What is the Sarbanes-Oxley Act?

The Sarbanes-Oxley Act of 2002 is a United States federal law passed in response to the recent major corporate and accounting scandals including those at Enron, Tyco International, and WorldCom (now MCI). These scandals resulted in a decline of public trust in accounting and reporting practices. Named after sponsors Senator Paul Sarbanes (D-Md.) and Representative Michael G. Oxley (R-Oh.), the Act was approved by the House by a vote of 423-3 and by the Senate 99-0. The legislation is wide-ranging and establishes new or enhanced standards for all U.S. public company Boards, Management, and public accounting firms. The first and most important part of the Act establishes a new quasi-public agency, the Public Company Accounting Oversight Board, which is charged with overseeing and disciplining accounting firms in their roles as auditors of public companies.

Some of the major provisions of the Sarbanes-Oxley Act's include:

--Certification of financial reports by chief executive officers and chief financial officers

--Auditor independence, including outright bans on certain types of work for audit clients and pre-certification by the company's Audit Committee of all other non-audit work

--A requirement that companies listed on stock exchanges have fully independent audit committees that oversee the relationship between the company and its auditor

--Significantly longer maximum jail sentences and larger fines for corporate executives who knowingly and willfully misstate financial statements, although maximum sentences are largely irrelevant because judges generally follow the Federal Sentencing Guidelines in setting actual sentences

--Employee protections allowing those corporate fraud whistleblowers who file complaints with OSHA within 90 days, to win reinstatement, back pay and benefits, compensatory damages, abatement orders, and reasonable attorney fees and costs.