

The Nightly Business Report
Sarbanes-Oxley – Will the Regulators Ease the Burden?
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NYSE's proposed acquisition of Euronext has caused a political flap in Europe. They fear being subject to US regulations, namely the Sarbanes-Oxley Act (SOX).

The problem lies in one aspect of SOX – Section 404. That section requires management to represent that the company's internal controls are effective and then the auditor must give an opinion on this. Effective internal controls help to ensure the accuracy of financial results.

SOX 404 has caused added cost and much complaining throughout corporate America. It is especially burdensome for small companies. And the complaining echoes around the world, discouraging foreign companies from listing on US stock exchanges.

Easing the burden without diluting the quality of US financial reporting is possible. It requires a change in the implementing regulations, something the Securities and Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB) can do. The PCAOB should amend the standard governing what auditors do, and the SEC should give new guidance to management.

At a Roundtable last month hosted by the regulators, I made these recommendations, and so did others. It appears the regulators heard us and are going to act. I urge them to act quickly. I hope it won't be too little, too late. The image of a burdensome US regulatory system is a problem around the world.

I'm Barbara Hackman Franklin