTHORITIES.**

15 It is the intention of this Act that, in supervising non-
16 registered public accounting firms and their associated
17 persons, appropriate State regulatory authorities should
18 make an independent determination of the proper stand-
19 ards applicable, particularly taking into consideration the
20 size and nature of the business of the accounting firms
21 they supervise. The standards applied by the Board under
22 this Act should not be presumed to be applicable for pur-
23 poses of this section for small- and medium-sized nonreg-
24 istered public accounting firms.

1 **TITLE III—CORPORATE**
2 **RESPONSIBILITY**

3 **SEC. 301. PUBLIC COMPANY AUDIT COMMITTEES.**

4 Section 10A of the Securities Exchange Act of 1934
5 (15 U.S.C. 78f) is amended by adding at the end the fol-
6 lowing:

7 “(m) STANDARDS RELATING TO AUDIT COMMIT-
8 TEES.—

9 “(1) COMMISSION RULES.—

10 “(A) IN GENERAL.—Effective not later
11 than 270 days after the date of enactment of
12 this subsection, the Commission shall, by rule,
13 direct the national securities exchanges and na-
14 tional securities associations to prohibit the list-
15 ing of any security of an issuer that is not in
16 compliance with the requirements of any por-
17 tion of paragraphs (2) through (6).

18 “(B) OPPORTUNITY TO CURE DEFECTS.—
19 The rules of the Commission under subpara-
20 graph (A) shall provide for appropriate proce-
21 dures for an issuer to have an opportunity to
22 cure any defects that would be the basis for a
23 prohibition under subparagraph (A), before the
24 imposition of such prohibition.

1 “(2) RESPONSIBILITIES RELATING TO REG-
2 ISTERED PUBLIC ACCOUNTING FIRMS.—The audit
3 committee of each issuer, in its capacity as a com-
4 mittee of the board of directors, shall be directly re-
5 sponsible for the appointment, compensation, and
6 oversight of the work of any registered public ac-
7 counting firm employed by that issuer (including
8 resolution of disagreements between management
9 and the auditor regarding financial reporting) for
10 the purpose of preparing or issuing an audit report
11 or related work, and each such registered public ac-
12 counting firm shall report directly to the audit com-
13 mittee.

14 “(3) INDEPENDENCE.—

15 “(A) IN GENERAL.—Each member of the
16 audit committee of the issuer shall be a member
17 of the board of directors of the issuer, and shall
18 otherwise be independent.

19 “(B) CRITERIA.—In order to be considered
20 to be independent for purposes of this para-
21 graph, a member of an audit committee of an
22 issuer may not, other than in his or her capac-
23 ity as a member of the audit committee, the
24 board of directors, or any other board
25 committee—

1 “(i) accept any consulting, advisory,
2 or other compensatory fee from the issuer;
3 or

4 “(ii) be an affiliated person of the
5 issuer or any subsidiary thereof.

6 “(C) EXEMPTION AUTHORITY.—The Com-
7 mission may exempt from the requirements of
8 subparagraph (B) a particular relationship with
9 respect to audit committee members, as the
10 Commission determines appropriate in light of
11 the circumstances.

12 “(4) COMPLAINTS.—Each audit committee shall
13 establish procedures for—

14 “(A) the receipt, retention, and treatment
15 of complaints received by the issuer regarding
16 accounting, internal accounting controls, or au-
17 diting matters; and

18 “(B) the confidential, anonymous submis-
19 sion by employees of the issuer of concerns re-
20 garding questionable accounting or auditing
21 matters.

22 “(5) AUTHORITY TO ENGAGE ADVISERS.—Each
23 audit committee shall have the authority to engage
24 independent counsel and other advisers, as it deter-
25 mines necessary to carry out its duties.

1 “(6) FUNDING.—Each issuer shall provide for
2 appropriate funding, as determined by the audit
3 committee, in its capacity as a committee of the
4 board of directors, for payment of compensation—

5 “(A) to the registered public accounting
6 firm employed by the issuer for the purpose of
7 rendering or issuing an audit report; and

8 “(B) to any advisers employed by the audit
9 committee under paragraph (5).”.

10 **SEC. 302. CORPORATE RESPONSIBILITY FOR FINANCIAL**
11 **REPORTS.**

12 (a) CERTIFICATION OF PERIODIC REPORTS.—Each
13 periodic report containing financial statements filed by an
14 issuer with the Commission pursuant to section 13(a) or
15 15(d) of the Securities Exchange Act of 1934, shall be
16 accompanied by a written statement by the chief executive
17 officer and chief financial officer (or the equivalent there-
18 of) of the issuer.

19 (b) CONTENT.—The statement required by sub-
20 section (a) shall certify the appropriateness of the finan-
21 cial statements and disclosures contained in the periodic
22 report, and that those financial statements and disclosures
23 fairly present, in all material respects, the operations and
24 financial condition of the issuer.

1 **SEC. 303. IMPROPER INFLUENCE ON CONDUCT OF AUDITS.**

2 (a) RULES TO PROHIBIT.—It shall be unlawful, in
3 contravention of such rules or regulations as the Commis-
4 sion shall prescribe as necessary and appropriate in the
5 public interest or for the protection of investors, for any
6 officer or director of an issuer, or any other person acting
7 under the direction thereof, to take any action to fraudu-
8 lently influence, coerce, manipulate, or mislead any inde-
9 pendent public or certified accountant engaged in the per-
10 formance of an audit of the financial statements of that
11 issuer for the purpose of rendering such financial state-
12 ments materially misleading.

13 (b) ENFORCEMENT.—In any civil proceeding, the
14 Commission shall have exclusive authority to enforce this
15 section and any rule or regulation issued under this sec-
16 tion.

17 (c) NO PREEMPTION OF OTHER LAW.—The provi-
18 sions of subsection (a) shall be in addition to, and shall
19 not supersede or preempt, any other provision of law or
20 any rule or regulation issued thereunder.

21 (d) DEADLINE FOR RULEMAKING.—The Commission
22 shall—

23 (1) propose the rules or regulations required by
24 this section, not later than 90 days after the date of
25 enactment of this Act; and

1 (2) issue final rules or regulations required by
2 this section, not later than 270 days after that date
3 of enactment.

4 **SEC. 304. FORFEITURE OF CERTAIN BONUSES AND PROF-**
5 **ITS.**

6 (a) **ADDITIONAL COMPENSATION PRIOR TO NON-**
7 **COMPLIANCE WITH COMMISSION FINANCIAL REPORTING**
8 **REQUIREMENTS.**—If an issuer is required to prepare an
9 accounting restatement due to the material noncompliance
10 of the issuer, as a result of misconduct, with any financial
11 reporting requirement under the securities laws, the chief
12 executive officer and chief financial officer of the issuer
13 shall reimburse the issuer for—

14 (1) any bonus or other incentive-based or eq-
15 uity-based compensation received by that person
16 from the issuer during the 12-month period fol-
17 lowing the first public issuance or filing with the
18 Commission (whichever first occurs) of the financial
19 document embodying such financial reporting re-
20 quirement; and

21 (2) any profits realized from the sale of securi-
22 ties of the issuer during that 12-month period.

23 (b) **COMMISSION EXEMPTION AUTHORITY.**—The
24 Commission may exempt any person from the application
25 of subsection (a), as it deems necessary and appropriate.

1 **SEC. 305. OFFICER AND DIRECTOR BARS AND PENALTIES.**

2 (a) UNFITNESS STANDARD.—

3 (1) SECURITIES EXCHANGE ACT OF 1934.—Sec-
4 tion 21(d)(2) of the Securities Exchange Act of
5 1934 (15 U.S.C. 78u(d)(2)) is amended by striking
6 “substantial unfitness” and inserting “unfitness”.

7 (2) SECURITIES ACT OF 1933.—Section 20(e) of
8 the Securities Act of 1933 (15 U.S.C. 77t(e)) is
9 amended by striking “substantial unfitness” and in-
10 sert “unfitness”.

11 (b) EQUITABLE RELIEF.—Section 21(d) of the Secu-
12 rities Exchange Act of 1934 (15 U.S.C. 78u(d)) is
13 amended—

14 (1) by redesignating paragraphs (2) through
15 (4) as paragraphs (3) through (5), respectively; and

16 (2) by inserting after paragraph (1) the fol-
17 lowing:

18 “(2) EQUITABLE RELIEF.—In any action or pro-
19 ceeding brought or instituted by the Commission under
20 any provision of the securities laws, the Commission may
21 seek, and any Federal court may grant, any equitable re-
22 lief that may be appropriate or necessary for the benefit
23 of investors.”.

1 **SEC. 306. INSIDER TRADES DURING PENSION FUND BLACK-**
2 **OUT PERIODS PROHIBITED.**

3 (a) PROHIBITION.—It shall be unlawful for any direc-
4 tor or executive officer of an issuer of any equity security
5 (other than an exempted security), directly or indirectly,
6 to purchase, sell, or otherwise acquire or transfer any eq-
7 uity security of the issuer (other than an exempted secu-
8 rity), during any blackout period with respect to such eq-
9 uity security, in accordance with any exception provided
10 by rule of the Commission pursuant to subsection (d).

11 (b) EFFECTIVENESS.—

12 (1) NOTICE REQUIREMENTS.—Except as pro-
13 vided in paragraph (2), no blackout period may take
14 effect earlier than 30 days after the date on which
15 written notice of such blackout period is provided by
16 the plan administrator to the participants or bene-
17 ficiaries.

18 (2) EXCEPTION.—The 30-day notice require-
19 ment in paragraph (1) shall not apply, and notice
20 under paragraph (1) shall be furnished as soon as
21 is reasonably possible, in any case in which—

22 (A) a deferral of the blackout period would
23 violate the requirements of subparagraph (A) or
24 (B) of section 404(a)(1) of the Employment Re-
25 tirement Income Security Act of 1974, and a fi-

1 duciary of the plan so reasonably determines in
2 writing; or

3 (B) the inability to provide the 30-day no-
4 tice is due to events that were unforeseeable, or
5 circumstances beyond the reasonable control of
6 the plan administrator, and a fiduciary of the
7 plan so reasonably determines in writing.

8 (3) WRITTEN NOTICE.—The notice required to
9 be provided under paragraph (1) shall be in writing,
10 except that such notice may be in electronic form to
11 the extent that such form is reasonably accessible to
12 the recipient.

13 (c) REMEDY.—

14 (1) IN GENERAL.—Any profit realized by a di-
15 rector or executive officer referred to in subsection
16 (a) from any purchase, sale, or other acquisition or
17 transfer in violation of this section shall inure to and
18 be recoverable by the issuer, irrespective of any in-
19 tention on the part of such director or executive offi-
20 cer in entering into the transaction.

21 (2) ACTIONS TO RECOVER PROFITS.—An action
22 to recover profits in accordance with this section
23 may be instituted at law or in equity in any court
24 of competent jurisdiction by the issuer, or by the
25 owner of any security of the issuer in the name and

1 in behalf of the issuer if the issuer fails or refuses
2 to bring such action within 60 days after the date
3 of request, or fails diligently to prosecute the action
4 thereafter, except that no such suit shall be brought
5 more than 2 years after the date on which such
6 profit was realized.

7 (d) RULEMAKING AUTHORIZED.—The Commission
8 may issue rules to clarify the application of this sub-
9 section, to ensure adequate notice to all persons affected
10 by this subsection, and to prevent evasion thereof.

11 (e) DEFINITIONS.—For purposes of this section—

12 (1) the term “blackout period”, with respect to
13 the equity securities of any issuer—

14 (A) means any period during which the
15 ability of not fewer than 50 percent of the par-
16 ticipants or beneficiaries under all applicable in-
17 dividual account plans maintained by the issuer
18 to purchase, sell, or otherwise acquire or trans-
19 fer an interest in any equity of such issuer held
20 in such an individual account plan, is suspended
21 by the issuer or a fiduciary of the plan; and

22 (B) does not include—

23 (i) a period in which the employees of
24 an issuer may not allocate their interests

1 in the individual account plan due to an
2 express investment restriction—

3 (I) incorporated into the indi-
4 vidual account plan; and

5 (II) timely disclosed to employees
6 before joining the individual account
7 plan or as a subsequent amendment
8 to the plan; or

9 (ii) any suspension described in sub-
10 paragraph (A) that is imposed solely in
11 connection with persons becoming partici-
12 pants or beneficiaries, or ceasing to be par-
13 ticipants or beneficiaries, in an applicable
14 individual account plan by reason of a cor-
15 porate merger, acquisition, divestiture, or
16 similar transaction; and

17 (2) the term “individual account plan” has the
18 same meaning as in section 3(34) of the Employee
19 Retirement Income Security Act of 1974 (29 U.S.C.
20 1002(34)).

1 **TITLE IV—ENHANCED**
2 **FINANCIAL DISCLOSURES**

3 **SEC. 401. DISCLOSURES IN PERIODIC REPORTS.**

4 (a) **DISCLOSURES REQUIRED.**—Section 13 of the Se-
5 curities Exchange Act of 1934 (15 U.S.C. 78m) is amend-
6 ed by adding at the end the following:

7 “(i) **ACCURACY OF FINANCIAL REPORTS.**—Each fi-
8 nancial report that is required to be prepared in accord-
9 ance with generally accepted accounting principles under
10 this title and filed with the Commission shall reflect all
11 material correcting adjustments that have been identified
12 by a registered public accounting firm in accordance with
13 generally accepted accounting principles and the rules and
14 regulations of the Commission.

15 “(j) **OFF-BALANCE SHEET TRANSACTIONS.**—Not
16 later than 180 days after the date of enactment of the
17 Public Company Accounting Reform and Investor Protec-
18 tion Act of 2002, the Commission shall issue final rules
19 providing that each annual and quarterly financial report
20 required to be filed with the Commission shall disclose all
21 material off-balance sheet transactions, arrangements, ob-
22 ligations (including contingent obligations), and other re-
23 lationships of the issuer with unconsolidated entities or
24 other persons, that may have a material current or future
25 effect on financial condition, changes in financial condi-

1 tion, results of operations, liquidity, capital expenditures,
 2 capital resources, or significant components of revenues
 3 or expenses.”.

4 (b) COMMISSION RULES ON PRO FORMA FIGURES.—

5 Not later than 180 days after the date of enactment of
 6 this Act, the Commission shall issue final rules providing
 7 that pro forma financial information included in any peri-
 8 odic or other report filed with the Commission pursuant
 9 to the securities laws, or in any public disclosure or press
 10 or other release, shall be presented in a manner that—

11 (1) does not contain an untrue statement of a
 12 material fact or omit to state a material fact nec-
 13 essary in order to make the pro forma financial in-
 14 formation, in light of the circumstances under which
 15 it is presented, not misleading; and

16 (2) reconciles it with the financial condition and
 17 results of operations of the issuer under generally
 18 accepted accounting principles.

19 **SEC. 402. ENHANCED CONFLICT OF INTEREST DISCLO-**
 20 **SURES.**

21 Section 13 of the Securities Exchange Act of 1934
 22 (15 U.S.C. 78m), as amended by this Act, is amended by
 23 adding at the end the following:

24 “(k) ENHANCED DISCLOSURES OF LOANS.—

1 “(1) IN GENERAL.—The Commission shall, by
2 rule, require each issuer of any securities registered
3 pursuant to section 12 to disclose to the Commis-
4 sion, in writing—

5 “(A) other than as provided in paragraph
6 (2), each loan by that issuer, or an affiliate
7 thereof, to a director or executive officer of that
8 issuer, or a loan guarantee or similar arrange-
9 ment from that issuer in favor of another per-
10 son who lends, or agrees to lend, money to the
11 director or executive officer of the issuer, in-
12 cluding the amounts loaned and balances owed,
13 not later than 7 calendar days after the date on
14 which the loan, guarantee, or other arrange-
15 ment is made, or such other time period, as de-
16 termined appropriate by the Commission;

17 “(B) together with each report or other
18 document required to be filed under this section
19 in the case of each loan, guarantee, or similar
20 arrangement described in subparagraph (A),
21 whether—

22 “(i) the obligation has been forgiven;

23 “(ii) the issuer or its affiliate makes
24 payment on the obligation; and

1 “(iii) any collateral is foreclosed upon
2 with respect to the obligation; and

3 “(C) any conflict of interest, as defined by
4 the Commission, on the part of any partner, of-
5 ficer, director, or other management official or
6 affiliated person of the issuer.

7 “(2) EXCEPTIONS.—Paragraph (1)(A) does not
8 require disclosure by an issuer of any extension of
9 credit under an open end credit plan (as defined in
10 section 103 of the Truth in Lending Act (15 U.S.C.
11 1602)) that is—

12 “(A) made in the ordinary course of the
13 consumer credit business of an issuer;

14 “(B) of a type that is generally made avail-
15 able by the issuer to the public; and

16 “(C) made on market terms, or terms that
17 are no more favorable than those offered by the
18 issuer to the general public for such loans.

19 “(3) FORM OF DISCLOSURES.—Disclosures re-
20 quired by this subsection shall be in such form and
21 subject to such terms and conditions as the Commis-
22 sion shall specify.”.

1 **SEC. 403. DISCLOSURES OF TRANSACTIONS INVOLVING**
2 **MANAGEMENT AND PRINCIPAL STOCK-**
3 **HOLDERS.**

4 Section 16(a) of the Securities Exchange Act of 1934
5 (15 U.S.C. 78p(a)) is amended—

6 (1) by striking “security, shall file,” and insert-
7 ing the following:

8 “(1) shall file”; and

9 (2) by striking “beneficial owner, and” and all
10 that follows through the end of the subsection and
11 inserting the following: “beneficial owner; and

12 “(2) if there has been a change in such owner-
13 ship, or if such person shall have purchased or sold
14 a security-based swap agreement (as defined in sec-
15 tion 206B of the Gramm-Leach-Bliley Act) involving
16 such equity security, shall file with the Commission
17 (and if such security is registered on a national se-
18 curities exchange, shall also file with the exchange),
19 a statement before the end of the second business
20 day following the day on which the subject trans-
21 action has been executed, or at such other time as
22 the Commission shall establish, by rule, in any case
23 in which the Commission determines that such 2-day
24 period is not feasible, indicating ownership by that
25 person at the date of filing, any such changes in
26 such ownership, and such purchases and sales of the

1 security-based swap agreements as have occurred
2 since the most recent such filing under this para-
3 graph.”.

4 **SEC. 404. MANAGEMENT ASSESSMENT OF INTERNAL CON-**
5 **TROLS.**

6 (a) **RULES REQUIRED.**—The Commission shall pre-
7 scribe rules requiring each annual report required by sec-
8 tion 13 of the Securities Exchange Act of 1934 (15 U.S.C.
9 78m) to contain an internal control report, which shall—

10 (1) state the responsibility of management for
11 establishing and maintaining an adequate internal
12 control structure and procedures for financial re-
13 porting; and

14 (2) contain an assessment, as of the end of the
15 most recent fiscal year of the issuer, of the effective-
16 ness of the internal control structure and procedures
17 of the issuer for financial reporting.

18 (b) **INTERNAL CONTROL EVALUATION AND REPORT-**
19 **ING.**—With respect to the internal control assessment re-
20 quired by subsection (a), each registered public accounting
21 firm that prepares or issues the audit report for the issuer
22 shall attest to, and report on, the assessment made by the
23 management of the issuer. An attestation made under this
24 subsection shall be made in accordance with standards for
25 attestation engagements issued or adopted by the Board.

1 Any such attestation shall not be the subject of a separate
2 engagement.

3 **SEC. 405. EXEMPTION.**

4 Nothing in section 401, 402, or 404, the amendments
5 made by those sections, or the rules of the Commission
6 under those sections shall apply to any investment com-
7 pany registered under section 8 of the Investment Com-
8 pany Act of 1940 (15 U.S.C. 80a–8).

9 **SEC. 406. CODE OF ETHICS FOR SENIOR FINANCIAL OFFI-
10 CERS.**

11 (a) **CODE OF ETHICS DISCLOSURE.**—The Commis-
12 sion shall issue rules to require each issuer, together with
13 periodic reports required pursuant to sections 13(a) and
14 15(d) of the Securities Exchange Act of 1934, to disclose
15 whether or not, and if not, the reason therefor, such issuer
16 has adopted a code of ethics for senior financial officers,
17 applicable to its principal financial officer, comptroller or
18 principal accounting officer, or persons performing similar
19 functions.

20 (b) **CHANGES IN CODES OF ETHICS.**—The Commis-
21 sion shall revise its regulations concerning matters requir-
22 ing prompt disclosure on Form 8–K (or any successor
23 thereto) to require the immediate disclosure, by means of
24 the filing of such form, dissemination by the Internet or

1 by other electronic means, by any issuer of any change
2 in or waiver of the code of ethics of the issuer.

3 (c) DEFINITION.—In this section, the term “code of
4 ethics” means such standards as are reasonably necessary
5 to promote—

6 (1) honest and ethical conduct, including the
7 ethical handling of actual or apparent conflicts of in-
8 terest between personal and professional relation-
9 ships;

10 (2) full, fair, accurate, timely, and understand-
11 able disclosure in the periodic reports required to be
12 filed by the issuer; and

13 (3) compliance with applicable governmental
14 rules and regulations.

15 (d) DEADLINE FOR RULEMAKING.—The Commission
16 shall—

17 (1) propose rules to implement this section, not
18 later than 90 days after the date of enactment of
19 this Act; and

20 (2) issue final rules to implement this section,
21 not later than 180 days after that date of enact-
22 ment.

1 **SEC. 407. DISCLOSURE OF AUDIT COMMITTEE FINANCIAL**
2 **EXPERT.**

3 (a) RULES DEFINING “FINANCIAL EXPERT”.—The
4 Commission shall issue rules, as necessary or appropriate
5 in the public interest and consistent with the protection
6 of investors, to require each issuer, together with periodic
7 reports required pursuant to sections 13(a) and 15(d) of
8 the Securities Exchange Act of 1934, to disclose whether
9 or not, and if not, the reasons therefor, the audit com-
10 mittee of that issuer is comprised of at least 1 member
11 who is a financial expert, as such term is defined by the
12 Commission.

13 (b) CONSIDERATIONS.—In defining the term “finan-
14 cial expert” for purposes of subsection (a), the Commis-
15 sion shall consider whether a person has, through edu-
16 cation and experience as a public accountant or auditor
17 or a principal financial officer, comptroller, or principal
18 accounting officer of an issuer, or from a position involv-
19 ing the performance of similar functions—

20 (1) an understanding of generally accepted ac-
21 counting principles and financial statements;

22 (2) experience in—

23 (A) the preparation or auditing of financial
24 statements of generally comparable issuers; and

1 (B) the application of such principles in
2 connection with the accounting for estimates,
3 accruals, and reserves;

4 (3) experience with internal accounting controls;
5 and

6 (4) an understanding of audit committee func-
7 tions.

8 (c) DEADLINE FOR RULEMAKING.—The Commission
9 shall—

10 (1) propose rules to implement this section, not
11 later than 90 days after the date of enactment of
12 this Act; and

13 (2) issue final rules to implement this section,
14 not later than 180 days after that date of enact-
15 ment.

16 **TITLE V—ANALYST CONFLICTS** 17 **OF INTEREST**

18 **SEC. 501. TREATMENT OF SECURITIES ANALYSTS BY REG-** 19 **ISTERED SECURITIES ASSOCIATIONS.**

20 (a) RULES REGARDING SECURITIES ANALYSTS.—
21 Section 15A of the Securities Exchange Act of 1934 (15
22 U.S.C. 78o–3) is amended by adding at the end the fol-
23 lowing:

24 “(n) RULES REGARDING SECURITIES ANALYSTS.—

1 “(1) ANALYST PROTECTIONS.—The Commis-
2 sion, or upon the authorization and direction of the
3 Commission, a registered securities association or
4 national securities exchange, shall have adopted, not
5 later than 1 year after the date of enactment of this
6 subsection, rules reasonably designed to address con-
7 flicts of interest that can arise when research ana-
8 lysts recommend equity securities in research reports
9 and public appearances, in order to improve the ob-
10 jectivity of research and provide investors with more
11 useful and reliable information, including rules
12 designed—

13 “(A) to foster greater public confidence in
14 securities research, and to protect the objec-
15 tivity and independence of securities analysts,
16 by—

17 “(i) restricting the prepublication
18 clearance or approval of research reports
19 by persons employed by the broker or deal-
20 er who are engaged in investment banking
21 activities, or persons not directly respon-
22 sible for investment research, other than
23 legal or compliance staff;

24 “(ii) limiting the supervision and com-
25 pensatory evaluation of securities analysts

1 to officials employed by the broker or deal-
2 er who are not engaged in investment
3 banking activities; and

4 “(iii) requiring that a broker or dealer
5 and persons employed by a broker or deal-
6 er who are involved with investment bank-
7 ing activities may not, directly or indi-
8 rectly, retaliate against or threaten to re-
9 taliate against any securities analyst em-
10 ployed by that broker or dealer or its affili-
11 ates as a result of an adverse, negative, or
12 otherwise unfavorable research report that
13 may adversely affect the present or pro-
14 spective investment banking relationship of
15 the broker or dealer with the issuer that is
16 the subject of the research report, except
17 that such rules may not limit the authority
18 of a broker or dealer to discipline a securi-
19 ties analyst for causes other than such re-
20 search report in accordance with the poli-
21 cies and procedures of the firm;

22 “(B) to define periods during which bro-
23 kers or dealers who have participated, or are to
24 participate, in a public offering of securities as
25 underwriters or dealers should not publish or

1 otherwise distribute research reports relating to
2 such securities or to the issuer of such securi-
3 ties;

4 “(C) to establish structural and institu-
5 tional safeguards within registered brokers or
6 dealers to assure that securities analysts are
7 separated by appropriate informational parti-
8 tions within the firm from the review, pressure,
9 or oversight of those whose involvement in in-
10 vestment banking activities might potentially
11 bias their judgment or supervision; and

12 “(D) to address such other issues as the
13 Commission, or such association or exchange,
14 determines appropriate.

15 “(2) DISCLOSURE.—The Commission, or upon
16 the authorization and direction of the Commission,
17 a registered securities association or national securi-
18 ties exchange, shall have adopted, not later than 1
19 year after the date of enactment of this subsection,
20 rules reasonably designed to require each securities
21 analyst to disclose in public appearances, and each
22 registered broker or dealer to disclose in each re-
23 search report, as applicable, conflicts of interest that
24 are known or should have been known by the securi-
25 ties analyst or the broker or dealer, to exist at the

1 time of the appearance or the date of distribution of
2 the report, including—

3 “(A) the extent to which the securities an-
4 alyst has debt or equity investments in the
5 issuer that is the subject of the appearance or
6 research report;

7 “(B) whether any compensation has been
8 received by the registered broker or dealer, or
9 any affiliate thereof, including the securities an-
10 alyst, from the issuer that is the subject of the
11 appearance or research report, subject to such
12 exemptions as the Commission may determine
13 appropriate and necessary to prevent disclosure
14 by virtue of this subparagraph of material non-
15 public information regarding specific potential
16 future investment banking transactions of such
17 issuer, as is appropriate in the public interest
18 and consistent with the protection of investors;

19 “(C) whether an issuer, the securities of
20 which are recommended in the appearance or
21 research report, currently is, or during the 1-
22 year period preceding the date of the appear-
23 ance or date of distribution of the report has
24 been, a client of the registered broker or dealer,

1 and if so, stating the types of services provided
2 to the issuer;

3 “(D) whether the securities analyst re-
4 ceived compensation with respect to a research
5 report, based upon (among any other factors)
6 the investment banking revenues (either gen-
7 erally or specifically earned from the issuer
8 being analyzed) of the registered broker or deal-
9 er; and

10 “(E) such other disclosures of conflicts of
11 interest that are material to investors, research
12 analysts, or the broker or dealer as the Com-
13 mission, or such association or exchange, deter-
14 mines appropriate.

15 “(3) DEFINITIONS.—In this subsection—

16 “(A) the term ‘securities analyst’ means
17 any associated person of a registered broker or
18 dealer that is principally responsible for, and
19 any associated person who reports directly or
20 indirectly to a securities analyst in connection
21 with, the preparation of the substance of a re-
22 search report, whether or not any such person
23 has the job title of ‘securities analyst’; and

24 “(B) the term ‘research report’ means a
25 written or electronic communication that in-

1 cludes an analysis of equity securities of indi-
 2 vidual companies or industries, and that pro-
 3 vides information reasonably sufficient upon
 4 which to base an investment decision.”.

5 (b) ENFORCEMENT.—Section 21B(a) of the Securi-
 6 ties Exchange Act of 1934 (15 U.S.C. 78u–2(a)) is
 7 amended by inserting “15A(n),” before “15B”.

8 (c) COMMISSION AUTHORITY.—The Commission may
 9 promulgate and amend its regulations, or direct a reg-
 10 istered securities association or national securities ex-
 11 change to promulgate and amend its rules, to carry out
 12 section 15A(n) of the Securities Exchange Act of 1934,
 13 as added by this section, as is necessary for the protection
 14 of investors and in the public interest.

15 **TITLE VI—COMMISSION** 16 **RESOURCES AND AUTHORITY**

17 **SEC. 601. AUTHORIZATION OF APPROPRIATIONS.**

18 Section 35 of the Securities Exchange Act of 1934
 19 (15 U.S.C. 78kk) is amended to read as follows:

20 **“SEC. 35. AUTHORIZATION OF APPROPRIATIONS.**

21 “In addition to any other funds authorized to be ap-
 22 propriated to the Commission, there are authorized to be
 23 appropriated to carry out the functions, powers, and du-
 24 ties of the Commission, \$776,000,000 for fiscal year 2003,
 25 of which—

1 “(1) \$102,700,000 shall be available to fund
2 additional compensation, including salaries and ben-
3 efits, as authorized in the Investor and Capital Mar-
4 kets Fee Relief Act (Public Law 107–123; 115 Stat.
5 2390 et seq.);

6 “(2) \$108,400,000 shall be available for infor-
7 mation technology, security enhancements, and re-
8 covery and mitigation activities in light of the ter-
9 rorist attacks of September 11, 2001; and

10 “(3) \$98,000,000 shall be available to add not
11 fewer than an additional 200 qualified professionals
12 to provide enhanced oversight of auditors and audit
13 services required by the Federal securities laws, and
14 to improve Commission investigative and disciplinary
15 efforts with respect to such auditors and services, as
16 well as for additional professional support staff nec-
17 essary to strengthen the programs of the Commis-
18 sion involving Full Disclosure and Prevention and
19 Suppression of Fraud, risk management, industry
20 technology review, compliance, inspections, examina-
21 tions, market regulation, and investment manage-
22 ment.”.

1 **SEC. 602. APPEARANCE AND PRACTICE BEFORE THE COM-**
2 **MISSION.**

3 The Securities Exchange Act of 1934 (15 U.S.C. 78a
4 et seq.) is amended by inserting after section 4B the fol-
5 lowing:

6 **“SEC. 4C. APPEARANCE AND PRACTICE BEFORE THE COM-**
7 **MISSION.**

8 “(a) **AUTHORITY TO CENSURE.**—The Commission
9 may censure any person, or deny, temporarily or perma-
10 nently, to any person the privilege of appearing or prac-
11 ticing before the Commission in any way, if that person
12 is found by the Commission, after notice and opportunity
13 for hearing in the matter—

14 “(1) not to possess the requisite qualifications
15 to represent others;

16 “(2) to be lacking in character or integrity, or
17 to have engaged in unethical or improper profes-
18 sional conduct; or

19 “(3) to have willfully violated, or willfully aided
20 and abetted the violation of, any provision of the se-
21 curities laws or the rules and regulations issued
22 thereunder.

23 “(b) **DEFINITION.**—With respect to any registered
24 public accounting firm, for purposes of this section, the
25 term ‘improper professional conduct’ means—

1 “(1) intentional or knowing conduct, including
 2 reckless conduct, that results in a violation of appli-
 3 cable professional standards; and

4 “(2) negligent conduct in the form of—

5 “(A) a single instance of highly unreason-
 6 able conduct that results in a violation of appli-
 7 cable professional standards in circumstances in
 8 which the registered public accounting firm
 9 knows, or should know, that heightened scru-
 10 tiny is warranted; or

11 “(B) repeated instances of unreasonable
 12 conduct, each resulting in a violation of applica-
 13 ble professional standards, that indicate a lack
 14 of competence to practice before the Commis-
 15 sion.”.

16 **SEC. 603. FEDERAL COURT AUTHORITY TO IMPOSE PENNY**
 17 **STOCK BARS.**

18 (a) SECURITIES EXCHANGE ACT OF 1934.—Section
 19 21(d) of the Securities Exchange Act of 1934 (15 U.S.C.
 20 78u(d)), as amended by this Act, is amended by adding
 21 at the end the following:

22 “(7) AUTHORITY OF A COURT TO PROHIBIT PERSONS
 23 FROM PARTICIPATING IN AN OFFERING OF PENNY
 24 STOCK.—

1 “(A) IN GENERAL.—In any proceeding under
2 paragraph (1) against any person participating in,
3 or, at the time of the alleged misconduct who was
4 participating in, an offering of penny stock, the
5 court may prohibit that person from participating in
6 an offering of penny stock, conditionally or uncondi-
7 tionally, and permanently or for such period of time
8 as the court shall determine.

9 “(B) DEFINITION.—For purposes of this para-
10 graph, the term ‘person participating in an offering
11 of penny stock’ includes any person engaging in ac-
12 tivities with a broker, dealer, or issuer for purposes
13 of issuing, trading, or inducing or attempting to in-
14 duce the purchase or sale of, any penny stock. The
15 Commission may, by rule or regulation, define such
16 term to include other activities, and may, by rule,
17 regulation, or order, exempt any person or class of
18 persons, in whole or in part, conditionally or uncon-
19 ditionally, from inclusion in such term.

20 (b) SECURITIES ACT OF 1933.—Section 20 of the Se-
21 curities Act of 1933 (15 U.S.C. 77t) is amended by adding
22 at the end the following:

23 “(g) AUTHORITY OF A COURT TO PROHIBIT PER-
24 SONS FROM PARTICIPATING IN AN OFFERING OF PENNY
25 STOCK.—

1 “(1) IN GENERAL.—In any proceeding under
2 subsection (a) against any person participating in,
3 or, at the time of the alleged misconduct, who was
4 participating in, an offering of penny stock, the
5 court may prohibit that person from participating in
6 an offering of penny stock, conditionally or uncondi-
7 tionally, and permanently or for such period of time
8 as the court shall determine.

9 “(2) DEFINITION.—For purposes of this sub-
10 section, the term ‘person participating in an offering
11 of penny stock’ includes any person engaging in ac-
12 tivities with a broker, dealer, or issuer for purposes
13 of issuing, trading, or inducing or attempting to in-
14 duce the purchase or sale of, any penny stock. The
15 Commission may, by rule or regulation, define such
16 term to include other activities, and may, by rule,
17 regulation, or order, exempt any person or class of
18 persons, in whole or in part, conditionally or uncon-
19 ditionally, from inclusion in such term.”.

20 **SEC. 604. QUALIFICATIONS OF ASSOCIATED PERSONS OF**
21 **BROKERS AND DEALERS.**

22 (a) BROKERS AND DEALERS.—Section 15(b)(4) of
23 the Securities Exchange Act of 1934 (15 U.S.C. 78o) is
24 amended—

1 (1) by striking subparagraph (F) and inserting
2 the following:

3 “(F) is subject to any order of the Commission
4 barring or suspending the right of the person to be
5 associated with a broker or dealer;” and

6 (2) in subparagraph (G), by striking the period
7 at the end and inserting the following: “; or

8 “(H) is subject to any final order of a State se-
9 curities commission (or any agency or officer per-
10 forming like functions), State authority that super-
11 vises or examines banks, savings associations, or
12 credit unions, State insurance commission (or any
13 agency or office performing like functions), an ap-
14 propriate Federal banking agency (as defined in sec-
15 tion 3 of the Federal Deposit Insurance Act (12
16 U.S.C. 1813(q))), or the National Credit Union Ad-
17 ministration, that—

18 “(i) bars such person from association with
19 an entity regulated by such commission, author-
20 ity, agency, or officer, or from engaging in the
21 business of securities, insurance, banking, sav-
22 ings association activities, or credit union activi-
23 ties; or

24 “(ii) constitutes a final order based on vio-
25 lations of any laws or regulations that prohibit

1 fraudulent, manipulative, or deceptive con-
2 duct.”.

3 (b) INVESTMENT ADVISERS.—Section 203(e) of the
4 Investment Advisers Act of 1940 (15 U.S.C. 80b–3(e)) is
5 amended by striking paragraphs (7) and (8) and inserting
6 the following:

7 “(7) is subject to any order of the Commission
8 barring or suspending the right of the person to be
9 associated with an investment adviser; or

10 “(8) is subject to any final order of a State se-
11 curities commission (or any agency or officer per-
12 forming like functions), State authority that super-
13 vises or examines banks, savings associations, or
14 credit unions, State insurance commission (or any
15 agency or office performing like functions), an ap-
16 propriate Federal banking agency (as defined in sec-
17 tion 3 of the Federal Deposit Insurance Act (12
18 U.S.C. 1813(q))), or the National Credit Union Ad-
19 ministration, that—

20 “(A) bars such person from association
21 with an entity regulated by such commission,
22 authority, agency, or officer, or from engaging
23 in the business of securities, insurance, bank-
24 ing, savings association activities, or credit
25 union activities; or

1 “(B) constitutes a final order based on vio-
2 lations of any laws or regulations that prohibit
3 fraudulent, manipulative, or deceptive con-
4 duct.”.

5 (c) CONFORMING AMENDMENTS.—

6 (1) SECURITIES EXCHANGE ACT OF 1934.—The
7 Securities Exchange Act of 1934 (15 U.S.C. 78a et
8 seq.) is amended—

9 (A) in section 3(a)(39)(F) (15 U.S.C.
10 78c(a)(39)(F)), by inserting “, or is subject to
11 an order or finding,” before “enumerated”;

12 (B) in each of sections 15(b)(6)(A)(i) (15
13 U.S.C. 78o(b)(6)(A)(i)), paragraphs (2) and (4)
14 of section 15B(c) (15 U.S.C. 78o–4(c)), and
15 subparagraphs (A) and (C) of section 15C(c)(1)
16 (15 U.S.C. 78o–5(c)(1)) by striking “or omis-
17 sion” each place that term appears, and insert-
18 ing “, or is subject to an order or finding,”; and

19 (C) in each of paragraphs (3)(A) and
20 (4)(C) of section 17A(c) (15 U.S.C. 78q–1(c)),
21 by inserting “, or is subject to an order or find-
22 ing,” before “enumerated” each place that term
23 appears.

24 (2) INVESTMENT ADVISERS ACT OF 1940.—Sec-
25 tion 203(f) of the Investment Advisers Act of 1940

1 (15 U.S.C. 80b–3(f)) is amended, by inserting “or
2 (3)” after “paragraph (2)”.

3 **TITLE VII—STUDIES AND** 4 **REPORTS**

5 **SEC. 701. GAO STUDY AND REPORT REGARDING CONSOLI-** 6 **DATION OF PUBLIC ACCOUNTING FIRMS.**

7 (a) STUDY REQUIRED.—The Comptroller General of
8 the United States shall conduct a study—

9 (1) to identify—

10 (A) the factors that have led to the consoli-
11 dation of public accounting firms since 1989
12 and the consequent reduction in the number of
13 firms capable of providing audit services to
14 large national and multi-national business orga-
15 nizations that are subject to the securities laws;

16 (B) the present and future impact of the
17 condition described in subparagraph (A) on
18 capital formation and securities markets, both
19 domestic and international; and

20 (C) solutions to any problems identified
21 under subparagraph (B), including ways to in-
22 crease competition and the number of firms ca-
23 pable of providing audit services to large na-
24 tional and multinational business organizations
25 that are subject to the securities laws;

1 (2) of the problems, if any, faced by business
2 organizations that have resulted from limited com-
3 petition among public accounting firms, including—

4 (A) higher costs;

5 (B) lower quality of services;

6 (C) impairment of auditor independence;

7 or

8 (D) lack of choice; and

9 (3) whether and to what extent Federal or
10 State regulations impede competition among public
11 accounting firms.

12 (b) CONSULTATION.—In planning and conducting the
13 study under this section, the Comptroller General shall
14 consult with—

15 (1) the Commission;

16 (2) the regulatory agencies that perform func-
17 tions similar to the Commission within the other
18 member countries of the Group of Seven Industri-
19 alized Nations;

20 (3) the Department of Justice; and

21 (4) any other public or private sector organiza-
22 tion that the Comptroller General considers appro-
23 priate.

24 (c) REPORT REQUIRED.—Not later than 1 year after
25 the date of enactment of this Act, the Comptroller General

1 shall submit a report on the results of the study required
2 by this section to the Committee on Banking, Housing,
3 and Urban Affairs of the Senate and the Committee on
4 Financial Services of the House of Representatives.

5 **SEC. 702. COMMISSION STUDY AND REPORT REGARDING**
6 **CREDIT RATING AGENCIES.**

7 (a) STUDY REQUIRED.—

8 (1) IN GENERAL.—The Commission shall con-
9 duct a study of the role and function of credit rating
10 agencies in the operation of the securities market.

11 (2) AREAS OF CONSIDERATION.—The study re-
12 quired by this subsection shall examine—

13 (A) the role of credit rating agencies in the
14 evaluation of issuers of securities;

15 (B) the importance of that role to investors
16 and the functioning of the securities markets;

17 (C) any impediments to the accurate ap-
18 praisal by credit rating agencies of the financial
19 resources and risks of issuers of securities;

20 (D) any barriers to entry into the business
21 of acting as a credit rating agency, and any
22 measures needed to remove such barriers;

23 (E) any measures which may be required
24 to improve the dissemination of information

1 concerning such resources and risks when credit
2 rating agencies announce credit ratings; and

3 (F) any conflicts of interest in the oper-
4 ation of credit rating agencies and measures to
5 prevent such conflicts or ameliorate the con-
6 sequences of such conflicts.

7 (b) REPORT REQUIRED.—The Commission shall sub-
8 mit a report on the study required by subsection (a) to
9 the President, the Committee on Financial Services of the
10 House of Representatives, and the Committee on Banking,
11 Housing, and Urban Affairs of the Senate not later than
12 180 days after the date of enactment of this Act.

Calendar No. 442

107TH CONGRESS
2^D SESSION

S. 2673

A BILL

To improve quality and transparency in financial reporting and independent audits and accounting services for public companies, to create a Public Company Accounting Oversight Board, to enhance the standard setting process for accounting practices, to strengthen the independence of firms that audit public companies, to increase corporate responsibility and the usefulness of corporate financial disclosure, to protect the objectivity and independence of securities analysts, to improve Securities and Exchange Commission resources and oversight, and for other purposes.

JUNE 25, 2002

Read twice and placed on the calendar