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# The Answer to a Call for Reform: Enron, Incorporated and The Sarbanes-Oxley Act of 2002

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# **The Answer to a Call for Reform: Enron, Incorporated and The Sarbanes-Oxley Act of 2002**

Margaret Grace Nash

Honors Project

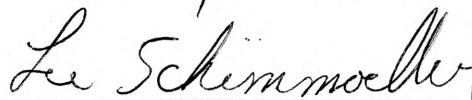
Submitted in Partial Fulfillment of the Graduation Requirements of the  
Lynchburg College School of Business and Economics Program

June 2006



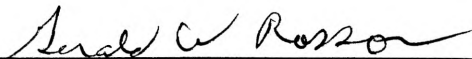
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On December 2, 2001, Enron Incorporated filed the largest bankruptcy in the history of the United States<sup>1</sup>. The business failures of the company and its executives launched several federal investigations, the results of which led to the largest overhaul of United States commerce legislation since the 1930s. The Sarbanes-Oxley Act was enacted in 2002 to regulate the governance of corporate reporting, fair practices, and standards of ethical behavior. The act addresses much of the behavior that allowed the events at Enron to occur, but still leaves some problems unaddressed and causes a few others.

### ***The Enron Story***

The Enron Corporation was created in 1985<sup>2</sup> as the result of a merger between two companies, Houston Natural Gas Company and InterNorth, Inc. InterNorth had been established in 1930 in Omaha, Nebraska, when the depression forced homeowners to seek cheaper fuel alternatives<sup>3</sup>. Lay had been with Houston Natural Gas prior to the merger, and became the chief executive officer of the merger that created Enron<sup>4</sup>. It evolved into a corporate model that would become a cautionary tale for investors and executive managers. More than two hundred indictments have been issued against its employees on securities and wire fraud alone (see *Appendix D: Enron Adjudication (Estimated)*). The company engaged in false reporting, extortion, and insider trading. Its practices cost its employees \$2 billion in retirement accounts and \$1 billion in pensions<sup>5</sup>. Customers in the state of California lost \$30 billion from a deregulation power scandal in which Enron was involved<sup>6</sup>, and investors lost billions as a result of

misleading earnings reports and star-struck stock analysts (for a more detailed account of key events in Enron's history, see *Appendix A: Chronology of Enron*)<sup>7</sup>.

Enron's reporting practices were the first of the company's largest ethical and managerial mistakes. Kenneth Lay, who became chief executive officer upon the merger formation of Enron in 1985, hired Jeff Skilling as an idea man, or "someone who could show them the way," in 1990<sup>8</sup>. A condition on which Skilling insisted before accepting Ken Lay's appointment included the implementation of mark-to-market accounting<sup>9</sup>. This accounting method involves booking potential profits as real income regardless of how much money is either received or agreed-upon with any new deal or sale<sup>10</sup>. In essence, any number could theoretically be put on the income statements and rationalized as potential income for an idea, thus inflating the earnings reports for the company (examples to follow). The company's independent auditing firm, Arthur Andersen, approved this method of accounting, as did the Securities and Exchange Commission<sup>11</sup>. The members of the Securities Exchange Commission who approved this method of accounting are no longer employed by the Commission, and a Public Company Accounting Oversight Board (PCAOB) has been established as part of the Sarbanes-Oxley Act (details to follow) to prevent further approval of such irregular accounting practices<sup>12</sup>.

Because Enron was now able to report any earnings it chose, the stock's value continued to climb. Mark-to-market principles were applied to several projects, including the construction of a power plant in Dabhol, India, and a large deal between Blockbuster and Enron Broadband Services. In Dabhol, Enron built a \$2 billion energy facility, which was considered an ambitious move by analysts

who had determined there was not a demand for energy at the cost it would take to provide it<sup>13</sup>. The analysts were right; the Dabhol facility is now abandoned.

Because Enron could continue to record projected income despite the fact that the facility had already lost billions, its project managers received \$20 million dollars in bonuses<sup>14</sup>. In the deal between Blockbuster and Enron Broadband, Enron again was able to record future income for an idea to deliver movies on-demand to consumers in their homes. The technology did not work and the project did not earn a penny, though it was reported as a \$52 million profit<sup>15</sup>.

When the company's reporting was so inflated that mark-to-market practices were becoming harder to maintain, the company shifted from reporting to extorting. In 1998 the California energy market became deregulated, and Enron aligned itself strategically to take full advantage of the new market environment. It acquired Portland General Electric and became one of the energy-providing dominators on the Pacific coast<sup>16</sup>. Tim Belden, the director of the west coast energy-trading desk, continually analyzed the new deregulation guidelines and the California power grid for "arbitrage opportunities<sup>17</sup>." Colin Whitehead, a former power trader, was encouraged to engage in arbitrage for the company, and was told that arbitrage opportunities were "any opportunity to make abnormal profits for the company<sup>18</sup>." Arbitrage is defined in the Oxford English Dictionary as "[t]he traffic in Bills of Exchange drawn on sundry places, and bought or sold in sight of the daily quotations of rates in the several markets, each operation being based in theory on the calculation known as arbitration of Exchange." Enron's adaptation of this process was illegal because Enron itself, through the act of controlling power flow

into California, actually controlled the fluctuation in energy prices. Enron then used the increased energy prices it caused to profit from private and public energy users<sup>19</sup>. In Belden schemes with names such as “Fat Boy,” “Get Shorty,” and “Death Star,” intentional blackouts were caused in the state of California to increase energy rates, causing an economic crisis in 2000<sup>20</sup>. By the time the situation was addressed and Enron ceased its arbitration projects, many people had died from heat-related deaths and Enron had made \$2.2 billion<sup>21</sup>.

Along with its schemes for making money, Enron had also begun to need a method for hiding debt. One of Jeff Skilling's first hires in 1990 was that of a young financial analyst named Andrew Fastow, who became Enron's chief financial officer in 1998<sup>22</sup>. Fastow created companies, each of which he was an owner and/or managing partner, for the sole purpose of buying Enron's poor-performing companies, projects, and assets at elevated prices. Arthur Andersen approved the use of Fastow's LJM (including “Project Raptor”), Chewco and JEDI project companies<sup>23</sup>. Fastow later liquidated and sold these companies for personal proceeds<sup>24</sup>. Fastow also set up a deal with Merrill-Lynch in which the investment company purchased three energy barges from the company and sold them back several months later<sup>25</sup>. The purchase was later determined to be a disguised loan made to Enron by Merrill-Lynch, and four of Merrill-Lynch's employees were charged with fraud<sup>26</sup>.

Enron had used its extortion, debt evasion, and income inflation to gain billions in investments from large international banks and private investors. Some major American banks invested as much as \$25 million each<sup>27</sup>. Enron executives

were employing what they called a “pump and dump” strategy, in which they used these inflated reports to increase share values and dump personal shares. By the time Enron had closed its doors, roughly 20,000 employees had lost jobs with an average severance package of \$4,500—top executives had received bonuses totaling \$55 million<sup>28</sup>. In 2001 employees lost \$1.2 billion in retirement funds, retirees lost \$2 billion in pensions, and executives cashed in \$116 million in stock<sup>29</sup>. Detailed biographies and stock sales figures are available in *Appendix B: Enron Players* and *Appendix C: Enron Executives and Stock Sales*, respectively. An estimated list of charges and indictments of involved parties is available in *Appendix D: Enron Adjudication (Estimated)*.

### ***Prior Legislation and the Sarbanes-Oxley Act of 2002***

How were Enron’s practices permitted for so long? Until 2002 much of the legislation concerning corporate practices, reporting, and standards of ethical behavior was ambiguous or subjective. Most of the laws in place had existed since the “New Deal” was implemented in Franklin Roosevelt’s administration, which included creation of the Securities and Exchange Commission (SEC) in 1934<sup>30</sup>. The legislative acts leading up to and created by the SEC include the Securities Act of 1933, the Securities Exchange Act of 1934, the Public Utility Holding Company Act of 1935, the Trust Indenture Act of 1939, the Investment Company and Investment Advisor Acts of 1940, and, finally, the Sarbanes-Oxley Act of 2002<sup>31</sup>.

The Sarbanes-Oxley Act was a response to far-reaching proposals by the domestic investment community to corporations listed on domestic trading markets to be held more accountable to shareholders<sup>32</sup>.

The Act itself is the result of a combination of two proposals by republican Representative Michael Oxley and democratic Senator Paul Sarbanes<sup>33</sup>. The two had been working on legislative reform independently when the House formed a committee to reconcile the differences between the two proposals. The final conference bill was passed on July 24, 2004 by a 423 to 3 vote in the House and a unanimous vote in the Senate. On July 30, 2002, the Act was signed into law by President George W. Bush. The purpose of the Sarbanes-Oxley Act was to “[mandate] a number of reforms to enhance corporate responsibility, enhance financial disclosures and combat corporate and accounting fraud, and [create] the ‘Public Company Accounting Oversight Board,’ also known as the PCAOB, to oversee the activities of the auditing profession<sup>34</sup>.” The act, in its printed form, consists of sixty-six pages, eleven “titles,” and seventy-nine sections. The following is a summary of the Act<sup>35</sup>. Its full text is available in *Appendix E: The Sarbanes-Oxley Act of 2002*. The eleven main titles of the act are:

Title I	Public Company Accounting Oversight Board
Title II	Auditor Independence
Title III	Corporate Responsibility
Title IV	Enhanced Financial Disclosures
Title V	Analyst Conflicts of Interest
Title VI	Commission Resources and Authority
Title VII	Studies and Reports
Title VIII	Corporate and Criminal Fraud Accountability
Title IX	White-Collar Crime Penalty Enhancements
Title X	Corporate Tax Returns
Title XI	Corporate Fraud and Accountability



*Title I: Public Company Accounting Oversight Board (PCAOB)* establishes the formation and rules for governance over the implementation of Sarbanes-Oxley Act and corporate financial governance. It outlines board membership requirements, procedures, duties, and limits of authority. The title mandates that the board shall: register public accounting firms; set and revise standards for auditing, quality control, ethics and independence; conduct inspections of public accounting firms; conduct investigations concerning, preside over proceedings of, and issue sanctions justified upon registered public accounting firms and associated persons; and set the budget and manage the operations of the Board itself.

*Title II: Auditor Independence* outlines appropriate activities of an auditing firm. Under this title, a registered public accounting firm that offers independent auditing services may not legally offer any other services to a given client, including, but not limited to: bookkeeping or accounting; financial information systems design or implementation; appraisal or valuation services; actuarial services; internal audit outsourcing services; management functions or human resources; brokerage, investment advising, or investment banking services; and legal or expert services unrelated to the audit. The title further states that lead auditing staff cannot have performed any of the before-mentioned services for its client for five years prior to a given audit, timely reports must be made to issuer clients, and conflicts of interest cannot exist with the issuer client. A conflict of interest is defined as the existence of a CEO, CFO, CAO (Chief Accounting Officer)

or controller who was employed by the auditing firm and participated in the audit of the issuer client during the year previous to the audit.

*Title III: Corporate Responsibility* addresses auditor compensation, financial reporting and securities investment standards for issuing client executives. It states that independent auditors shall receive no bonuses, options or other compensation in addition to standard auditing fees, nor shall any independent auditor be an affiliated person with the issuer or any subsidiary thereof. The reporting requirements for issuing clients include an understanding that: any report's signing officer(s) has/have reviewed the report; said officer(s) has/have no knowledge of untrue, misleading, or omitted statements or information; signing officers are responsible for establishing, maintaining, evaluating, and making known to key management appropriate internal controls; and any fraud or significant deficiencies in design or operation of internal controls that could adversely affect the reporting of data have been disclosed. If any restatement or reissue of financial reports is necessary due to material noncompliance of the issuer, the CEO and CFO of the issuer shall reimburse the issuer for any bonuses, incentive- or equity-based compensation, or profits realized from the sale of securities during the twelve-month period following publication of the initial report. *Title III* further states that it shall be unlawful to influence, coerce, manipulate, or mislead in a fraudulent way any independent public or certified accountant engaged in an audit of the issuer. Finally, this title addresses insider-trading practices during pension or investment fund blackout periods. It states that it is unlawful for any director or executive officer to acquire, sell, or transfer any security

of the issuer during any period of more than three consecutive business days during which the ability of not fewer than 50 percent of the participants or beneficiaries under all individual account plans maintained by the issuer to acquire, transfer, or sell an interest is temporarily suspended by the issuer or by a fiduciary of the plan.

*Title IV: Enhanced Financial Closures* addresses in more detail the requirements of reporting, conflicts of interest, and internal controls. It requires that any reporting material adjustments be identified to the issuer's registered public accounting firm in accordance with Generally Accepted Accounting Principles (GAAP) and the regulations of the SEC. This requirement includes disclosure of all material off-balance sheet transactions, arrangements, obligations, and other relationships with unconsolidated entities that may have effect on financial condition, liquidity, capital expenditures, or significant components of revenues or expenses. Title IV also prohibits the extension of any personal loan or credit to any director or executive officer of the issuer by the issuer or any of its subsidiaries. The title further requires more detailed accounts of internal financial controls, adherence to a defined code of ethics (which the SEC defines as "honest and ethical conduct, including ethical handling of actual or apparent conflicts of interest between personal and professional relationships"), and timely reporting of major changes to a company's financial structure in addition to periodic reporting as required by the act. Management must further include a statement on internal control and the issuer's auditors must review the statement and include it with auditing reports.

*Title V: Analyst Conflicts of Interest* prohibits a broker or dealer involved with investment banking activities from retaliating against a securities analyst as a result of an unfavorable research report that may adversely affect the investment banking relationship of the broker or dealer with the subject of the research report. The title also establishes safeguards to assure that securities analysts are separated within an investment firm from the review, pressure or oversight of those whose involvement in investment banking activities might bias their judgment.

*Titles VI and VII: Commission Resources and Authority and Studies and Reports* (respectively) outline duties, fiscal appropriations, and guidelines and authority in study and reporting to Congress of the SEC oversight board.

*Title VIII: Corporate and Criminal Fraud Accountability* protects the integrity and preservation of financial or otherwise relevant documents held by the issuer or any accounting, auditing, or otherwise associated company. It prohibits knowingly destroying, altering, concealing, or falsifying records with the intent to obstruct or influence an investigation in a matter in federal jurisdiction or bankruptcy and mandates a five-year retention period for such documents. The title further provides whistleblower protection against retaliation and discrimination for employees of publicly traded companies who assist in proceedings involving alleged securities law violations. *Title X: Corporate Tax Returns* similarly mandates that the Federal Income Tax return of a corporation be signed by its CEO.

*Title IX: White Collar Crime Penalty Enhancements* amends prior federal law to increase penalties for attempts or conspiracies to commit fraud (including mail

and wire fraud) and Employment Retirement Income Security Act (ERISA) violations. It further increased penalties for acts of fraud by 300 to 1,900 percent (one ERISA violation penalty increased from \$5K to \$100K, for example) (Cornell). Similarly, *Title XI: Corporate Fraud Accountability* defines increased penalties for alteration, destruction, or concealment of relevant documents and mandates guidelines for escrow of extraordinary payments made to parties employed by or associated with the issuer during the course of any securities investigation.

### ***Hindsight: Application of Sarbanes-Oxley to Enron Governance***

The majority of the charges brought against the employees and business partners of Enron are classified as fraud (*See Appendix D: Enron Adjudication (Estimated)*). Most charges are listed as wire fraud, securities fraud, bank fraud, or conspiracy to commit one of these forms of fraud. Other charges that appear in the adjudication table include money laundering, insider trading, and falsifying books, records, and accounts. While most of the unethical actions committed by Enron's employees and partners were able to be classified as criminal activity, much of the activity in question was required to be treated under the broad umbrella of "fraud" for lack of better-defined laws and regulations. Due to ambiguity in laws and judicial instructions, many of Enron's players were not convicted or even indicted. Further, the laws that existed prior to Sarbanes-Oxley did not address one of the largest obstacles in prosecution: proof of knowledge and intent. Commerce standards were established and have been amended, but very little has been done to govern *personal* accountability of corporate decision-makers.

Sarbanes-Oxley addresses personal behavior by putting strict measures in place to define, as well as possible, ethical standards of conduct, conflict of interest, accountability, unfair practices, and appropriate disclosure. Intangible concepts of behavior have been made more concrete and measurable. A summary table of revision of these definitions is available on page fourteen, following this section.

CEO's, for example, can no longer claim ignorance (as Kenneth Lay and Jeffrey Skilling did<sup>36</sup>) upon discovery of financial crimes made by their companies under Titles III and V, which require signatures on corporate tax documents and further signed statements accounting for controls and awareness of company accounting practices. Project bonuses that have been issued to management are now required to be repaid if earnings reported on said project are later disclosed as false or misleading (as in the Dabhol, India and Blockbuster Video-on-Demand projects) under Title III. Any non-standard accounting practices, such as Enron's mark-to-market income reporting techniques, must now not only be approved by the Public Company Accounting Oversight Board (PCAOB), but must also be disclosed and fully-explained in all financial reporting under Title IV. Arthur Andersen's act of approving this accounting concept has also been declared illegal as a service outside the scope of an independent audit, as defined in Title II.

Conflicts of interest, income generating practices, and methods of "removing" debt have also been addressed by Sarbanes-Oxley. Andrew Fastow, who managed several companies with which Enron did business, was indicted on 98 counts of criminal activity including fraud, but was only convicted of two of those

counts in return for cooperating with the prosecution<sup>37</sup>. His management of these companies would now be more clearly and convincingly identified and penalized under Titles III and IV. The further use of these companies to purchase poorly performing assets and subsidiaries of Enron above market value (thus disguising debt) is outlawed in Title IV. The “arbitrage” schemes used to manipulate the newly deregulated market and hike California energy prices are now outlined as illegal under Title IX. The temporary purchase of energy barges in Nigeria by Merrill-Lynch, which was determined to be a disguised loan and method for hiding debt<sup>38</sup>, is addressed under Titles IV and V.

Finally, the most blatant of Enron executives’ crimes concerning securities trading, though already clearly illegal, were further defined and sanctioned in Sarbanes-Oxley, Titles III and IX. These include the infamous “pump and dump” strategy of using inflated income reporting to raise stock values and sell personal shares, the further sale of personal shares during employee retirement plan activity blackout periods<sup>39</sup>, and the erosion of pension accounts during the fall of Enron stock value while its executives continued to receive bonuses. More detail was given to the definition of such securities violations and sanctions were increased by as much as twenty times their original penalties.

***Effect of Changes in Legislation on Adjudication of Enron Practices (Summary)***

***Enron Practice(s)                                      Before Sarbanes-Oxley                      After Sarbanes-Oxley***

<i>"Mark to Market" Income Reporting</i>	<i>no clear legislation</i>	<i>Title IV, Title IX</i>
<i>Approval of "Mark to Market" by Arthur Andersen</i>	<i>no clear legislation</i>	<i>Title II</i>
<i>Shredding of documents by Enron and Arthur Andersen</i>	<i>obstruction of justice</i>	<i>Title VIII, Title XI</i>
<i>Bonuses issued on the failed Dabhol, India power plant project</i>	<i>no clear legislation</i>	<i>Title XI</i>
<i>Bonuses issued on the failed Blockbuster "Video on Demand" project</i>	<i>no clear legislation</i>	<i>Title XI</i>
<i>California power crisis arbitrage schemes</i>	<i>fraud</i>	<i>Title IX</i>
<i>Fastow's management of Enron client companies</i>	<i>no clear legislation</i>	<i>Title III, Title IV</i>
<i>The temporary purchase of Enron capital by Merrill-Lynch</i>	<i>fraud</i>	<i>Title IV, Title V</i>
<i>"Pump and dump" securities value inflation strategy</i>	<i>fraud; insider trading</i>	<i>Title III, Title IX</i>
<i>Executive securities trading during employee retirement plan blackouts</i>	<i>fraud</i>	<i>Title III, Title IX</i>
<i>Lack of accountability by members of the Board of Directors</i>	<i>no clear legislation</i>	<i>no clear legislation</i>
<i>Loss of pensions by Enron employees</i>	<i>civil litigation</i>	<i>Title III, Title IX</i>



### ***The Ills within the Cure***

Sarbanes-Oxley, as stated previously, is the largest piece of commerce reform since the 1930's, and its necessity had become increasingly evident during the decade that preceded it. It closes many loopholes in corporate governance that were more a product of industrial "evolution" than of poor design. It acknowledges the unfortunate necessity in the corporate realm for actual "rules" on how to behave ethically and responsibly. Yet it still leaves two main issues to be addressed: the costs of implementation and compliance of such legislation and the loopholes still existing in accountability.

Implementation of Sarbanes-Oxley compliance began more than four years ago<sup>40</sup>. Paul S. Atkins, Commissioner of the SEC, said in a recent speech before the Investment Adviser Association that large (more than \$500 million in revenue) companies' revenues have decreased by an average of 2 percent, while small companies have experienced an average 4.5 percent revenue decrease since the implementation of the Act<sup>41</sup>. He further raises the point that other companies, rather than incur the costs of compliance, are choosing to list on foreign markets. He said in his speech:

"One phenomenon that we are observing is an upsurge in the number of American companies that are deciding to list on the London Stock Exchange's Alternative Investment Market (or AIM), rather than list at home and face Sarbanes-Oxley costs. This also represents a major marketing strategy of the AIM Market. In 2005, the London Stock Exchange attracted a record 19 companies from the US to AIM, raising a combined total of more than \$2 billion. That number is about 15% of the total IPOs last year on NASDAQ, but just about equal to the number of international IPOs on NASDAQ last year. That might be a good result for London, but it is not necessarily a good result for the vibrancy of the market place here<sup>42</sup>."

The direct costs of compliance are largely impacting our American companies in a tangible way, and the loss of other companies into foreign securities markets are equally—if not more—threatening and yet less measurable. The major domestic accounting firms did report a large first year swell in earnings as a result of the act (specifically Section 404), and now report that these fees have gone down, indicating that compliance spending is tapering<sup>43</sup>.

Even with all of these costs being incurred, some issues of accountability are still not addressed. As noted in *Appendix C: Enron Executives and Stock Sales*, several of the largest securities moneymakers were members of Enron's Board of Directors. None of these members has been held in any way responsible for the company's criminal activity. Lou Pai, the largest earner on the list, received no indictments for his role as CEO of Enron Energy Services, nor was he required to return any of his proceeds (or bonuses from the failed Dabhol, India project)<sup>44</sup>. He sold his shares, he says, in order to liquidate for divorce proceedings<sup>45</sup>. Andrew Fastow, who received more indictments than any other individual involved with the Enron scandal, was convicted of only two counts in exchange for cooperation with prosecuting attorneys<sup>46</sup>. One has to question the point of new legislation if sanctions can be avoided by merely "rolling over" on colleagues. The plea-bargain strategy ensures safety for the crafty few, not the wronged masses. The letter of the Sarbanes-Oxley Act is nearly as strong as its spirit, but still needs to address these questions of practicability and accountability.

## ***Summary***

It is overwhelmingly asserted that the acts of Enron and many of its management were criminal, unethical, and maintained a blatant disregard for the welfare of its investors, customers and employees. It is also widely agreed that Sarbanes-Oxley is a very important and necessary act of legislation. Scorn, legislation, and even extreme prosecution will not be enough to end this form of behavior in the future, however. That kind of change will require even narrower legislation and closer scrutiny by all parties—government, management, investors, analysts and employees—of behavior of a *company and its people*, not just its stock value.

As is the case with any major new legislation, a passing of time will be necessary to determine the true value of Sarbanes-Oxley. There are many differing opinions on the costs, effectiveness, and thoroughness of the Act. Regulations will require continual examination, analysis, and modification by the courts to become a more perfect law, and will continue to evolve as commercial and political climates change and grow.

## End Notes

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- <sup>1</sup> McLean, page 405.
- <sup>2</sup> Bryce, page 32.
- <sup>3</sup> Lay, pages 8-9.
- <sup>4</sup> Bryce, page 31.
- <sup>5</sup> Gibney [motion picture].
- <sup>6</sup> Ibid.
- <sup>7</sup> McFadden, Charles [on-line].
- <sup>8</sup> McLean, pages 27 and 35.
- <sup>9</sup> Ibid, page 39.
- <sup>10</sup> Ibid, page 40.
- <sup>11</sup> Niskanen, page 232.
- <sup>12</sup> Atkins, Paul S., SEC Speech [on-line].
- <sup>13</sup> Callari, Ron [on-line].
- <sup>14</sup> McLean, page 83.
- <sup>15</sup> Bryce, pages 282-283.
- <sup>16</sup> McLean, pages 107-108.
- <sup>17</sup> Ibid, page 264.
- <sup>18</sup> Gibney [motion picture].
- <sup>19</sup> Ibid.
- <sup>20</sup> McLean, pages 269-270.
- <sup>21</sup> Ibid, page 282.
- <sup>22</sup> Ibid, pages 133 and 140.
- <sup>23</sup> Ibid, pages 168-169, 189, and 189-190.
- <sup>24</sup> Ibid, page 365.
- <sup>25</sup> *Wall Street Journal*, "Status of Enron Cases" [on-line].
- <sup>26</sup> Ibid.
- <sup>27</sup> Gibney [motion picture].
- <sup>28</sup> Ibid.
- <sup>29</sup> Ibid.
- <sup>30</sup> Securities and Exchange Commission [on-line].
- <sup>31</sup> Ibid.
- <sup>32</sup> Benston, page 49.
- <sup>33</sup> *Inside Sarbanes-Oxley* [on-line].
- <sup>34</sup> Securities and Exchange Commission [on-line].
- <sup>35</sup> The Sarbanes-Oxley Act of 2002 [on-line].
- <sup>36</sup> Axtman [on-line].
- <sup>37</sup> *Wall Street Journal*, "Status of Enron Cases" [on-line].
- <sup>38</sup> Ibid.
- <sup>39</sup> Gibney [motion picture].
- <sup>40</sup> The Sarbanes-Oxley Act of 2002 [on-line].
- <sup>41</sup> Atkins, Paul S., Atkins, Paul S., SEC Speech [on-line].
- <sup>42</sup> Ibid.
- <sup>43</sup> Ibid.
- <sup>44</sup> *Wall Street Journal*, "Status of Enron Cases" [on-line].
- <sup>45</sup> McLean, page 302.
- <sup>46</sup> *Wall Street Journal*, "Status of Enron Cases" [on-line].

## **Appendix A: Chronology of Enron<sup>1</sup>**

1985	Houston Natural Gas merges with InterNorth to form Enron. Houston Natural Gas CEO Kenneth Lay becomes CEO of the combined company the following year.
1989	Enron begins trading natural gas as a commodity.
1990	Kenneth Lay hires Jeffrey Skilling to lead the company's effort to focus on commodities trading in the deregulated markets. Andrew S. Fastow becomes one of Skilling's first hires later that year.
1991	Richard Causey leaves Arthur Andersen LLP to join Enron as assistant controller.
1992-Jun-5	Enron sends a group of officials to New Delhi to make arrangements to survey the land around Dabhol for the purpose of building a large power plant.
1992-Jun-20	Enron and the government of the state of Maharashtra sign a non-binding memorandum of understanding to build the plant. This leads to formation of the Dabhol Power Company (DPC), a joint venture of Enron and two other American corporations, General Electric and Bechtel.
1993-Feb	A formal agreement is signed for a plant that could generate about 2450 megawatts at an approximate cost of \$3 billion.
1993-Apr	Heinz Vergin, World Bank manager for India, rejects Enron's loan application, saying that the Dabhol plant is "not economically viable."
1993-Nov	The Central Electricity Authority in New Delhi gives provisional clearance to the project. It was the largest single foreign investment in India.
1994	The Washington-based Export-Import Bank approves a \$302 million loan toward a \$3 billion Enron-controlled power plant in India. President Clinton takes an interest in the deal, asking the U.S. ambassador to that country and his former chief of staff, Thomas F. "Mack" McLarty, then a presidential adviser, to monitor the proposal.
1995-Aug	Clinton administration's cabinet members, Treasury Secretary Robert Rubin and Energy Secretary Hazel O'Leary, personally urge India to accept Enron's proposed project.
1996	"Mack" McLarty, who later became a paid Enron director, speaks with Ken Lay on several occasions about the plant. Four days before India granted approval for Enron's project, the Houston-based firm contributes \$100,000 to the Democratic Party.
1997	Skilling named president and chief operating officer of Enron. Fastow creates Chewco, a partnership, to buy the University of California pension fund's stake in another joint venture dubbed JEDI, but Chewco doesn't meet requirements to be kept off Enron's balance sheet. First step toward similar financial moves to hide debt and inflate profits that fuel Enron's downfall.
1997-Nov-14	Enron International's CEO Rebecca Mark unveiled an energy plan that included a \$300 million project to build a pipeline from Dabhol to Hazira and to the North to add 1200 km of complimentary pipeline system to the existing HBJ pipeline at a cost of \$900 million.
1997-Dec-7	Unocal invited a Taliban contingency to visit them in Houston, Texas, housed them in five-star hotels, dined them at the home of Unocal VP and medically treated the former foreign minister, Mullah Mohammed Ghaus before he returned home.
1998	Fastow named finance chief.
1999	Causey named chief accounting officer. Fastow creates the first of two partnerships, LJM, purported to "buy" poorly performing Enron assets and hedge risky investments but really helps the company hide debt and inflate profits. Enron directors approve Fastow's plan that he run the partnerships that do deals with Enron while continuing as Enron's finance chief. Causey and former chief risk officer Rick Buy assigned to monitor such deals to protect Enron's interests.

1999-Jan-25	Human Rights Watch released a report that indicated human right violations had occurred as a result of opposition to the Dabhol Power project. Beginning in late 1996 and continuing throughout 1997, leading Indian environmental activists and representatives of villagers' organizations in the affected area organized to oppose the project and, as a direct result of their opposition, were subjected to beatings, repeated short-term detention and were not paid.
2000-Jun-Oct	Maharashtra government allies demand scrapping the project because of the cost of the power it produces.
2000-Aug	Enron shares reach high of \$90.
2000-Nov-1	Enron CEO Kenneth Lay begins selling Enron shares.
2000-Dec	Enron announces that Skilling, then president and chief operating officer, will succeed Kenneth Lay as CEO in February 2001. Lay will remain as chairman.
2001-Jan-8	California governor Gray Davis calls Enron and other energy companies "out-of-state profiteers" during the 2000 California energy crisis.
2001-Feb	Vice President Cheney's energy task force changed a draft energy proposal to include a provision to boost oil and natural gas production in India. The amendment was so narrow that it apparently was targeted only to Enron's power plant in India.
2001-Feb-5	Enron executives get bonus checks for millions of dollars. Arthur Andersen auditors internally question the LJM partnerships.
2001-Feb-6	Enron is named "most innovative company in America" for the sixth consecutive year by Fortune Magazine.
2001-Feb-12	Skilling is named CEO. Arthur Andersen tells the Enron board of directors audit committee that they have no concerns.
2001-Mar-8	Enron lawyer Jordan Mintz sends a memorandum questioning the LJM partnerships to Enron chief risk officer Richard Buy and chief accounting officer Richard Causey.
2001-Mar-26	To cover problems in the Raptor partnerships, Enron repurchases Chewco's investment in JEDI for \$35 million, netting Enron executive Michael Kopper over \$10 million.
2001-Apr-17	Enron announces a first quarter profit of \$536 million. Lay and other Enron officials meet with Vice President Dick Cheney.
2001-May-5	Enron's stock price closes below \$59.78, a critical point for one of the partnerships.
2001-May-18	Chief executive of Enron Xcelerator Lou Pai sells 1.1 million Enron shares over the next 21 days.
2001-Jun	Construction halted on the Dabhol plant.
2001-Jun-6	Enron general counsel Jim Derrick sells 160,000 Enron shares over the next ten days.
2001-Jun-12	Skilling jokes about the California electricity crisis at a Las Vegas conference.
2001-Jun-21	Skilling is hit in the face with a pie during a visit to California.
2001-Jun-27	Cheney stepped in to try to help Enron collect a \$64 million debt from Dabhol. Conducted at a Washington meeting between Cheney and the leader of India's opposition, Sonia Gandhi.
2001-Jul-13	Chief executive of Enron Broadband Services Ken Rice sells 386,000 Enron shares.
2001-Jul-23	Enron's stock price closes below \$47, a critical point for the Raptor partnerships.
2001-Jul-27	Director Robert Belfer sells 100,000 Enron shares.
2001-Aug-14	Citing "personal reasons," Skilling resigns as CEO. Lay replaces him, stating "Absolutely no accounting issue, no trading issue, no reserve issue, no previously unknown problem issues" are involved.

2001-Aug-15	Sherron Watkins, a vice president for corporate development, puts a one-page letter in Lay's suggestion box, questioning Enron's accounting practices.
2001-Aug-20	Watkins phones a former co-worker at Arthur Andersen about her worries. Lay exercises 25,000 share options at \$20.78 (\$519,000 total value); the stock closes at \$36.25. One of Lay's lawyers states later that some of the stock was used to repay an Enron line of credit.
2001-Aug-21	Lay emails employees, stating "one of my highest priorities is to restore investor confidence in Enron. This should result in a significantly higher stock price." He exercises 68,620 share options at \$21.56 (\$1,479,477 total value); the stock closes at \$36.88. One of Lay's lawyers states later that Lay never sold the shares, which are now practically worthless. David B. Duncan, the lead partner on the Enron account for Arthur Andersen, meets with three other AA officials to discuss the Watkins call. A memo states they "agreed to consult our firm's legal adviser about what actions to take."
2001-Aug-22	Finance executive Sherron Watkins meets privately with Lay to discuss concerns of murky finance and accounting that could ruin the company. Gives him a seven-page letter stating that Enron may be an "elaborate accounting hoax," and advises him not to involve Vinson & Elkins, Enron's law firm, because of potential conflicts of interest. V&E is asked if an inquiry is necessary, but told not to bother "second-guessing the accounting advice and treatment."
2001-Sep-5	Lay announces that the company will divest itself of \$4-\$5 billion in assets in the next two years.
2001-Sep-17	Jeffrey Skilling sells 500,000 Enron shares.
2001-Sep-21	Director Robert Belfer sells 109,000 Enron shares.
2001-Sep-26	Lay tells employees that Enron's accounting practices are "legal and totally appropriate," that Enron stock is "an incredible bargain," that he and other executives have bought Enron stock in the last two months, and that "the third quarter is looking great" in an online forum.
2001-Oct-9	Arthur Andersen hires the Davis Polk & Wardwell law firm to prepare a defense for the company.
2001-Oct-12	An Arthur Andersen lawyer in Chicago, Illinois, Nancy Temple, emails an Andersen partner in Houston, Texas, Michael Odom, reminding him of the Andersen document retention and destruction policy. He forwards the email to a co-worker.
2001-Oct-15	Vinson & Elkins deliver a report which states that Arthur Andersen approved of Enron's accounting procedures, and that Enron did nothing wrong.
2001-Oct-16	Enron announces \$638 million in third-quarter losses and a \$1.2 billion reduction in shareholder equity stemming from writeoffs related to failed broadband and water trading ventures as well as unwinding of so-called Raptors, or fragile entities backed by falling Enron stock created to hedge inflated asset values and keep hundreds of millions of dollars in debt off the energy company's books.
2001-Oct-17	To correct an accounting error on the Raptor partnerships devised by CFO Andrew Fastow, Enron's assets (shareholder equity) are reduced by \$1.01 billion. The Enron 401(k) retirement plan is frozen for administrative changes.
2001-Oct-19	Securities and Exchange Commission launches inquiry into Enron finances.
2001-Oct-22	Enron acknowledges SEC inquiry into a possible conflict of interest related to the company's dealings with Fastow's partnerships. Lay says, "We will cooperate fully with the SEC and look forward to the opportunity to put any concern about these transactions to rest." The Arthur Andersen partner in charge of the Enron account, David B. Duncan tells the audit managers to comply with the Andersen document retention policy, and observes them doing so by shredding documents.
2001-Oct-23	Lay professes confidence in Fastow to analysts.
2001-Oct-23	Lay reassures investors in a conference call, asserting there was no conflict of interest with the Raptor partnerships and that the directors on the board "continue to have the highest faith and confidence" in Fastow. David B. Duncan organizes a meeting of the Enron account group to speed up the document destruction, according to testimony by Arthur Andersen managing director Dorsey Lee Baskin Jr..

2001-Oct-24	Fastow ousted.
2001-Oct-25	Enron sends an email to all employees and to Arthur Andersen stating that all pertinent documents should be preserved.
2001-Oct-31	Enron announces that the SEC inquiry is now a formal investigation.
2001-Nov-5	Enron treasurer Ben Glisan Jr. and in-house attorney Kristina Mordaunt fired for investing in Fastow-run partnership. Each invested \$5,800 in 2001 and received a \$1 million return a few weeks later.
2001-Nov-8	Enron files documents with SEC revising its financial statements for previous five years to account for \$586 million in losses. The SEC subpoenas Arthur Andersen officials.
2001-Nov-9	Dynegy Inc. announces an agreement to buy Enron for more than \$8 billion in stock. Nancy Temple leaves a voice message for David B. Duncan ordering the preservation of all Enron documents. His assistant sends an email to other assistants to "stop the shredding".
2001-Nov-19	Enron restates its third-quarter earnings and discloses a \$690 million debt is due Nov. 27.
2001-Nov-28	Enron stock plunges below \$1 as Dynegy Inc. aborts its plan to buy its former rival.
2001-Nov-29	The SEC begins investigating Arthur Andersen.
2001-Dec-2	Enron files for Chapter 11 bankruptcy.
2001-Dec-12	In testimony before Congress, Arthur Andersen CEO Joseph Berardino states that Enron might have violated securities laws.
2002-Jan-9	Justice Department confirms it has begun a criminal investigation of Enron.
2002-Jan-10	The White House discloses Lay sought help from two Cabinet members shortly before the company collapsed, but neither offered aid. The company's auditor, Arthur Andersen LLP, says it has destroyed tons of Enron documents.
2002-Jan-15	Arthur Andersen announces that it fired David B. Duncan and put three partners on administrative leave.
2002-Jan-18	According to documents released on this date, it was noted the Bush administration intervened with top Indian officials last year in a bid to salvage the Enron project in India. The White House said the effort, involving Vice President Dick Cheney and other senior officials, was justified because the \$2.9 billion Dabhol power project was financed in part through the U.S. government's Overseas Private Investment Corporation (OPIC), a taxpayer-backed agency that provides "political risk" insurance and loans to help U.S. companies invest in developing nations. The White House denied the push was influenced by Enron's political contributions.
2002-Jan-22	Enron executive Maureen Castaneda states that Enron had been shredding documents in its Houston headquarters the previous week.
2002-Jan-23	Lay resigns as chairman and CEO.
2002-Jan-25	Cliff Baxter, former head of Enron's trading unit and later vice president before his resignation in May 2001, found dead of a self-inflicted gunshot wound.
2002-Jan-28	U.S. Ambassador Robert Blackwell addresses an Indian energy industry meeting and demands India honor the "sanctity of contract" and make good on the Enron debt, warning that India's hopes for "big-time international investment" could be harmed otherwise.
2002-Feb-4	Lay resigns from the board.
2002-Feb-7	Skilling, Fastow, Michael Kopper appear at Congress with McMahon and in-house Enron lawyer Jordan Mintz. Skilling testifies; Fastow and Kopper invoke Fifth Amendment rights.
2002-Feb-12	Lay invokes Fifth Amendment at a Senate hearing after expressing "profound sadness" at Enron's collapse.



2002-Feb-20	OPIC reveals that it gave Enron \$554 million in loans and \$204 million in insurance. Congress also learns the the Export-Import Bank loaned \$675 million to Enron and associated companies.
2002-Mar-14	Former Enron auditor Arthur Andersen LLP indicted for destroying Enron-related documents to thwart investigators.
2002-Apr-9	David Duncan, Andersen's former top Enron auditor, pleads guilty to obstruction for instructing his staff to destroy documents as per company policy.
2002-Jun-15	Andersen convicted.
2002-Aug-13	FERC launches a formal investigation into potential misconduct in the power generating and marketing industry.
2002-Aug-21	Former top Fastow aide Michael Kopper pleads guilty to money laundering and conspiracy, the first ex-Enron executive to strike a deal with prosecutors. He identifies a string of partnerships designed to falsely portray Enron as financially healthy while enriching him, Fastow and others.
2002-Sep-12	Three former National Westminster Bank bankers indicted for wire fraud for siphoning off millions of dollars in income intended for their employer through investments in a Fastow partnership. They are fighting extradition.
2002-Oct-16	Andersen sentenced to probation and fined \$500,000; firm was already banned from auditing public companies and had only a few hundred employees left after its conviction.
2002-Oct-17	Former top Enron trader Timothy Belden pleads guilty to wire fraud for participating in schemes to game California's power markets during the state's energy crisis in 2000 and 2001.
2002-Oct-31	Fastow indicted on 78 charges of conspiracy, fraud, money laundering and other counts.
2002-Nov-26	Former midlevel executive Larry Lawyer pleads guilty to filing false tax forms for failing to report as income nearly \$80,000 in "gifts" Kopper funneled to him for his work on a shady Fastow transaction.
2003-Feb-4	Former Enron trader Jeffrey Richter pleads guilty to conspiracy and lying to the FBI for helping manipulate California's electricity market in 2000.
2003-Mar-12	Indictment unsealed against two former Enron Broadband finance and accounting executives, Kevin Howard and Michael Krautz, on charges of faking \$111 million in earnings from a failed video-on-demand deal with Blockbuster.
2003-Mar-17	Merrill Lynch, its four former executives and the SEC agree to settle the Enron security fraud case for \$80 million. It is one of the five largest penalties imposed on security-related civil cases.
2003-Apr-30	Counts against Fastow increased to 98, while his wife Lea is charged with tax crimes and conspiracy for participating in some of husband's deals. Five other former broadband executives charged with lying to Wall Street and investors about capabilities of Enron's broadband network to inflate company stock. Former Enron treasurer Ben Glisan Jr. charged with conspiracy and money laundering for participating in Fastow-controlled deals. Former finance executive Dan Boyle charged with conspiracy for his role in pushing through Enron's sham sale of power plants mounted on barges near Nigeria to Merrill Lynch & Co. to help the energy company appear to have met earnings targets.
2003-Sep-10	Glisan pleads guilty to conspiracy and goes straight to prison for five years, becoming the first former Enron executive behind bars. Later begins cooperating with prosecutors.
2003-Sep-17	Indictments unsealed against three former Merrill Lynch bankers for their roles in the Nigerian barge deal. A fourth former Merrill Lynch executive and a former in-house Enron accountant later charged in the same deal.
2003-Oct-30	David Delainey, a former chief executive of Enron's trading unit, pleads guilty to one count of insider trading, acknowledging he was in on a "senior management" scheme to manipulate the company's earnings to meet or exceed Wall Street's expectations while selling \$4.2 million in stock.
2003-Dec	Enron subsidiary PGE agrees to pay \$8.5 million to settle a case involving illegal trading practices, while admitting no wrongdoing. \$1.3 million of the payment will go to the state of Oregon.

2004-Jan-6	A New York judge gives his initial approval to Enron's plan for bankruptcy reorganization. Under this plan, creditors would receive \$11 billion in cash and stock.
2004-Jan-14	Andrew Fastow pleads guilty to two counts of conspiracy and agrees to serve 10 years in prison after prosecutors no longer need his cooperation. Andrew Fastow will serve a ten-year prison sentence and forfeit \$23.8 million. Lea Fastow, former Assistant Treasurer for Enron, will serve a five-month prison sentence and a year of supervised release, including five months of house arrest. Both will provide testimony against other Enron corporate officers.
2004-Jan-22	Former top Enron accountant Richard Causey pleads innocent to conspiracy and fraud charges for allegedly being "a principal architect" of widespread schemes to mislead investors in the scandal-ridden energy company.
2004-Feb-19	Skilling added to Causey indictment, pleads innocent to more than 30 counts including conspiracy, fraud and insider trading. Indictment expanded to push counts against Causey past 30 as well.
2004-May-6	Lea Fastow pleads guilty to a reduced charge of filing a false tax form, a misdemeanor, and is sentenced to the maximum sentence of one year in prison.
2004-May-19	Former Enron corporate secretary Paula Rieker pleads guilty to one count of insider trading for selling stock in July 5 knowing Enron's broadband unit lost more money than publicly claimed.
2004-Jul-8	Lay surrenders to FBI. Indictment unsealed, accusing him of participating in a conspiracy to manipulate Enron's quarterly financial results, making false and misleading public statements about the company's financial performance and omitting facts necessary to make financial statements accurate and fair. Lay pleads innocent.
2004-Jul-15	U.S. Bankruptcy Judge Arthur Gonzalez confirms Enron's reorganization plan in which most creditors will receive about one-fifth of the the approximate \$63 billion they're owed in cash and stock.
2004-Jul-30	Former Enron Broadband CEO Kenneth Rice pleads guilty to securities fraud, and forfeits \$13.7 million in cash and property that includes jewelry and a pair of exotic sports cars.
2004-Aug-5	Former top Enron trader John Forney pleads guilty in San Francisco to manipulating energy prices during California's power crisis in 2000-2001.
2004-Aug-25	Former Enron investor relations head Mark Koenig pleads guilty to aiding and abetting securities fraud. Koenig helped present falsified financial reports to investors.
2004-Aug-31	Former Enron Broadband chief operating officer Kevin Hannon pleads guilty to one count of conspiracy.
2004-Oct-7	Former Enron assistant treasurer Timothy Despain pleads guilty to conspiracy and agrees to cooperate with prosecutors.
2004-Oct-15	A British judge rules that three British bankers indicted in the United States on Enron-related fraud charges could be extradited to stand trial in Texas. They continue to fight the ruling.
2004-Oct-19	A federal judge grants Lay a trial separate from Skilling and Causey on charges of bank fraud and lying to banks about using loans to buy Enron stock on margin, but rules the trio will be tried together on other charges.
2004-Nov-3	Jurors convict four former Merrill Lynch & Co. executives, including former head of investment banking Daniel Bayly, and a former midlevel Enron Corp. finance executive, Dan Boyle, of conspiracy and fraud in the barge case. A former in-house Enron accountant is acquitted. Former Enron finance director Dan Boyle and former Merrill Lynch bankers Daniel Bayly, Robert Furst, William Fuhs and James Brown are each convicted of one conspiracy count and two counts of wire fraud and face up to 15 years in prison.
2005-Apr-18	Enron broadband trial begins.

2005-May-31	U.S. Supreme Court overturns former Andersen conviction, ruling unanimously that vague jury instructions allowed jurors to convict without finding criminal intent behind mass document destruction. The government said in November 2005 that prosecutors will not retry the firm, reduced to about 200 workers from 28,000 who mainly handle pending lawsuits.
2005-Jul-15	Former Enron accounting executive Christopher Calger pleads guilty to conspiracy for participating in a scheme to recognize earnings prematurely and improperly.
2005-Jul-20	Jury in Enron broadband trial acquits three of five defendants on some charges but deadlocks on most of the 164 counts. The five defendants will be retried on fewer counts in three separate trials in May, June and September of 2006.
2005-Aug-2	Canadian Imperial Bank of Commerce agrees to pay \$2.4-billion to settle Enron investors suit after the lead plaintiff accused the bank of participating in an "elaborate scheme to defraud investors." CIBC did not admit or deny any wrongdoing as part of the deal.
2005-Dec-12	A judge approves David Duncan's withdrawal of his guilty plea after Arthur Anderson LLP verdict is overturned.
2005-Dec-28	Causey pleads guilty to securities fraud and agrees to serve seven years in prison in exchange for cooperating with the government.
2006-Jan-30	Lay, Skilling trial begins.
2006-Mar-7-8	Fastow testifies that Skilling encouraged the use of off-balance sheet deals; also says Lay knew about the company's financial problems in summer 2001 but misled the public.
2006-May-17	Jury begins deliberations.
2006-May-25	Lay and Skilling are convicted of conspiracy to commit securities and wire fraud in connection with Enron's collapse. Lay is convicted in a separate bank fraud case.

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<sup>1</sup> Compiled from *The Globe and Mail* [on-line], *The Chicago Tribune* [on-line], and the *Ablion Monitor* [on-line].

# ENRON



# PLAYERS

photos taken from the Houston Chronicle  
<http://www.chron.com/enron>



**Kenneth Lay**



**Jeffrey Skilling**



**Andrew Fastow**



**Michael Kopper**



**Lawrence Lawyer**



**John M. Forney**



**Jeffrey Richter**



**Christopher Calger**



**Clifford Baxter**



**Richard Causey**



**Jeff McMahon**



**Ben Glisan Jr.**



**Timothy Despain**



**Dave Delaney**



**Timothy Belden**



**Sherren Watkins**



**Lea Fastow**



**Dan Boyle**



**Shella Kahanek**



**Ken Rice**



**Joe Hirko**



**Kevin Howard**



**Rex Shelby**



**Kevin Hannon**



**Michael Krautz**



**Paula Rieker**



**Mark Koenig**



**F. Scott Yeager**

## Merrill Lynch



**Daniel Bayly**



**James A. Brown**



**Robert Furst**



**William Fuhs**

## Greenwich NatWest



**Gary Mulgrew**



**Giles Darby**



**David Birmingham**

## Arthur Andersen



**Nancy Temple**



**David Duncan**



## ENRON PLAYERS: PROFILES AND LEGAL INFORMATION<sup>1</sup>

*listed alphabetically:*

### **Baxter, J Clifford**

Close friend of Skilling, resigned as vice chairman in May 2001 ... In January, fatally shot himself in a car a short distance from his Sugar Land home in the middle of the night ... Left a suicide note ... Friends have said he was deeply depressed over the company's collapse ... In her memo to Ken Lay, Sherron Watkins said Baxter had "complained mightily to Skilling and all who would listen about the inappropriateness of our transactions with LJM."

### **Bayly, Daniel**

Global head of the investment banking division at Merrill Lynch from 1999 until 2001, when he retired.

Accused of participating in a conference call with Enron's Andrew Fastow to secure unwritten assurances that if Merrill Lynch were to buy Enron's interest in some Nigerian power-plant barges so that Enron could post record earnings, Enron would in turn guarantee Merrill Lynch a profit when Enron bought back the investment in six months or found another buyer.

Legal status: Found guilty of conspiracy to commit wire fraud and falsify books and records. Sentenced to 2 years, 6 months in prison. Fined \$840,000.

### **Belden, Timothy**

Went to work for Enron in 1997 and became chief trader at Enron Power Marketing in Portland, Ore., although he remained a Houston resident... Employing trading strategies bearing nicknames like "Fat Boy," "Ricochet" and "Get Shorty," Belden – working with other, unnamed parties – tried to manipulate energy markets in California between 1998 and 2001, a time the state was desperate for electricity.

Legal status: Pleaded guilty in October 2002 to conspiracy to commit wire fraud in connection with manipulating energy prices in California. He agreed to cooperate with prosecutors and is awaiting sentencing.

### **Bermingham, David**

Formerly a finance specialist at Greenwich NatWest, a division of London's National Westminster Bank, now the Royal Bank of Scotland. Britain's Guardian newspaper reports he's believed to now be working in film finance.

With the help of Enron's Michael Kopper, he and two other British bankers are accused of an intricate financial scheme involving an off-the-books Enron partnership called Southampton, run by the Houston company's chief financial officer, Andrew Fastow. Prosecutors say the trio bilked their employer out of more than \$7 million.

Legal status: Indicted in Houston on seven counts of wire fraud and fighting extradition from London.

### **Boyle, Dan**

Clear Lake resident. Former vice president at Enron's Global Finance group. Enron's point person in Nigerian barge deal.

Accused of arranging the "parking" of Enron's interest in three floating power plants off Nigeria's coast that Enron had been unable to sell. Prosecutors say he persuaded Merrill Lynch to help Enron appear to meet its projected profits by temporarily buying Enron's stake in the barges. In exchange, they say, Enron secretly promised Merrill Lynch it would repurchase the barge holdings at a profit. He's accused of lying to a congressional investigator by saying he knew of no such promise.

Legal status: Found guilty of conspiracy to commit wire fraud and conspiracy to falsify books, records and accounts. Also convicted of lying to a congressional investigator. Sentenced in May 2005 to 3 years, 10 months in prison and ordered to pay \$320,000 in fines.

### **Brown, James A**

Former head of Merrill Lynch's Strategic Asset Lease and Finance Group.

Accused of participating in Merrill Lynch's "sham" purchase of power plant barges that were dragging down Enron's bottom line. Prosecutors say he lied he told grand jury he was "not aware" of a promise that Enron's Andrew Fastow secretly made to Merrill Lynch's Daniel Bayly that Enron would repurchase barges from Merrill Lynch at a profit. An e-mail from Brown cited the barge deal, saying, "we had Fastow get on the phone with Bayly and lawyers and promise to pay us back no matter what. Deal was approved and all went well." Allegedly jotted in his notes: "Reputational risk i.e. aid/abet Enron income stmt manipulation."

Legal status: Found guilty of conspiracy to commit wire fraud and conspiracy to falsify books, records and accounts. Also convicted of perjury and obstruction of justice. Sentenced to 3 years, 10 months in prison. Fined \$840,000.

### **Calger, Christopher**

Former Enron vice president in charge of the West Power Origination Group of Enron North America. Negotiated the sale of a project called Coyote Springs II involving an interest in a power plant. He's admitted to using that deal to help Enron record profits that hadn't yet been earned. He lives in Westport, Conn.

Legal status: Awaiting sentencing after pleading guilty in July 2005 to one charge of conspiracy to commit wire fraud and agreeing to cooperate with government prosecutors. Faces a maximum of five years in prison and a fine of \$250,000.

**Causey, Richard**

After getting master's degree in accounting from UT, joined Arthur Andersen, rising to senior manager ... Went to Enron in 1991, rose to chief accounting officer ... Fired in February 2002 ... Has told investigators he believes Skilling approved the restructuring of partnerships that prevented reporting a \$500 million loss.

Legal status: Pleaded guilty to securities fraud Dec. 28, 2005, in a plea deal that calls for a sentence of seven years in prison that could be reduced to five years if he cooperates "fully" with the government. Also agreed to forfeit \$1.25 million.

**Darby, Giles**

Formerly a managing director and energy-industry specialist at Greenwich NatWest, a division of London's National Westminster Bank, now the Royal Bank of Scotland. Britain's Guardian newspaper reports he now works at an engineering firm. With the help of Enron's Michael Kopper, he and two other British bankers are accused of an intricate financial scheme involving an off-the-books Enron partnership called Southampton, run by the Houston company's chief financial officer, Andrew Fastow. Prosecutors say the trio bilked their employer out of more than \$7 million.

Legal status: Indicted in Houston on seven counts of wire fraud and fighting extradition from London.

**Delainey, Dave**

Canadian citizen, former chairman and CEO of Enron Energy Services, the retail contracting business arm of the company. ...Accused of participating in wide-ranging schemes to deceive the public about the true nature of Enron's profitability, he left in March 2002.

Legal status: Pleaded guilty to one count of insider trading in October 2003 and agreed to cooperate in the government's Enron investigations. Must pay the government \$4.2 million as part of his plea bargain, plus hand over \$3.7 million as part of a deal with the Securities and Exchange Commission. Agreed not to serve as an officer or director of any traded company. Awaiting sentencing.

**Despain, Timothy**

Assistant treasurer at Enron from January 1999 to May 2002. Accused of regularly lying to credit agencies to falsely bolster Enron's rating. He admitted that at the behest of the treasurers of Enron, he and others frequently misrepresented cash flow.

Legal status: Pleaded guilty in October 2004 to one count of conspiracy to commit securities fraud and agreed to cooperate with Enron prosecutors. Faces up to five years in prison but is currently awaiting sentencing.

**Duncan, David**

Accounting grad from Texas A&M, began with Arthur Andersen in 1981 ... Headed its Enron team since 1997 ... Admitted he ordered Enron-related documents shredded in October, two days after learning of a federal probe.

Legal status: Pleaded guilty to obstruction of justice in April 2002, but because he agreed to cooperate with prosecutors, his sentencing was repeatedly postponed. With Arthur Andersen's jury conviction overturned by the U.S. Supreme Court and prosecutors declining to retry the case, Duncan's plea and the charge against him were withdrawn in December 2005.

**Fastow, Andrew**

Earned MBA from Northwestern ... Joined Enron in 1990 ... A protege of Skilling, who named him chief financial officer ... Lauded by CFO Magazine for "innovative financing techniques" ... Set up off-the-books partnerships that benefited Enron by hiding debt and inflating revenue ... Dismissed Oct. 24, 2001.

Legal status: Facing 98 counts, he pleaded guilty in January 2004 to one charge of conspiracy to commit wire fraud and one charge of conspiracy to commit wire and securities fraud. Although still awaiting sentencing while he cooperates with prosecutors, his plea bargain calls for him to serve 10 years, forfeit \$23.8 million, including homes in Galveston and Vermont, and forfeit claims on another \$6 million.

**Fastow, Lea**

Comes from prominent Weingarten family, which once owned area's dominant supermarkets... Met husband, Andrew, at Tufts University outside Boston, graduating with him in 1984, working with him at Continental Bank in Chicago and earning MBA with him at Northwestern University... Rose to become assistant treasurer at Enron -- she served as executive assistant of one of Enron's dubious off-the-book partnerships -- but left in 1997 to care for her sons.

Legal status: Pleaded guilty to one tax misdemeanor for not reporting personal income from an Enron side deal on her 2000 return. Sentenced to one year and prison and one year of supervision after her release. Began serving sentence in July 2004. Released to halfway house in June 2005 and sent home in July 2005. She plans to attend nursing school.

**Forney, John M**

Head of Enron's western "real-time" power trading operations in Portland, Ore., from June 1999 until the end of 2000 ...

Accused of creating illegal trading trading schemes to manipulate energy prices that exacerbated a severe energy shortage in California during the winter of 2000-2001. Prosecutors say that in one scheme known as "Forney's Perpetual Loop," traders would send fictitious megawatts across the grid, then accept payment from California's grid operators to relieve the artificial congestion they created on the lines.

Legal status: Awaiting sentencing after pleading guilty in August 2004 to charges he manipulated energy markets during California's power crisis. He had been indicted on 11 counts of conspiracy and wire fraud.

**Fuhs, William**

Denver resident. Former vice president of Merrill Lynch supervised by accused co-conspirator James Brown. Accused of coordinating the closing of Merrill Lynch's agreement to take over Enron's holdings in barges off the coast of Nigeria just long enough for Enron to record a profit from their sale and meet earnings projections. Fuhs also is accused of lying to investigators, saying he was unaware of Enron's secret promise that Merrill Lynch would see a profit when it sold off its interest in the Nigeria barges within six months.

Legal status: Found guilty of conspiracy to commit wire fraud and conspiracy to falsify books, records and accounts. Sentenced in May 2005 to three years and one month in prison and must pay restitution and fines totaling \$665,000.

**Furst, Robert**

Dallas resident. Managing director of Merrill Lynch who was the Enron relationship manager in 1999 and 2000, before resigning in 2001.

Prosecutors say he had a summary drawn up of the proposal for Merrill Lynch to temporarily buy Enron's interest in floating power plants in order to help Enron look financially stronger than it was. That summary included plans to secure confirmation in a conference call that Enron would guarantee Enron or another buyer would repurchase the investment within six months and give Merrill Lynch a 22 percent return. When the six months were up, prosecutors say, Furst and others had a letter written demanding that Enron pay up.

Legal status: Found guilty of conspiracy to commit wire fraud and conspiracy to falsify books, records and accounts. Sentenced in May 2005 to 37 months in prison plus \$665,000 in restitution and fines.

**Glisan Jr., Ben**

Clear Lake native, earned bachelor's and master's degrees from UT ... Worked for Coopers & Lybrand accounting firm in Dallas and Arthur Andersen in Houston before joining Enron in 1996 ... Rose to treasurer in 2000 ... Earned \$1 million on \$5,800 investment in one partnership ... Fired in February 2002.

Legal status: Pleaded guilty to one count of conspiracy to commit wire and security fraud in September 2003 but did not agree to cooperate with prosecutors. The first Enron figure to go to prison, he is serving five years. Forfeited \$900,000 seized by government, plus \$412,000 in taxes he paid on the money.

**Hannon, Kevin**

Former chief operating officer of Enron Broadband Services. Houston resident.

Prosecutors say that over a two-year period, executives in Enron's broadband division systematically lied to investors and the public about the value and capabilities of the business, including its deal with Blockbuster Video, and made millions on stock sales when the share price subsequently rose. The government wants to seize bank accounts, cars and other property from the division's former executives.

Legal status: Originally indicted on charges of conspiracy, money laundering and insider trading. Pleaded guilty in August 2004 to one count of conspiracy to commit securities and wire fraud.

**Hirko, Joe**

A former chief financial officer for Portland Gas and Electric, he helped negotiate Enron's purchase of the utility in 1997 and went on to become co-chief executive officer of Enron Broadband Services. Resident of Portland, Ore.

The biggest fish from Enron's Internet business to stand trial, Hirko was accused of lying in news releases and to stock analysts about the capabilities of the company's networking technology so that he could run up the value of the stock and then cash in. Hirko testified he knew finances but not the technology side of the business and truly believed Enron was going to "fix the Internet." Video from a conference with Wall Street analysts was shown at his trial: "Is this a pipe dream?" Hirko said in the video. "No, this is something that exists today."

Legal status: Trial ended in July 2005 with acquittal of some insider trading and money laundering charges. Mistrial declared on remaining charges, which include conspiracy, securities fraud and wire fraud. Scheduled for a new trial in September 2006.

**Howard, Kevin**

Former chief financial officer for Enron Broadband Services. Houston resident.

Accused of scheming to make it look like Enron had sold the future profits from a venture it was developing with Blockbuster Video to provide in-home movies over the Internet. Prosecutors say the "sale" was nothing more than a disguised loan -- which should have gone down on the books as a liability for Enron rather income -- because Enron had secretly guaranteed its investors they wouldn't lose any money. Howard says no such guarantees were ever made.

**Kahanek, Sheila**

Houston native with degree from the University of Houston. Worked at accounting giant Ernst & Young before joining Enron in 1998. At Enron, worked as accountant and senior director of Enron Asia's Pacific/Africa/China division.

The only one of six defendants in the Nigerian barge trial to be found not guilty. Like the others, she was accused of aiding Enron's "sale" of a barge investment to Merrill Lynch's books to make its own books look stronger. Prosecutors said she angrily reprimanded a fellow employee for creating a document about a "handshake" guarantee that Merrill would be able to sell off the barge stake with a locked-in profit. Kahanek took the stand to deny that allegation and to say she told others again and again that there should be no guarantee.

**Koenig, Mark**

Kingwood resident. Former head of Enron's investor relations section. He joined Enron in 1985 as a corporate treasurer. In 1992, he was transferred to the investor relations department, where he worked his way up to director . . . Accused of deceiving the investing public about the value of Enron stock in earning releases and scripts for conference calls with analysts.

Legal status: Pleaded guilty in August 2004 to aiding and abetting securities fraud. Awaiting sentencing but could face up to 10 years in prison and a fine of \$1 million.

**Kopper, Michael**

Majored in economics at Duke University, earned a graduate degree at the London School of Economics ... Worked at Toronto Dominion Bank before joining Enron in 1994 ... Became key aide to Chief Financial Officer Andrew Fastow and helped create off-the-books partnerships.

Legal status: Admitted giving kickbacks to Fastow and pleaded guilty to money laundering and conspiracy in August 2002. He is awaiting sentencing.

**Krautz, Michael**

Former senior accounting director for Enron Broadband Services. Houston resident who grew up in Nederland and attended Lamar University.

Accused of helping fake the sale of future profits from a project that Enron was developing with Blockbuster Video to send movies into customers' homes over the Internet. Prosecutors at his trial said the sale was a sham that should have been recorded as a loan instead of income because Enron Broadband Services made an oral guarantee that the buyer wouldn't lose money. Characterizing Krautz as "the compliance man," prosecutors said Krautz made sure the oral side deal that made the case a fraud was never revealed to auditors. Krautz testified no improper guarantees were made.

Legal status: Indicted on charges of conspiracy, fraud and money laundering. Trial ended in July 2005 with jury deadlocked on all charges against him. Mistrial declared. Scheduled for a new trial in May 2006.

**Lay, Kenneth**

Son of a Baptist minister, grew up in Tyrone, Mo. Earned doctorate in economics from University of Houston. Was perhaps Houston's most influential power broker. Helped win approval for baseball park and was close to major politicians. ... In 1984, became chairman and CEO at Houston Natural Gas. It merged with InterNorth within a year, and the new company was dubbed Enron. ... Resigned Jan. 23, 2002.

Legal status: Awaiting sentencing. Found guilty May 25, 2006, on all six counts that relate to Enron fraud, including conspiracy to commit wire fraud, perpetrating wire and bank fraud, and making false and misleading statements to employees at a company meeting, as well as to banks, securities analysts and corporate credit-rating agencies. He also was found guilty the same day on four other bank fraud counts in a separate case on his personal banking. Sentencing was set for Sept. 11.

**Lawyer, Lawrence**

A relatively low-level employee at Enron, holding a variety of positions between 1996 and 2001 before being laid off in December along with more than 4,500 colleagues ... In 1997, while he was an employee of Enron Capital Management, Lawyer helped Michael Kopper create the RADR partnership, which prosecutors say was devised "to secretly to enrich" Enron executives through the sale of Enron's interest in wind farms.

Legal status: Pleaded guilty in November 2002 to filing a false tax return that did not report money he received from work on the questionable Enron partnership. Awaiting sentencing.

**McMahon, Jeff**

Graduated from the University of Richmond in Virginia, started career with Arthur Andersen in Houston. ... In 1989, became chief financial officer of MG Natural Gas Corp. in Houston ... Joined Enron in 1994, serving as chief financial officer for European operations and treasurer ... Promoted to chief financial officer after Andrew Fastow was ousted in October 2001 ... After Enron went bankrupt, served as president and chief operating officer ... Resigned in April 2002. Heads own consulting group.

Legal status: Never has been charged with a crime at Enron, but credit-rating agencies have testified he was among the Enron executives who purposely misled them as far back as 1999. Witnesses in the Enron barge trial testified he made illicit oral promises to Merrill Lynch bankers that if they'd temporarily buy some power-plant barges from Enron, the company would get them out of the deal within six months at a profit. That would make the barge deal a sham designed to make it look like Enron was more profitable than it was.

**Mulgrew, Gary**

Formerly a managing director of Greenwich NatWest, a finance division of London's National Westminster Bank, now the Royal Bank of Scotland. A Glasgow native, he's the son of the Scottish Parliament's deputy speaker, Tricia Godman, and his stepfather is also a former member of Parliament.

With the help of Enron's Michael Kopper, he and two other British bankers are accused of an intricate financial scheme involving an off-the-books Enron partnership called Southampton, run by the Houston company's chief financial officer, Andrew Fastow. Prosecutors say the trio bilked their employer out of more than \$7 million.

Legal status: Indicted in Houston on seven counts of wire fraud and fighting extradition from London.



**Rice, Ken**

Former co-chief executive officer of Enron Broadband Services. Houston resident.

Star witness for the prosecution in the trial of ex-executives from Enron's Internet division. He testified he and some of the defendants systematically lied to investors and the public about the value and capabilities of the business and made millions on stock sales when the share price subsequently rose.

Legal status: Originally indicted on charges of conspiracy, securities fraud, wire fraud, money laundering and insider trading, he pleaded guilty in July 2004 to a single count of securities fraud. He is awaiting sentencing and faces a maximum 10 years in prison and a \$1 million fine, as well as three years of supervision.

**Richter, Jeffrey**

Former head of Enron's California short-term energy-trading . . . Participant in Load Shift scheme, where Enron traders created the false appearance of congestion on a transmission line to trigger payments . . . In Get Shorty scheme, Enron traders sold fictitious emergency backup power it didn't have at a high price in the "day-ahead" California energy market. Enron traders would then collect the money, cancel the contracts and cover the commitment by purchasing lower services in the "hour-ahead" market and profit from the difference.

Legal status: Pleaded guilty in February 2003 to conspiracy to commit wire fraud and making a false statement to federal investigators during their probe of fraudulent market practices in California. He is awaiting sentencing.

**Rieker, Paula**

Former director of investor relations, secretary to its board of directors, trustee for employee retirement plan... Accused of selling Enron stock before the public knew about big losses from Enron's Internet business, failing to protect Enron workers' retirement fund and helping disseminate bad information to analysts and the public.

Legal status: Pleaded guilty to insider trading in May 2004 and agreed to testify for Enron prosecutors in other cases. Felony charge carries sentence of up to 10 years in prison and \$1 million fine. Agreed to pay SEC nearly half a million dollars she received as profit from sale of Enron stock.

**Shelby, Rex**

Former senior vice president of engineering and operations for Enron Broadband Services. Houston resident.

A software creator, Shelby was portrayed by prosecutors in his trial as the "technology man" for Enron's Internet division, bringing in the software the government claims never really controlled the company's network and never really created the revolutionary business he and others touted. He was accused of lying about the network's technological capabilities to shore up the stock price. Shelby said a video showing him hyping the network was actually a blueprint for the network's future, not a rundown of what had been already achieved, and he assumed the video would be shown with a timeline making that clear.

Legal status: Trial ended in July 2005 with acquittal of some insider trading charges. Mistrial declared on remaining charges, which include conspiracy, securities fraud and wire fraud, and money laundering. Scheduled for a new trial in September 2006.

**Skilling, Jeff**

Earned MBA from Harvard and went to work for McKinsey & Co., world's largest management consulting firm... Joined Enron in 1990, drove it from a lumbering pipeline company into something akin to a Wall Street trading house ... Became president and chief operating officer in 1997 ... Named CEO in February 2001, resigned just six months later.

Legal status: Awaiting sentencing. Found guilty May 25, 2006, of 19 of the 28 counts accusing him of insider trading, securities fraud and conspiracy. Sentencing is set for Sept. 11. While awaiting trial, he became involved in what prosecutors say was an "irrational" drunken scuffle on the streets of New York and was ordered to find a job or find volunteer work.

**Temple, Nancy**

Studied accounting at the University of Illinois, then got law degree from Harvard ... Joined Arthur Andersen in 2000 ... Wrote memo that led jurors to convict Andersen of obstruction of justice. In it, she indicated she and others at the firm knew early on that the Securities and Exchange Commission could be looking into Enron's accounting problems, and she e-mailed Andersen's auditors at Enron, reminding them of firm's document-retention policy. Shredding began 10 days later

Legal status: No charges have been filed, and a judge dismissed her as a defendant in an Enron shareholders lawsuit against Andersen.

**Watkins, Sherron**

Attended high school in Tomball ... Earned bachelor's and master's degrees at University of Texas ... Wrote now-famous memo to Ken Lay on Aug. 15, 2001, describing accounting scandals, then met with him to discuss her concerns ... Resigning as Enron vice president after its bankruptcy, she co-wrote a book, *Power Failure: The Inside Story of the Collapse of Enron*, about her experiences at Enron. Named one of Time magazine's Persons of the Year for 2002, she is a familiar face on the nation's public lecture circuit.

**Yeager, F Scott**

Former senior vice president of business development for Enron Broadband Services. Sugar Land resident.

A business strategist for Enron's Internet division, prosecutors at his trial painted Yeager as the "idea man" who created plans the company never saw through. He was accused of lying about the technological capabilities of the company's network to bolster the stock price and then cash in by selling his own shares. Yeager's attorneys said he had nothing to do with press releases that the government claims were false and made no presentations at a 2000 analysts conference that prosecutors said was deceptive.

Legal status: Trial ended in July 2005 with acquittal on all fraud and conspiracy charges. Mistrial declared on remaining charges of insider trading and money laundering. Scheduled for a new trial in June 2006.

<sup>1</sup> Compiled from *The Houston Chronicle's* "Special Report: Enron" [on-line].



# Enron Executives and Stock Sales<sup>1</sup>

(See notes below)

<b>Name</b>	<b>Position at Enron</b>	<b>Shares</b>	<b>Gross</b>	<b>Selling Price</b>
		<b>Sold</b>	<b>Proceeds</b>	<b>per Share</b>
Baxter, J Clifford	Vice-Chairman	619,898	\$34,734,854	\$56.03
Belfer, Robert	Member, Board of Directors	2,065,137	\$111,941,200	\$54.21
Blake, Norman	Member, Board of Directors	21,200	\$1,705,328	\$80.44
Buy, Rick	Chief Risk Officer	140,234	\$10,656,595	\$75.99
Causey, Rick	Chief Accounting Officer	208,940	\$13,386,896	\$64.07
Chan, Ronnie	Member, Board of Directors	8,000	\$337,200	\$42.15
Derrick, James	General Counsel	230,660	\$12,563,928	\$54.47
Duncan, John	Member, Board of Directors	35,000	\$2,009,700	\$57.42
Fastow, Andrew	Chief Financial Officer	687,445	\$33,675,004	\$48.99
Foy, Joe	Member, Board of Directors	38,160	\$1,639,590	\$42.97
Frevert, Mark	Chief Executive Officer, Enron Europe	986,898	\$54,831,220	\$55.56
Gramm, Wendy	Member, Board of Directors	10,328	\$278,892	\$27.00
Hannon, Kevin	President, Enron Broadband Services	Unknown	Unknown	Unknown
Harrison, Ken	Member, Board of Directors	1,011,436	\$75,416,636	\$74.56
Hirko, Joe	Chief Executive Officer, Enron Communications	473,837	\$35,168,721	\$74.22
Horton, Stan	Chief Executive Officer, Enron Transportation	830,444	\$47,371,361	\$57.04
Jaedicke, Robert	Member, Board of Directors	13,360	\$841,438	\$62.98
Kean, Steve	Executive Vice-President, Chief of Staff	64,932	\$5,166,414	\$79.57
Koenig, Mark K	Executive Vice-President	129,153	\$9,110,466	\$70.54
Lay, Kenneth	Chairman, Enron Corporation	4,002,259	\$184,494,426	\$46.10
LeMaistre, Charles	Member, Board of Directors	17,344	\$841,768	\$48.53
Mark, Rebecca	Chief Executive Officer, Azurix	1,895,631	\$82,536,737	\$43.54
McConnell, Michael	Executive Vice-President	32,960	\$2,506,311	\$76.04
McMahon, Jeff	Treasurer	39,630	\$2,739,226	\$69.12
Olson, Cindy	Executive Vice-President	83,183	\$6,505,870	\$78.21
Pai, Lou	Chief Executive Officer, Enron Energy Services	3,912,205	\$270,276,065	\$69.09
Rice, Ken	Chief Executive Officer, Enron Broadband Services	1,234,009	\$76,825,145	\$62.26
Skilling, Jeffrey	Chief Executive Officer, Enron Corporation	1,307,678	\$70,687,199	\$54.06
Sutton, Joe	Vice-Chairman	688,996	\$42,231,283	\$61.29
Whalley, Greg	Chief Operating Officer, Enron Corporation	Unknown	Unknown	Unknown
<b>Totals</b>		<b><u>20,788,957</u></b>	<b><u>\$1,190,479,473</u></b>	<b><u>\$57.26</u></b>

Note 1: All listed sales occurred between October 19, 1998 and November 27, 2001. The numbers shown under the gross proceeds indicates the number of shares times the price of Enron stock on the day the shares were sold. It does not reflect any costs the Enron officials incurred in exercising the sale of the stock. Therefore, the net proceeds to the listed individuals is likely less than the amount shown.

Note 2: Sources: *Mark Newby, et. Al. vs. Enron Corporation, et. Al.*, Securities and Exchange Commission filings, Congressional testimony, Enron Corp. press releases.

<sup>1</sup> Bryce, page ix.

## Appendix D: Enron Adjudication (Estimated)<sup>1</sup>

	wire fraud			securities fraud			insider trading			falsify books			fraud conspiracy			money laundering			aiding and abetting			tax crimes			perjury/ false stmt			obstruction of justice			
Name	i	g	a	i	g	a	i	g	a	i	g	a	i	g	a	i	g	a	i	g	a	i	g	a	i	g	a	i	g	a	Notes
Baxter, J Clifford																														Committed Suicide in January 2002	
Bayly, Daniel		x									x																			Sentence: 2 years, 6 months and \$840,000	
Belden, Timothy**		x																												Awaiting Sentencing	
Birmingham, David	7																													Fighting Extradition from London	
Boyle, Dan		x									x														x					Sentence: 3 years, 10 months and \$320,000	
Brown, James A		x									x														x			x		Sentence: 3 years, 10 months and \$840,000	
Calger, Christopher**		x																												Awaiting Sentencing	
Causey, Richard**					x																									Sentence: 5-7 years and \$1,250,000	
Darby, Giles	7																													Fighting Extradition from London	
Delaney, Dave**									1																					Awaiting Sentencing	
Despain, Timothy**						1																								Awaiting Sentencing	
Duncan, David**																												x		Verdict overturned after acquittal of Arthur Andersen	
Fastow, Andrew**		1	96*			1																								Awaiting Sentencing	
Fastow, Lea																								x						Sentence: 1 year plus 1 year of supervision	
Forney, John M		11																												Awaiting Sentencing	
Fuhs, William		x									x																			Sentence: 3 years, 1 month and \$665,000	
Furst, Robert		x									x																			Sentence: 3 years, 1 month and \$665,000	
Glisan Jr., Ben**		1																												Sentence: 5 years and \$1,300,000	
Hannon, Kevin						1		x								x														No Information Available	
Hirko, Joe	x				x					x								x												Awaiting New Trial after Mistrial	
Howard, Kevin	x																													No Information Available	
Kahanek, Sheila						x																								Found Not Guilty	
Koenig, Mark																				x										Awaiting Sentencing	
Kopper, Michael														x				x												Awaiting Sentencing	
Krautz, Michael	x													x				x												Awaiting New Trial after Mistrial	
Lawyer, Lawrence																								x						Awaiting Sentencing	
Lay, Kenneth		x				x									x											x				Awaiting Sentencing	
Mulgrew, Gary	7																													Fighting Extradition from London	
Rice, Ken	x					1		x						x				x												Awaiting Sentencing	
Richier, Jeffrey															x											x				Awaiting Sentencing	
Rieker, Paula**									x																					Awaiting Sentencing	
Shelby, Rex	x				x					x					x															Awaiting New Trial after Mistrial	
Skilling, Jeff						7	3*		6	3					6	3														Awaiting Sentencing	
Yeager, F Scott			x					x							x		x													Awaiting New Trial after Mistrial	
Totals***	26	21	97	2	13	4	3	8	5	0	5	0	3	9	4	5	1	1	0	1	0	0	2	0	0	4	0	0	2	0	
	144			19			16			5			16			7			1			2			4			2			

Totals\*\*\*

Minimum Total Indictments: 216 Notes: \* Because actual specifics were not given about distribution of the number of counts indicted, educated guesses are made about distribution.  
 Minimum Total Guilty Verdicts: 66 \*\* Indicates a defendant who participated in a deal to assist prosecution in order to decrease adjudication and sentencing.  
 Minimum Total Acquittals: 111 \*\*\* In many reports, actual numbers of indictments were not given. In these cases, the box is marked with an "x" and each "x" is treated as a value of 1.  
 Using a value of 1 in lieu of actual numbers indicates a strong underestimation of actual indictments, acquittals, and guilty verdicts

Endnotes:

<sup>1</sup> Compiled from Wall Street Journal article "Status of Enron Cases" [on-line] and from the Houston Chronicle's "Special Report: Enron" [on-line].

## **Appendix E: The Sarbanes-Oxley Act 2002<sup>1</sup>**

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

(a) SHORT TITLE- This Act may be cited as the 'Sarbanes-Oxley Act of 2002'.

(b) TABLE OF CONTENTS- The table of contents for 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.

Sec. 307. Rules of professional responsibility for attorneys.

Sec. 308. Fair funds for investors.

#### **TITLE IV--ENHANCED FINANCIAL DISCLOSURES**

Sec. 401. Disclosures in periodic reports.

Sec. 402. Enhanced conflict of interest provisions.

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.

Sec. 408. Enhanced review of periodic disclosures by issuers.

Sec. 409. Real time issuer disclosures.

#### **TITLE V--ANALYST CONFLICTS OF INTEREST**

Sec. 501. Treatment of securities analysts by registered securities associations and national securities exchanges.

#### **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.

Sec. 703. Study and report on violators and violations

Sec. 704. Study of enforcement actions.

Sec. 705. Study of investment banks.

#### **TITLE VIII--CORPORATE AND CRIMINAL FRAUD ACCOUNTABILITY**

Sec. 801. Short title.

Sec. 802. Criminal penalties for altering documents.

Sec. 803. Debts nondischargeable if incurred in violation of securities fraud laws.

Sec. 804. Statute of limitations for securities fraud.

Sec. 805. Review of Federal Sentencing Guidelines for obstruction of justice and extensive criminal fraud.

Sec. 806. Protection for employees of publicly traded companies who provide evidence of fraud.

Sec. 807. Criminal penalties for defrauding shareholders of publicly traded companies.

#### **TITLE IX--WHITE-COLLAR CRIME PENALTY ENHANCEMENTS**

Sec. 901. Short title.

Sec. 902. Attempts and conspiracies to commit criminal fraud offenses.

Sec. 903. Criminal penalties for mail and wire fraud.

Sec. 904. Criminal penalties for violations of the Employee Retirement Income Security Act of 1974.

Sec. 905. Amendment to sentencing guidelines relating to certain white-collar offenses.  
 Sec. 906. Corporate responsibility for financial reports.  
 TITLE X--CORPORATE TAX RETURNS  
 Sec. 1001. Sense of the Senate regarding the signing of corporate tax returns by chief executive officers.  
 TITLE XI--CORPORATE FRAUD AND ACCOUNTABILITY  
 Sec. 1101. Short title.  
 Sec. 1102. Tampering with a record or otherwise impeding an official proceeding.  
 Sec. 1103. Temporary freeze authority for the Securities and Exchange Commission.  
 Sec. 1104. Amendment to the Federal Sentencing Guidelines.  
 Sec. 1105. Authority of the Commission to prohibit persons from serving as officers or directors.  
 Sec. 1106. Increased criminal penalties under Securities Exchange Act of 1934.  
 Sec. 1107. Retaliation against informants.

## SEC. 2. DEFINITIONS.

(a) IN GENERAL- In this Act, the following definitions shall apply:

(1) APPROPRIATE STATE REGULATORY AUTHORITY- The term 'appropriate State regulatory authority' means the State agency or other authority responsible for the licensure or other regulation of the practice of accounting in the State or States having jurisdiction over a registered public accounting firm or associated person thereof, with respect to the matter in question.

(2) AUDIT- The term 'audit' means an examination of the financial statements of any issuer by an independent public accounting firm in accordance with the rules of the Board or the Commission (or, for the period preceding the adoption of applicable rules of the Board under section 103, in accordance with then-applicable generally accepted auditing and related standards for such purposes), for the purpose of expressing an opinion on such statements.

(3) AUDIT COMMITTEE- The term 'audit committee' means--

(A) a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer; and

(B) if no such committee exists with respect to an issuer, the entire board of directors of the issuer.

(4) AUDIT REPORT- The term 'audit report' means a document or other record--

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

(B) in which a public accounting firm either--

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

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

(5) BOARD- The term 'Board' means the Public Company Accounting Oversight Board established under section 101.

(6) COMMISSION- The term 'Commission' means the Securities and Exchange Commission.

(7) ISSUER- The term 'issuer' means an issuer (as defined in section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c)), the securities of which are registered under section 12 of that Act (15 U.S.C. 78l), or that is required to file reports under section 15(d) (15 U.S.C. 78o(d)), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933 (15 U.S.C. 77a et seq.), and that it has not withdrawn.

(8) NON-AUDIT SERVICES- The term 'non-audit services' means any professional services provided to an issuer by a registered public accounting firm, other than those provided to an issuer in connection with an audit or a review of the financial statements of an issuer.

(9) PERSON ASSOCIATED WITH A PUBLIC ACCOUNTING FIRM-

(A) IN GENERAL- The terms 'person associated with a public accounting firm' (or with a 'registered public accounting firm') and 'associated person of a public accounting firm' (or of a 'registered public accounting firm') mean any individual proprietor, partner, shareholder, principal, accountant, or other professional employee of a public accounting firm, or any other independent contractor or entity that, in connection with the preparation or issuance of any audit report--

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

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

(B) EXEMPTION AUTHORITY- The Board may, by rule, exempt persons engaged only in ministerial tasks from the definition in subparagraph (A), to the extent that the Board determines that any such exemption is consistent with the purposes of this Act, the public interest, or the protection of investors.

(10) PROFESSIONAL STANDARDS- The term 'professional standards' means--

(A) accounting principles that are--

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

(ii) relevant to audit reports for particular issuers, or dealt with in the quality control system of a particular registered public accounting firm; and

(B) auditing standards, standards for attestation engagements, quality control policies and procedures, ethical and competency standards, and independence standards (including rules implementing title II) that the Board or the Commission determines--

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

(ii) are established or adopted by the Board under section 103(a), or are promulgated as rules of the Commission.

(11) PUBLIC ACCOUNTING FIRM- The term 'public accounting firm' means--

(A) a proprietorship, partnership, incorporated association, corporation, limited liability company, limited liability partnership, or other legal entity that is engaged in the practice of public accounting or preparing or issuing audit reports; and

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

(12) REGISTERED PUBLIC ACCOUNTING FIRM- The term 'registered public accounting firm' means a public accounting firm registered with the Board in accordance with this Act.

(13) RULES OF THE BOARD- The term 'rules of the Board' means the bylaws and rules of the Board (as submitted to, and approved, modified, or amended by the Commission, in accordance with section 107), and those stated policies, practices, and interpretations of the Board that the Commission, by rule, may deem to be rules of the Board, as necessary or appropriate in the public interest or for the protection of investors.

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

(15) SECURITIES LAWS- The term 'securities laws' means the provisions of law referred to in section 3(a)(47) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(47)), as amended by this Act, and includes the rules, regulations, and orders issued by the Commission thereunder.

(16) STATE- The term 'State' means any State of the United States, the District of Columbia, Puerto Rico, the Virgin Islands, or any other territory or possession of the United States.

(b) CONFORMING AMENDMENT- Section 3(a)(47) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(47)) is amended by inserting 'the Sarbanes-Oxley Act of 2002,' before 'the Public'.

### SEC. 3. COMMISSION RULES AND ENFORCEMENT.

(a) REGULATORY ACTION- The Commission shall promulgate such rules and regulations, as may be necessary or appropriate in the public interest or for the protection of investors, and in furtherance of this Act.

(b) ENFORCEMENT-

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

(2) INVESTIGATIONS, INJUNCTIONS, AND PROSECUTION OF OFFENSES- Section 21 of the Securities Exchange Act of 1934 (15 U.S.C. 78u) is amended--

(A) in subsection (a)(1), by inserting 'the rules of the Public Company Accounting Oversight Board, of which such person is a registered public accounting firm or a person associated with such a firm,' after 'is a participant,';

(B) in subsection (d)(1), by inserting 'the rules of the Public Company Accounting Oversight Board, of which such person is a registered public accounting firm or a person associated with such a firm,' after 'is a participant,';

(C) in subsection (e), by inserting 'the rules of the Public Company Accounting Oversight Board, of which such person is a registered public accounting firm or a person associated with such a firm,' after 'is a participant,'; and

(D) in subsection (f), by inserting 'or the Public Company Accounting Oversight Board' after 'self-regulatory organization' each place that term appears.

(3) CEASE-AND-DESIST PROCEEDINGS- Section 21C(c)(2) of the Securities Exchange Act of 1934 (15 U.S.C. 78u-3(c)(2)) is amended by inserting 'registered public accounting firm (as defined in section 2 of the Sarbanes-Oxley Act of 2002),' after 'government securities dealer,'.

(4) ENFORCEMENT BY FEDERAL BANKING AGENCIES- Section 12(i) of the Securities Exchange Act of 1934 (15 U.S.C. 78l(i)) is amended by--

(A) striking `sections 12,' each place it appears and inserting `sections 10A(m), 12,'; and

(B) striking `and 16,' each place it appears and inserting `and 16 of this Act, and sections 302, 303, 304, 306, 401(b), 404, 406, and 407 of the Sarbanes-Oxley Act of 2002,'.

(c) EFFECT ON COMMISSION AUTHORITY- Nothing in this Act or the rules of the Board shall be construed to impair or limit--

(1) the authority of the Commission to regulate the accounting profession, accounting firms, or persons associated with such firms for purposes of enforcement of the securities laws;

(2) the authority of the Commission to set standards for accounting or auditing practices or auditor independence, derived from other provisions of the securities laws or the rules or regulations thereunder, for purposes of the preparation and issuance of any audit report, or otherwise under applicable law; or

(3) the ability of the Commission to take, on the initiative of the Commission, legal, administrative, or disciplinary action against any registered public accounting firm or any associated person thereof.

#### TITLE I--PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

##### SEC. 101. ESTABLISHMENT; ADMINISTRATIVE PROVISIONS.

(a) ESTABLISHMENT OF BOARD- There is established the Public Company Accounting Oversight Board, to oversee the audit of public companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports for companies the securities of which are sold to, and held by and for, public investors. The Board shall be a body corporate, operate as a nonprofit corporation, and have succession until dissolved by an Act of Congress.

(b) STATUS- The Board shall not be an agency or establishment of the United States Government, and, except as otherwise provided in this Act, shall be subject to, and have all the powers conferred upon a nonprofit corporation by, the District of Columbia Nonprofit Corporation Act. No member or person employed by, or agent for, the Board shall be deemed to be an officer or employee of or agent for the Federal Government by reason of such service.

(c) DUTIES OF THE BOARD- The Board shall, subject to action by the Commission under section 107, and once a determination is made by the Commission under subsection (d) of this section--

(1) register public accounting firms that prepare audit reports for issuers, in accordance with section 102;

(2) establish or adopt, or both, by rule, auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for issuers, in accordance with section 103;

(3) conduct inspections of registered public accounting firms, in accordance with section 104 and the rules of the Board;

(4) conduct investigations and disciplinary proceedings concerning, and impose appropriate sanctions where justified upon, registered public accounting firms and associated persons of such firms, in accordance with section 105;

(5) perform such other duties or functions as the Board (or the Commission, by rule or order) determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by, registered public accounting firms and associated persons thereof, or otherwise to carry out this Act, in order to protect investors, or to further the public interest;

(6) enforce compliance with this Act, the rules of the Board, professional standards, and the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, by registered public accounting firms and associated persons thereof; and

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

(d) COMMISSION DETERMINATION- The members of the Board shall take such action (including hiring of staff, proposal of rules, and adoption of initial and transitional auditing and other professional standards) as may be necessary or appropriate to enable the Commission to determine, not later than 270 days after the date of enactment of this Act, that the Board is so organized and has the capacity to carry out the requirements of this title, and to enforce compliance with this title by registered public accounting firms and associated persons thereof. The Commission shall be responsible, prior to the appointment of the Board, for the planning for the establishment and administrative transition to the Board's operation.

(e) BOARD MEMBERSHIP-

(1) COMPOSITION- The Board shall have 5 members, appointed from among prominent individuals of integrity and reputation who have a demonstrated commitment to the interests of investors and the public, and an understanding of the responsibilities for and nature of the financial disclosures required of issuers under the securities laws and the obligations of accountants with respect to the preparation and issuance of audit reports with respect to such disclosures.

(2) LIMITATION- Two members, and only 2 members, of the Board shall be or have been certified public accountants pursuant to the laws of 1 or more States, provided that, if 1 of those 2 members is the chairperson, he or she may not have been a practicing certified public accountant for at least 5 years prior to his or her appointment to the Board.

(3) FULL-TIME INDEPENDENT SERVICE- Each member of the Board shall serve on a full-time basis, and may not, concurrent with service on the Board, be employed by any other person or engage in any other professional or business activity. No member of the Board may share in any of the profits of, or receive payments from, a public accounting firm (or any other person, as determined by rule of the Commission), other than fixed continuing payments, subject to such conditions as the Commission may impose, under standard arrangements for the retirement of members of public accounting firms.

(4) APPOINTMENT OF BOARD MEMBERS-

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

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

(5) TERM OF SERVICE-

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

(i) the terms of office of the initial Board members (other than the chairperson) shall expire in annual increments, 1 on each of the first 4 anniversaries of the initial date of appointment; and

(ii) any Board member appointed to fill a vacancy occurring before the expiration of the term for which the predecessor was appointed shall be appointed only for the remainder of that term.

(B) TERM LIMITATION- No person may serve as a member of the Board, or as chairperson of the Board, for more than 2 terms, whether or not such terms of service are consecutive.

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

(f) POWERS OF THE BOARD- In addition to any authority granted to the Board otherwise in this Act, the Board shall have the power, subject to section 107--

(1) to sue and be sued, complain and defend, in its corporate name and through its own counsel, with the approval of the Commission, in any Federal, State, or other court;

(2) to conduct its operations and maintain offices, and to exercise all other rights and powers authorized by this Act, in any State, without regard to any qualification, licensing, or other provision of law in effect in such State (or a political subdivision thereof);

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

(4) to appoint such employees, accountants, attorneys, and other agents as may be necessary or appropriate, and to determine their qualifications, define their duties, and fix their salaries or other compensation (at a level that is comparable to private sector self-regulatory, accounting, technical, supervisory, or other staff or management positions);

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

(6) to enter into contracts, execute instruments, incur liabilities, and do any and all other acts and things necessary, appropriate, or incidental to the conduct of its operations and the exercise of its obligations, rights, and powers imposed or granted by this title.

(g) RULES OF THE BOARD- The rules of the Board shall, subject to the approval of the Commission--

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

(2) permit, as the Board determines necessary or appropriate, delegation by the Board of any of its functions to an individual member or employee of the Board, or to a division of the Board, including functions with respect to hearing, determining, ordering, certifying, reporting, or otherwise acting as to any matter, except that--

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

(B) a person shall be entitled to a review by the Board with respect to any matter so delegated, and the decision of the Board upon such review shall be deemed to be the action of the Board for all purposes (including appeal or review thereof); and



(C) if the right to exercise a review described in subparagraph (A) is declined, or if no such review is sought within the time stated in the rules of the Board, then the action taken by the holder of such delegation shall for all purposes, including appeal or review thereof, be deemed to be the action of the Board;

(3) establish ethics rules and standards of conduct for Board members and staff, including a bar on practice before the Board (and the Commission, with respect to Board-related matters) of 1 year for former members of the Board, and appropriate periods (not to exceed 1 year) for former staff of the Board; and

(4) provide as otherwise required by this Act.

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

#### SEC. 102. REGISTRATION WITH THE BOARD.

(a) MANDATORY REGISTRATION- Beginning 180 days after the date of the determination of the Commission under section 101(d), it shall be unlawful for any person that is not a registered public accounting firm to prepare or issue, or to participate in the preparation or issuance of, any audit report with respect to any issuer.

#### (b) APPLICATIONS FOR REGISTRATION-

(1) FORM OF APPLICATION- A public accounting firm shall use such form as the Board may prescribe, by rule, to apply for registration under this section.

(2) CONTENTS OF APPLICATIONS- Each public accounting firm shall submit, as part of its application for registration, in such detail as the Board shall specify--

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

(B) the annual fees received by the firm from each such issuer for audit services, other accounting services, and non-audit services, respectively;

(C) such other current financial information for the most recently completed fiscal year of the firm as the Board may reasonably request;

(D) a statement of the quality control policies of the firm for its accounting and auditing practices;

(E) a list of all accountants associated with the firm who participate in or contribute to the preparation of audit reports, stating the license or certification number of each such person, as well as the State license numbers of the firm itself;

(F) information relating to criminal, civil, or administrative actions or disciplinary proceedings pending against the firm or any associated person of the firm in connection with any audit report;

(G) copies of any periodic or annual disclosure filed by an issuer with the Commission during the immediately preceding calendar year which discloses accounting disagreements between such issuer and the firm in connection with an audit report furnished or prepared by the firm for such issuer; and

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

(3) CONSENTS- Each application for registration under this subsection shall include--

(A) a consent executed by the public accounting firm to cooperation in and compliance with any request for testimony or the production of documents made by the Board in the furtherance of its authority and responsibilities under this title (and an agreement to secure and enforce similar consents from each of the associated persons of the public accounting firm as a condition of their continued employment by or other association with such firm); and

(B) a statement that such firm understands and agrees that cooperation and compliance, as described in the consent required by subparagraph (A), and the securing and enforcement of such consents from its associated persons, in accordance with the rules of the Board, shall be a condition to the continuing effectiveness of the registration of the firm with the Board.

#### (c) ACTION ON APPLICATIONS-

(1) TIMING- The Board shall approve a completed application for registration not later than 45 days after the date of receipt of the application, in accordance with the rules of the Board, unless the Board, prior to such date, issues a written notice of disapproval to, or requests more information from, the prospective registrant.

(2) TREATMENT- A written notice of disapproval of a completed application under paragraph (1) for registration shall be treated as a disciplinary sanction for purposes of sections 105(d) and 107(c).

(d) PERIODIC REPORTS- Each registered public accounting firm shall submit an annual report to the Board, and may be required to report more frequently, as necessary to update the information contained in its application for registration under this section, and to provide to the Board such additional information as the Board or the Commission may specify, in accordance with subsection (b)(2).

(e) PUBLIC AVAILABILITY- Registration applications and annual reports required by this subsection, or such portions of such applications or reports as may be designated under rules of the Board, shall be made available for public inspection, subject to rules of the Board or the Commission, and to applicable laws relating to the confidentiality of proprietary, personal, or other information contained in such applications or reports, provided that, in all events, the Board shall protect from public disclosure information reasonably identified by the subject accounting firm as proprietary information.

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

#### SEC. 103. AUDITING, QUALITY CONTROL, AND INDEPENDENCE STANDARDS AND RULES.

##### (a) AUDITING, QUALITY CONTROL, AND ETHICS STANDARDS-

(1) IN GENERAL- The Board shall, by rule, establish, including, to the extent it determines appropriate, through adoption of standards proposed by 1 or more professional groups of accountants designated pursuant to paragraph (3)(A) or advisory groups convened pursuant to paragraph (4), and amend or otherwise modify or alter, such auditing and related attestation standards, such quality control standards, and such ethics standards to be used by registered public accounting firms in the preparation and issuance of audit reports, as required by this Act or the rules of the Commission, or as may be necessary or appropriate in the public interest or for the protection of investors.

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

(A) shall include in the auditing standards that it adopts, requirements that each registered public accounting firm shall--

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

(ii) provide a concurring or second partner review and approval of such audit report (and other related information), and concurring approval in its issuance, by a qualified person (as prescribed by the Board) associated with the public accounting firm, other than the person in charge of the audit, or by an independent reviewer (as prescribed by the Board); and

(iii) describe in each audit report the scope of the auditor's testing of the internal control structure and procedures of the issuer, required by section 404(b), and present (in such report or in a separate report)--

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

(II) an evaluation of whether such internal control structure and procedures--

(aa) include maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (bb) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

(III) a description, at a minimum, of material weaknesses in such internal controls, and of any material noncompliance found on the basis of such testing.

(B) shall include, in the quality control standards that it adopts with respect to the issuance of audit reports, requirements for every registered public accounting firm relating to--

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

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

(iii) supervision of audit work;

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

(v) the acceptance and continuation of engagements;

(vi) internal inspection; and

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

##### (3) AUTHORITY TO ADOPT OTHER STANDARDS-

(A) IN GENERAL- In carrying out this subsection, the Board--

(i) may adopt as its rules, subject to the terms of section 107, any portion of any statement of auditing standards or other professional standards that the Board determines satisfy the requirements of paragraph (1), and that were proposed by 1 or more professional groups of accountants that shall be designated or recognized by the Board, by rule, for such purpose, pursuant to this paragraph or 1 or more advisory groups convened pursuant to paragraph (4); and

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

(B) INITIAL AND TRANSITIONAL STANDARDS- The Board shall adopt standards described in subparagraph (A)(i) as initial or transitional standards, to the extent the Board determines necessary, prior to a determination of the Commission under section 101(d), and such standards shall be separately approved by the Commission at the time of that determination, without regard to the procedures required by section 107 that otherwise would apply to the approval of rules of the Board.

(4) ADVISORY GROUPS- The Board shall convene, or authorize its staff to convene, such expert advisory groups as may be appropriate, which may include practicing accountants and other experts, as well as representatives of other interested groups, subject to such rules as the Board may prescribe to prevent conflicts of interest, to make recommendations concerning the content (including proposed drafts) of auditing, quality control, ethics, independence, or other standards required to be established under this section.

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

(c) COOPERATION WITH DESIGNATED PROFESSIONAL GROUPS OF ACCOUNTANTS AND ADVISORY GROUPS-

(1) IN GENERAL- The Board shall cooperate on an ongoing basis with professional groups of accountants designated under subsection (a)(3)(A) and advisory groups convened under subsection (a)(4) in the examination of the need for changes in any standards subject to its authority under subsection (a), recommend issues for inclusion on the agendas of such designated professional groups of accountants or advisory groups, and take such other steps as it deems appropriate to increase the effectiveness of the standard setting process.

(2) BOARD RESPONSES- The Board shall respond in a timely fashion to requests from designated professional groups of accountants and advisory groups referred to in paragraph (1) for any changes in standards over which the Board has authority.

(d) EVALUATION OF STANDARD SETTING PROCESS- The Board shall include in the annual report required by section 101(h) the results of its standard setting responsibilities during the period to which the report relates, including a discussion of the work of the Board with any designated professional groups of accountants and advisory groups described in paragraphs (3)(A) and (4) of subsection (a), and its pending issues agenda for future standard setting projects.

#### SEC. 104. INSPECTIONS OF REGISTERED PUBLIC ACCOUNTING FIRMS.

(a) IN GENERAL- The Board shall conduct a continuing program of inspections to assess the degree of compliance of each registered public accounting firm and associated persons of that firm with this Act, the rules of the Board, the rules of the Commission, or professional standards, in connection with its performance of audits, issuance of audit reports, and related matters involving issuers.

(b) INSPECTION FREQUENCY-

(1) IN GENERAL- Subject to paragraph (2), inspections required by this section shall be conducted--

(A) annually with respect to each registered public accounting firm that regularly provides audit reports for more than 100 issuers; and

(B) not less frequently than once every 3 years with respect to each registered public accounting firm that regularly provides audit reports for 100 or fewer issuers.

(2) ADJUSTMENTS TO SCHEDULES- The Board may, by rule, adjust the inspection schedules set under paragraph (1) if the Board finds that different inspection schedules are consistent with the purposes of this Act, the public interest, and the protection of investors. The Board may conduct special inspections at the request of the Commission or upon its own motion.

(c) PROCEDURES- The Board shall, in each inspection under this section, and in accordance with its rules for such inspections--

(1) identify any act or practice or omission to act by the registered public accounting firm, or by any associated person thereof, revealed by such inspection that may be in violation of this Act, the rules of the Board, the rules of the Commission, the firm's own quality control policies, or professional standards;

(2) report any such act, practice, or omission, if appropriate, to the Commission and each appropriate State regulatory authority; and

(3) begin a formal investigation or take disciplinary action, if appropriate, with respect to any such violation, in accordance with this Act and the rules of the Board.

(d) CONDUCT OF INSPECTIONS- In conducting an inspection of a registered public accounting firm under this section, the Board shall--

(1) inspect and review selected audit and review engagements of the firm (which may include audit engagements that are the subject of ongoing litigation or other controversy between the firm and 1 or more third parties), performed at various offices and by various associated persons of the firm, as selected by the Board;

(2) evaluate the sufficiency of the quality control system of the firm, and the manner of the documentation and communication of that system by the firm; and

(3) perform such other testing of the audit, supervisory, and quality control procedures of the firm as are necessary or appropriate in light of the purpose of the inspection and the responsibilities of the Board.

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

(f) PROCEDURES FOR REVIEW- The rules of the Board shall provide a procedure for the review of and response to a draft inspection report by the registered public accounting firm under inspection. The Board shall take such action with respect to such response as it considers appropriate (including revising the draft report or continuing or supplementing its inspection activities before issuing a final report), but the text of any such response, appropriately redacted to protect information reasonably identified by the accounting firm as confidential, shall be attached to and made part of the inspection report.

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

(1) transmitted, in appropriate detail, to the Commission and each appropriate State regulatory authority, accompanied by any letter or comments by the Board or the inspector, and any letter of response from the registered public accounting firm; and

(2) made available in appropriate detail to the public (subject to section 105(b)(5)(A), and to the protection of such confidential and proprietary information as the Board may determine to be appropriate, or as may be required by law), except that no portions of the inspection report that deal with criticisms of or potential defects in the quality control systems of the firm under inspection shall be made public if those criticisms or defects are addressed by the firm, to the satisfaction of the Board, not later than 12 months after the date of the inspection report.

(h) INTERIM COMMISSION REVIEW-

(1) REVIEWABLE MATTERS- A registered public accounting firm may seek review by the Commission, pursuant to such rules as the Commission shall promulgate, if the firm--

(A) has provided the Board with a response, pursuant to rules issued by the Board under subsection (f), to the substance of particular items in a draft inspection report, and disagrees with the assessments contained in any final report prepared by the Board following such response; or

(B) disagrees with the determination of the Board that criticisms or defects identified in an inspection report have not been addressed to the satisfaction of the Board within 12 months of the date of the inspection report, for purposes of subsection (g)(2).

(2) TREATMENT OF REVIEW- Any decision of the Commission with respect to a review under paragraph (1) shall not be reviewable under section 25 of the Securities Exchange Act of 1934 (15 U.S.C. 78y), or deemed to be 'final agency action' for purposes of section 704 of title 5, United States Code.

(3) TIMING- Review under paragraph (1) may be sought during the 30-day period following the date of the event giving rise to the review under subparagraph (A) or (B) of paragraph (1).

#### SEC. 105. INVESTIGATIONS AND DISCIPLINARY PROCEEDINGS.

(a) IN GENERAL- The Board shall establish, by rule, subject to the requirements of this section, fair procedures for the investigation and disciplining of registered public accounting firms and associated persons of such firms.

(b) INVESTIGATIONS-

(1) AUTHORITY- In accordance with the rules of the Board, the Board may conduct an investigation of any act or practice, or omission to act, by a registered public accounting firm, any associated person of such firm, or both, that may violate any provision of this Act, the rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission issued under this Act, or professional standards, regardless of how the act, practice, or omission is brought to the attention of the Board.

(2) TESTIMONY AND DOCUMENT PRODUCTION- In addition to such other actions as the Board determines to be necessary or appropriate, the rules of the Board may--

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

(B) require the production of audit work papers and any other document or information in the possession of a registered public accounting firm or any associated person thereof, wherever domiciled, that the Board considers relevant or material to the investigation, and may inspect the books and records of such firm or associated person to verify the accuracy of any documents or information supplied;

(C) request the testimony of, and production of any document in the possession of, any other person, including any client of a registered public accounting firm that the Board considers relevant or material to an investigation under this section, with appropriate notice, subject to the needs of the investigation, as permitted under the rules of the Board; and

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

### (3) NONCOOPERATION WITH INVESTIGATIONS-

(A) IN GENERAL- If a registered public accounting firm or any associated person thereof refuses to testify, produce documents, or otherwise cooperate with the Board in connection with an investigation under this section, the Board may--

(i) suspend or bar such person from being associated with a registered public accounting firm, or require the registered public accounting firm to end such association;

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

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

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

### (4) COORDINATION AND REFERRAL OF INVESTIGATIONS-

(A) COORDINATION- The Board shall notify the Commission of any pending Board investigation involving a potential violation of the securities laws, and thereafter coordinate its work with the work of the Commission's Division of Enforcement, as necessary to protect an ongoing Commission investigation.

(B) REFERRAL- The Board may refer an investigation under this section--

(i) to the Commission;

(ii) to any other Federal functional regulator (as defined in section 509 of the Gramm-Leach-Bliley Act (15 U.S.C. 6809)), in the case of an investigation that concerns an audit report for an institution that is subject to the jurisdiction of such regulator; and

(iii) at the direction of the Commission, to--

(I) the Attorney General of the United States;

(II) the attorney general of 1 or more States; and

(III) the appropriate State regulatory authority.

### (5) USE OF DOCUMENTS-

(A) CONFIDENTIALITY- Except as provided in subparagraph (B), all documents and information prepared or received by or specifically for the Board, and deliberations of the Board and its employees and agents, in connection with an inspection under section 104 or with an investigation under this section, shall be confidential and privileged as an evidentiary matter (and shall not be subject to civil discovery or other legal process) in any proceeding in any Federal or State court or administrative agency, and shall be exempt from disclosure, in the hands of an agency or establishment of the Federal Government, under the Freedom of Information Act (5 U.S.C. 552a), or otherwise, unless and until presented in connection with a public proceeding or released in accordance with subsection (c).

(B) AVAILABILITY TO GOVERNMENT AGENCIES- Without the loss of its status as confidential and privileged in the hands of the Board, all information referred to in subparagraph (A) may--

(i) be made available to the Commission; and

(ii) in the discretion of the Board, when determined by the Board to be necessary to accomplish the purposes of this Act or to protect investors, be made available to--

(I) the Attorney General of the United States;

(II) the appropriate Federal functional regulator (as defined in section 509 of the Gramm-Leach-Bliley Act (15 U.S.C. 6809)), other than the Commission, with respect to an audit report for an institution subject to the jurisdiction of such regulator;

(III) State attorneys general in connection with any criminal investigation; and

(IV) any appropriate State regulatory authority,

each of which shall maintain such information as confidential and privileged.

(6) IMMUNITY- Any employee of the Board engaged in carrying out an investigation under this Act shall be immune from any civil liability arising out of such investigation in the same manner and to the same extent as an employee of the Federal Government in similar circumstances.

### (c) DISCIPLINARY PROCEDURES-

(1) NOTIFICATION; RECORDKEEPING- The rules of the Board shall provide that in any proceeding by the Board to determine whether a registered public accounting firm, or an associated person thereof, should be disciplined, the Board shall--

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

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

(C) keep a record of the proceedings.

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

(3) SUPPORTING STATEMENT- A determination by the Board to impose a sanction under this subsection shall be supported by a statement setting forth--

(A) each act or practice in which the registered public accounting firm, or associated person, has engaged (or omitted to engage), or that forms a basis for all or a part of such sanction;

(B) the specific provision of this Act, the securities laws, the rules of the Board, or professional standards which the Board determines has been violated; and

(C) the sanction imposed, including a justification for that sanction.

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

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

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

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

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

(i) not more than \$100,000 for a natural person or \$2,000,000 for any other person; and

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

(E) censure;

(F) required additional professional education or training; or

(G) any other appropriate sanction provided for in the rules of the Board.

(5) INTENTIONAL OR OTHER KNOWING CONDUCT- The sanctions and penalties described in subparagraphs (A) through (C) and (D)(ii) of paragraph (4) shall only apply to--

(A) intentional or knowing conduct, including reckless conduct, that results in violation of the applicable statutory, regulatory, or professional standard; or

(B) repeated instances of negligent conduct, each resulting in a violation of the applicable statutory, regulatory, or professional standard.

(6) FAILURE TO SUPERVISE-

(A) IN GENERAL- The Board may impose sanctions under this section on a registered accounting firm or upon the supervisory personnel of such firm, if the Board finds that--

(i) the firm has failed reasonably to supervise an associated person, either as required by the rules of the Board relating to auditing or quality control standards, or otherwise, with a view to preventing violations of this Act, the rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, including the rules of the Commission under this Act, or professional standards; and

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

(B) RULE OF CONSTRUCTION- No associated person of a registered public accounting firm shall be deemed to have failed reasonably to supervise any other person for purposes of subparagraph (A), if--

(i) there have been established in and for that firm procedures, and a system for applying such procedures, that comply with applicable rules of the Board and that would reasonably be expected to prevent and detect any such violation by such associated person; and

(ii) such person has reasonably discharged the duties and obligations incumbent upon that person by reason of such procedures and system, and had no reasonable cause to believe that such procedures and system were not being complied with.

(7) EFFECT OF SUSPENSION-

(A) ASSOCIATION WITH A PUBLIC ACCOUNTING FIRM- It shall be unlawful for any person that is suspended or barred from being associated with a registered public accounting firm under this subsection willfully to become or remain associated with any registered public accounting firm, or for any registered public accounting firm that knew, or, in the exercise of reasonable care should have known, of the suspension or bar, to permit such an association, without the consent of the Board or the Commission.

(B) ASSOCIATION WITH AN ISSUER- It shall be unlawful for any person that is suspended or barred from being associated with an issuer under this subsection willfully to become or remain associated with any issuer in an accountancy or a financial management capacity, and for any issuer that knew, or in the exercise of reasonable care should have known, of such suspension or bar, to permit such an association, without the consent of the Board or the Commission.

(d) REPORTING OF SANCTIONS-

(1) RECIPIENTS- If the Board imposes a disciplinary sanction, in accordance with this section, the Board shall report the sanction to--

(A) the Commission;

(B) any appropriate State regulatory authority or any foreign accountancy licensing board with which such firm or person is licensed or certified; and

(C) the public (once any stay on the imposition of such sanction has been lifted).

(2) CONTENTS- The information reported under paragraph (1) shall include--

(A) the name of the sanctioned person;

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

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

(e) STAY OF SANCTIONS-

(1) IN GENERAL- Application to the Commission for review, or the institution by the Commission of review, of any disciplinary action of the Board shall operate as a stay of any such disciplinary action, unless and until the Commission orders (summarily or after notice and opportunity for hearing on the question of a stay, which hearing may consist solely of the submission of affidavits or presentation of oral arguments) that no such stay shall continue to operate.

(2) EXPEDITED PROCEDURES- The Commission shall establish for appropriate cases an expedited procedure for consideration and determination of the question of the duration of a stay pending review of any disciplinary action of the Board under this subsection.

SEC. 106. FOREIGN PUBLIC ACCOUNTING FIRMS.

(a) APPLICABILITY TO CERTAIN FOREIGN FIRMS-

(1) IN GENERAL- Any foreign public accounting firm that prepares or furnishes an audit report with respect to any issuer, shall be subject to this Act and the rules of the Board and the Commission issued under this Act, in the same manner and to the same extent as a public accounting firm that is organized and operates under the laws of the United States or any State, except that registration pursuant to section 102 shall not by itself provide a basis for subjecting such a foreign public accounting firm to the jurisdiction of the Federal or State courts, other than with respect to controversies between such firms and the Board.

(2) BOARD AUTHORITY- The Board may, by rule, determine that a foreign public accounting firm (or a class of such firms) that does not issue audit reports nonetheless plays such a substantial role in the preparation and furnishing of such reports for particular issuers, that it is necessary or appropriate, in light of the purposes of this Act and in the public interest or for the protection of investors, that such firm (or class of firms) should be treated as a public accounting firm (or firms) for purposes of registration under, and oversight by the Board in accordance with, this title.

(b) PRODUCTION OF AUDIT WORKPAPERS-

(1) CONSENT BY FOREIGN FIRMS- If a foreign public accounting firm issues an opinion or otherwise performs material services upon which a registered public accounting firm relies in issuing all or part of any audit report or any opinion contained in an audit report, that foreign public accounting firm shall be deemed to have consented--

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

(B) to be subject to the jurisdiction of the courts of the United States for purposes of enforcement of any request for production of such workpapers.

(2) CONSENT BY DOMESTIC FIRMS- A registered public accounting firm that relies upon the opinion of a foreign public accounting firm, as described in paragraph (1), shall be deemed--

(A) to have consented to supplying the audit workpapers of that foreign public accounting firm in response to a request for production by the Board or the Commission; and

(B) to have secured the agreement of that foreign public accounting firm to such production, as a condition of its reliance on the opinion of that foreign public accounting firm.

(c) EXEMPTION AUTHORITY- The Commission, and the Board, subject to the approval of the Commission, may, by rule, regulation, or order, and as the Commission (or Board) determines necessary or appropriate in the public interest or for the protection of investors, either unconditionally or upon specified terms and conditions exempt any foreign public accounting firm, or any class of such firms, from any provision of this Act or the rules of the Board or the Commission issued under this Act.

(d) DEFINITION- In this section, the term 'foreign public accounting firm' means a public accounting firm that is organized and operates under the laws of a foreign government or political subdivision thereof.

#### SEC. 107. COMMISSION OVERSIGHT OF THE BOARD.

(a) GENERAL OVERSIGHT RESPONSIBILITY- The Commission shall have oversight and enforcement authority over the Board, as provided in this Act. The provisions of section 17(a)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78q(a)(1)), and of section 17(b)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78q(b)(1)) shall apply to the Board as fully as if the Board were a 'registered securities association' for purposes of those sections 17(a)(1) and 17(b)(1).

#### (b) RULES OF THE BOARD-

(1) DEFINITION- In this section, the term 'proposed rule' means any proposed rule of the Board, and any modification of any such rule.

(2) PRIOR APPROVAL REQUIRED- No rule of the Board shall become effective without prior approval of the Commission in accordance with this section, other than as provided in section 103(a)(3)(B) with respect to initial or transitional standards.

(3) APPROVAL CRITERIA- The Commission shall approve a proposed rule, if it finds that the rule is consistent with the requirements of this Act and the securities laws, or is necessary or appropriate in the public interest or for the protection of investors.

(4) PROPOSED RULE PROCEDURES- The provisions of paragraphs (1) through (3) of section 19(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78s(b)) shall govern the proposed rules of the Board, as fully as if the Board were a 'registered securities association' for purposes of that section 19(b), except that, for purposes of this paragraph--

(A) the phrase 'consistent with the requirements of this title and the rules and regulations thereunder applicable to such organization' in section 19(b)(2) of that Act shall be deemed to read 'consistent with the requirements of title I of the Sarbanes-Oxley Act of 2002, and the rules and regulations issued thereunder applicable to such organization, or as necessary or appropriate in the public interest or for the protection of investors'; and

(B) the phrase 'otherwise in furtherance of the purposes of this title' in section 19(b)(3)(C) of that Act shall be deemed to read 'otherwise in furtherance of the purposes of title I of the Sarbanes-Oxley Act of 2002'.

(5) COMMISSION AUTHORITY TO AMEND RULES OF THE BOARD- The provisions of section 19(c) of the Securities Exchange Act of 1934 (15 U.S.C. 78s(c)) shall govern the abrogation, deletion, or addition to portions of the rules of the Board by the Commission as fully as if the Board were a 'registered securities association' for purposes of that section 19(c), except that the phrase 'to conform its rules to the requirements of this title and the rules and regulations thereunder applicable to such organization, or otherwise in furtherance of the purposes of this title' in section 19(c) of that Act shall, for purposes of this paragraph, be deemed to read 'to assure the fair administration of the Public Company Accounting Oversight Board, conform the rules promulgated by that Board to the requirements of title I of the Sarbanes-Oxley Act of 2002, or otherwise further the purposes of that Act, the securities laws, and the rules and regulations thereunder applicable to that Board'.

#### (c) COMMISSION REVIEW OF DISCIPLINARY ACTION TAKEN BY THE BOARD-

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

(2) REVIEW OF SANCTIONS- The provisions of sections 19(d)(2) and 19(e)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78s(d)(2) and (e)(1)) shall govern the review by the Commission of final disciplinary sanctions imposed by the Board (including sanctions imposed under section 105(b)(3) of this Act for noncooperation in an investigation of the Board), as fully as if the Board were a self-regulatory organization and the Commission were the appropriate regulatory agency for such organization for purposes of those sections 19(d)(2) and 19(e)(1), except that, for purposes of this paragraph--

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

(B) references in that section 19(e)(1) to 'members' of such an organization shall be deemed to be references to registered public accounting firms;

(C) the phrase 'consistent with the purposes of this title' in that section 19(e)(1) shall be deemed to read 'consistent with the purposes of this title and title I of the Sarbanes-Oxley Act of 2002';

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



(E) the reference to section 19(e)(2) of the Securities Exchange Act of 1934 shall refer instead to section 107(c)(3) of this Act.

(3) COMMISSION MODIFICATION AUTHORITY- The Commission may enhance, modify, cancel, reduce, or require the remission of a sanction imposed by the Board upon a registered public accounting firm or associated person thereof, if the Commission, having due regard for the public interest and the protection of investors, finds, after a proceeding in accordance with this subsection, that the sanction--

(A) is not necessary or appropriate in furtherance of this Act or the securities laws; or

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

(d) CENSURE OF THE BOARD; OTHER SANCTIONS-

(1) RESCISSION OF BOARD AUTHORITY- The Commission, by rule, consistent with the public interest, the protection of investors, and the other purposes of this Act and the securities laws, may relieve the Board of any responsibility to enforce compliance with any provision of this Act, the securities laws, the rules of the Board, or professional standards.

(2) CENSURE OF THE BOARD; LIMITATIONS- The Commission may, by order, as it determines necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of this Act or the securities laws, censure or impose limitations upon the activities, functions, and operations of the Board, if the Commission finds, on the record, after notice and opportunity for a hearing, that the Board--

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

(B) without reasonable justification or excuse, has failed to enforce compliance with any such provision or rule, or any professional standard by a registered public accounting firm or an associated person thereof.

(3) CENSURE OF BOARD MEMBERS; REMOVAL FROM OFFICE- The Commission may, as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of this Act or the securities laws, remove from office or censure any member of the Board, if the Commission finds, on the record, after notice and opportunity for a hearing, that such member--

(A) has willfully violated any provision of this Act, the rules of the Board, or the securities laws;

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

(C) without reasonable justification or excuse, has failed to enforce compliance with any such provision or rule, or any professional standard by any registered public accounting firm or any associated person thereof.

#### SEC. 108. ACCOUNTING STANDARDS.

(a) AMENDMENT TO SECURITIES ACT OF 1933- Section 19 of the Securities Act of 1933 (15 U.S.C. 77s) is amended--

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

(2) by inserting after subsection (a) the following:

“(b) RECOGNITION OF ACCOUNTING STANDARDS-

“(1) IN GENERAL- In carrying out its authority under subsection (a) and under section 13(b) of the Securities Exchange Act of 1934, the Commission may recognize, as ‘generally accepted’ for purposes of the securities laws, any accounting principles established by a standard setting body--

“(A) that--

“(i) is organized as a private entity;

“(ii) has, for administrative and operational purposes, a board of trustees (or equivalent body) serving in the public interest, the majority of whom are not, concurrent with their service on such board, and have not been during the 2-year period preceding such service, associated persons of any registered public accounting firm;

“(iii) is funded as provided in section 109 of the Sarbanes-Oxley Act of 2002;

“(iv) has adopted procedures to ensure prompt consideration, by majority vote of its members, of changes to accounting principles necessary to reflect emerging accounting issues and changing business practices; and

“(v) considers, in adopting accounting principles, the need to keep standards current in order to reflect changes in the business environment, the extent to which international convergence on high quality accounting standards is necessary or appropriate in the public interest and for the protection of investors; and

“(B) that the Commission determines has the capacity to assist the Commission in fulfilling the requirements of subsection (a) and section 13(b) of the Securities Exchange Act of 1934, because, at a minimum, the standard setting body is capable of improving the accuracy and effectiveness of financial reporting and the protection of investors under the securities laws.

“(2) ANNUAL REPORT- A standard setting body described in paragraph (1) shall submit an annual report to the Commission and the public, containing audited financial statements of that standard setting body.”.

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

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

(d) STUDY AND REPORT ON ADOPTING PRINCIPLES-BASED ACCOUNTING-

(1) STUDY-

(A) IN GENERAL- The Commission shall conduct a study on the adoption by the United States financial reporting system of a principles-based accounting system.

(B) STUDY TOPICS- The study required by subparagraph (A) shall include an examination of--

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

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

(iii) the feasibility of and proposed methods by which a principles-based system may be implemented; and

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

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

#### SEC. 109. FUNDING.

(a) IN GENERAL- The Board, and the standard setting body designated pursuant to section 19(b) of the Securities Act of 1933, as amended by section 108, shall be funded as provided in this section.

(b) ANNUAL BUDGETS- The Board and the standard setting body referred to in subsection (a) shall each establish a budget for each fiscal year, which shall be reviewed and approved according to their respective internal procedures not less than 1 month prior to the commencement of the fiscal year to which the budget pertains (or at the beginning of the Board's first fiscal year, which may be a short fiscal year). The budget of the Board shall be subject to approval by the Commission. The budget for the first fiscal year of the Board shall be prepared and approved promptly following the appointment of the initial five Board members, to permit action by the Board of the organizational tasks contemplated by section 101(d).

(c) SOURCES AND USES OF FUNDS-

(1) RECOVERABLE BUDGET EXPENSES- The budget of the Board (reduced by any registration or annual fees received under section 102(e) for the year preceding the year for which the budget is being computed), and all of the budget of the standard setting body referred to in subsection (a), for each fiscal year of each of those 2 entities, shall be payable from annual accounting support fees, in accordance with subsections (d) and (e). Accounting support fees and other receipts of the Board and of such standard-setting body shall not be considered public monies of the United States.

(2) FUNDS GENERATED FROM THE COLLECTION OF MONETARY PENALTIES- Subject to the availability in advance in an appropriations Act, and notwithstanding subsection (i), all funds collected by the Board as a result of the assessment of monetary penalties shall be used to fund a merit scholarship program for undergraduate and graduate students enrolled in accredited accounting degree programs, which program is to be administered by the Board or by an entity or agent identified by the Board.

(d) ANNUAL ACCOUNTING SUPPORT FEE FOR THE BOARD-

(1) ESTABLISHMENT OF FEE- The Board shall establish, with the approval of the Commission, a reasonable annual accounting support fee (or a formula for the computation thereof), as may be necessary or appropriate to establish and maintain the Board. Such fee may also cover costs incurred in the Board's first fiscal year (which may be a short fiscal year), or may be levied separately with respect to such short fiscal year.

(2) ASSESSMENTS- The rules of the Board under paragraph (1) shall provide for the equitable allocation, assessment, and collection by the Board (or an agent appointed by the Board) of the fee established under paragraph (1), among issuers, in accordance with subsection (g), allowing for differentiation among classes of issuers, as appropriate.

(e) ANNUAL ACCOUNTING SUPPORT FEE FOR STANDARD SETTING BODY- The annual accounting support fee for the standard setting body referred to in subsection (a)--

(1) shall be allocated in accordance with subsection (g), and assessed and collected against each issuer, on behalf of the standard setting body, by 1 or more appropriate designated collection agents, as may be necessary or appropriate to pay for the budget and

provide for the expenses of that standard setting body, and to provide for an independent, stable source of funding for such body, subject to review by the Commission; and

(2) may differentiate among different classes of issuers.

(f) LIMITATION ON FEE- The amount of fees collected under this section for a fiscal year on behalf of the Board or the standards setting body, as the case may be, shall not exceed the recoverable budget expenses of the Board or body, respectively (which may include operating, capital, and accrued items), referred to in subsection (c)(1).

(g) ALLOCATION OF ACCOUNTING SUPPORT FEES AMONG ISSUERS- Any amount due from issuers (or a particular class of issuers) under this section to fund the budget of the Board or the standard setting body referred to in subsection (a) shall be allocated among and payable by each issuer (or each issuer in a particular class, as applicable) in an amount equal to the total of such amount, multiplied by a fraction--

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

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

(h) CONFORMING AMENDMENTS- Section 13(b)(2) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(b)(2)) is amended--

(1) in subparagraph (A), by striking 'and' at the end; and

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

'(C) notwithstanding any other provision of law, pay the allocable share of such issuer of a reasonable annual accounting support fee or fees, determined in accordance with section 109 of the Sarbanes-Oxley Act of 2002.'

(i) RULE OF CONSTRUCTION- Nothing in this section shall be construed to render either the Board, the standard setting body referred to in subsection (a), or both, subject to procedures in Congress to authorize or appropriate public funds, or to prevent such organization from utilizing additional sources of revenue for its activities, such as earnings from publication sales, provided that each additional source of revenue shall not jeopardize, in the judgment of the Commission, the actual and perceived independence of such organization.

(j) START-UP EXPENSES OF THE BOARD- From the unexpended balances of the appropriations to the Commission for fiscal year 2003, the Secretary of the Treasury is authorized to advance to the Board not to exceed the amount necessary to cover the expenses of the Board during its first fiscal year (which may be a short fiscal year).

## TITLE II--AUDITOR INDEPENDENCE

### SEC. 201. SERVICES OUTSIDE THE SCOPE OF PRACTICE OF AUDITORS.

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

'(g) PROHIBITED ACTIVITIES- Except as provided in subsection (h), it shall be unlawful for a registered public accounting firm (and any associated person of that firm, to the extent determined appropriate by the Commission) that performs for any issuer any audit required by this title or the rules of the Commission under this title or, beginning 180 days after the date of commencement of the operations of the Public Company Accounting Oversight Board established under section 101 of the Sarbanes-Oxley Act of 2002 (in this section referred to as the 'Board'), the rules of the Board, to provide to that issuer, contemporaneously with the audit, any non-audit service, including--

'(1) bookkeeping or other services related to the accounting records or financial statements of the audit client;

'(2) financial information systems design and implementation;

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

'(4) actuarial services;

'(5) internal audit outsourcing services;

'(6) management functions or human resources;

'(7) broker or dealer, investment adviser, or investment banking services;

'(8) legal services and expert services unrelated to the audit; and

'(9) any other service that the Board determines, by regulation, is impermissible.

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

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

#### SEC. 202. PREAPPROVAL REQUIREMENTS.

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

##### “(i) PREAPPROVAL REQUIREMENTS-

##### “(1) IN GENERAL-

“(A) AUDIT COMMITTEE ACTION- All auditing services (which may entail providing comfort letters in connection with securities underwritings or statutory audits required for insurance companies for purposes of State law) and non-audit services, other than as provided in subparagraph (B), provided to an issuer by the auditor of the issuer shall be preapproved by the audit committee of the issuer.

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

“(i) the aggregate amount of all such non-audit services provided to the issuer constitutes not more than 5 percent of the total amount of revenues paid by the issuer to its auditor during the fiscal year in which the nonaudit services are provided;

“(ii) such services were not recognized by the issuer at the time of the engagement to be non-audit services; and

“(iii) such services are promptly brought to the attention of the audit committee of the issuer and approved prior to the completion of the audit by the audit committee or by 1 or more members of the audit committee who are members of the board of directors to whom authority to grant such approvals has been delegated by the audit committee.

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

“(3) DELEGATION AUTHORITY- The audit committee of an issuer may delegate to 1 or more designated members of the audit committee who are independent directors of the board of directors, the authority to grant preapprovals required by this subsection. The decisions of any member to whom authority is delegated under this paragraph to preapprove an activity under this subsection shall be presented to the full audit committee at each of its scheduled meetings.

“(4) APPROVAL OF AUDIT SERVICES FOR OTHER PURPOSES- In carrying out its duties under subsection (m)(2), if the audit committee of an issuer approves an audit service within the scope of the engagement of the auditor, such audit service shall be deemed to have been preapproved for purposes of this subsection.”

#### SEC. 203. AUDIT PARTNER ROTATION.

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

“(j) AUDIT PARTNER ROTATION- It shall be unlawful for a registered public accounting firm to provide audit services to an issuer if the lead (or coordinating) audit partner (having primary responsibility for the audit), or the audit partner responsible for reviewing the audit, has performed audit services for that issuer in each of the 5 previous fiscal years of that issuer.”

#### SEC. 204. AUDITOR REPORTS TO AUDIT COMMITTEES.

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

“(k) REPORTS TO AUDIT COMMITTEES- Each registered public accounting firm that performs for any issuer any audit required by this title shall timely report to the audit committee of the issuer--

“(1) all critical accounting policies and practices to be used;

“(2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management officials of the issuer, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the registered public accounting firm; and

“(3) other material written communications between the registered public accounting firm and the management of the issuer, such as any management letter or schedule of unadjusted differences.”

#### SEC. 205. CONFORMING AMENDMENTS.

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

“(58) AUDIT COMMITTEE- The term ‘audit committee’ means--

`(A) a committee (or equivalent body) established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer; and

`(B) if no such committee exists with respect to an issuer, the entire board of directors of the issuer.

`(59) REGISTERED PUBLIC ACCOUNTING FIRM- The term `registered public accounting firm' has the same meaning as in section 2 of the Sarbanes-Oxley Act of 2002.'

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

(1) by striking `an independent public accountant' each place that term appears and inserting `a registered public accounting firm';

(2) by striking `the independent public accountant' each place that term appears and inserting `the registered public accounting firm';

(3) in subsection (c), by striking `No independent public accountant' and inserting `No registered public accounting firm'; and

(4) in subsection (b)--

(A) by striking `the accountant' each place that term appears and inserting `the firm';

(B) by striking `such accountant' each place that term appears and inserting `such firm'; and

(C) in paragraph (4), by striking `the accountant's report' and inserting `the report of the firm'.

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

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

(2) in subsections (e) and (i) of section 17 (15 U.S.C. 78q), by striking `an independent public accountant' each place that term appears and inserting `a registered public accounting firm'.

(d) CONFORMING AMENDMENT- Section 10A(f) of the Securities Exchange Act of 1934 (15 U.S.C. 78k(f)) is amended--

(1) by striking `DEFINITION' and inserting `DEFINITIONS'; and

(2) by adding at the end the following: `As used in this section, the term `issuer' means an issuer (as defined in section 3), the securities of which are registered under section 12, or that is required to file reports pursuant to section 15(d), or that files or has filed a registration statement that has not yet become effective under the Securities Act of 1933 (15 U.S.C. 77a et seq.), and that it has not withdrawn.'

#### SEC. 206. CONFLICTS OF INTEREST.

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

`(I) CONFLICTS OF INTEREST- It shall be unlawful for a registered public accounting firm to perform for an issuer any audit service required by this title, if a chief executive officer, controller, chief financial officer, chief accounting officer, or any person serving in an equivalent position for the issuer, was employed by that registered independent public accounting firm and participated in any capacity in the audit of that issuer during the 1-year period preceding the date of the initiation of the audit.'

#### SEC. 207. STUDY OF MANDATORY ROTATION OF REGISTERED PUBLIC ACCOUNTING FIRMS.

(a) STUDY AND REVIEW REQUIRED- The Comptroller General of the United States shall conduct a study and review of the potential effects of requiring the mandatory rotation of registered public accounting firms.

(b) REPORT REQUIRED- Not later than 1 year after the date of enactment of this Act, the Comptroller General shall submit a report to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives on the results of the study and review required by this section.

(c) DEFINITION- For purposes of this section, the term `mandatory rotation' refers to the imposition of a limit on the period of years in which a particular registered public accounting firm may be the auditor of record for a particular issuer.

#### SEC. 208. COMMISSION AUTHORITY.

(a) COMMISSION REGULATIONS- Not later than 180 days after the date of enactment of this Act, the Commission shall issue final regulations to carry out each of subsections (g) through (l) of section 10A of the Securities Exchange Act of 1934, as added by this title.

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

#### SEC. 209. CONSIDERATIONS BY APPROPRIATE STATE REGULATORY AUTHORITIES.

In supervising nonregistered public accounting firms and their associated persons, appropriate State regulatory authorities should make an independent determination of the proper standards applicable, particularly taking into consideration the size and nature of the business of the accounting firms they supervise and the size and nature of the business of the clients of those firms. The standards

applied by the Board under this Act should not be presumed to be applicable for purposes of this section for small and medium sized nonregistered public accounting firms.

### TITLE III--CORPORATE RESPONSIBILITY

#### SEC. 301. PUBLIC COMPANY AUDIT COMMITTEES.

Section 10A of the Securities Exchange Act of 1934 (15 U.S.C. 78f) is amended by adding at the end the following:

##### `(m) STANDARDS RELATING TO AUDIT COMMITTEES-

##### `(1) COMMISSION RULES-

`(A) IN GENERAL- Effective not later than 270 days after the date of enactment of this subsection, the Commission shall, by rule, direct the national securities exchanges and national securities associations to prohibit the listing of any security of an issuer that is not in compliance with the requirements of any portion of paragraphs (2) through (6).

`(B) OPPORTUNITY TO CURE DEFECTS- The rules of the Commission under subparagraph (A) shall provide for appropriate procedures for an issuer to have an opportunity to cure any defects that would be the basis for a prohibition under subparagraph (A), before the imposition of such prohibition.

`(2) RESPONSIBILITIES RELATING TO REGISTERED PUBLIC ACCOUNTING FIRMS- The audit committee of each issuer, in its capacity as a committee of the board of directors, shall be directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer (including resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, and each such registered public accounting firm shall report directly to the audit committee.

##### `(3) INDEPENDENCE-

`(A) IN GENERAL- Each member of the audit committee of the issuer shall be a member of the board of directors of the issuer, and shall otherwise be independent.

`(B) CRITERIA- In order to be considered to be independent for purposes of this paragraph, a member of an audit committee of an issuer may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee--

`(i) accept any consulting, advisory, or other compensatory fee from the issuer; or

`(ii) be an affiliated person of the issuer or any subsidiary thereof.

`(C) EXEMPTION AUTHORITY- The Commission may exempt from the requirements of subparagraph (B) a particular relationship with respect to audit committee members, as the Commission determines appropriate in light of the circumstances.

##### `(4) COMPLAINTS- Each audit committee shall establish procedures for--

`(A) the receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and

`(B) the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.

`(5) AUTHORITY TO ENGAGE ADVISERS- Each audit committee shall have the authority to engage independent counsel and other advisers, as it determines necessary to carry out its duties.

`(6) FUNDING- Each issuer shall provide for appropriate funding, as determined by the audit committee, in its capacity as a committee of the board of directors, for payment of compensation--

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

`(B) to any advisers employed by the audit committee under paragraph (5).'

#### SEC. 302. CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS.

(a) REGULATIONS REQUIRED- The Commission shall, by rule, require, for each company filing periodic reports under section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m, 78o(d)), that the principal executive officer or officers and the principal financial officer or officers, or persons performing similar functions, certify in each annual or quarterly report filed or submitted under either such section of such Act that--

(1) the signing officer has reviewed the report;

(2) based on the officer's knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading;

(3) based on such officer's knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition and results of operations of the issuer as of, and for, the periods presented in the report;

(4) the signing officers--

(A) are responsible for establishing and maintaining internal controls;

(B) have designed such internal controls to ensure that material information relating to the issuer and its consolidated subsidiaries is made known to such officers by others within those entities, particularly during the period in which the periodic reports are being prepared;

(C) have evaluated the effectiveness of the issuer's internal controls as of a date within 90 days prior to the report; and

(D) have presented in the report their conclusions about the effectiveness of their internal controls based on their evaluation as of that date;

(5) the signing officers have disclosed to the issuer's auditors and the audit committee of the board of directors (or persons fulfilling the equivalent function)--

(A) all significant deficiencies in the design or operation of internal controls which could adversely affect the issuer's ability to record, process, summarize, and report financial data and have identified for the issuer's auditors any material weaknesses in internal controls; and

(B) any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal controls; and

(6) the signing officers have indicated in the report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

(b) FOREIGN REINCORPORATIONS HAVE NO EFFECT- Nothing in this section 302 shall be interpreted or applied in any way to allow any issuer to lessen the legal force of the statement required under this section 302, by an issuer having reincorporated or having engaged in any other transaction that resulted in the transfer of the corporate domicile or offices of the issuer from inside the United States to outside of the United States.

(c) DEADLINE- The rules required by subsection (a) shall be effective not later than 30 days after the date of enactment of this Act.

#### SEC. 303. IMPROPER INFLUENCE ON CONDUCT OF AUDITS.

(a) RULES TO PROHIBIT- It shall be unlawful, in contravention of such rules or regulations as the Commission shall prescribe as necessary and appropriate in the public interest or for the protection of investors, for any officer or director of an issuer, or any other person acting under the direction thereof, to take any action to fraudulently influence, coerce, manipulate, or mislead any independent public or certified accountant engaged in the performance of an audit of the financial statements of that issuer for the purpose of rendering such financial statements materially misleading.

(b) ENFORCEMENT- In any civil proceeding, the Commission shall have exclusive authority to enforce this section and any rule or regulation issued under this section.

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

(d) DEADLINE FOR RULEMAKING- The Commission shall--

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

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

#### SEC. 304. FORFEITURE OF CERTAIN BONUSES AND PROFITS.

(a) ADDITIONAL COMPENSATION PRIOR TO NONCOMPLIANCE WITH COMMISSION FINANCIAL REPORTING REQUIREMENTS- If an issuer is required to prepare an accounting restatement due to the material noncompliance of the issuer, as a result of misconduct, with any financial reporting requirement under the securities laws, the chief executive officer and chief financial officer of the issuer shall reimburse the issuer for--

(1) any bonus or other incentive-based or equity-based compensation received by that person from the issuer during the 12-month period following the first public issuance or filing with the Commission (whichever first occurs) of the financial document embodying such financial reporting requirement; and

(2) any profits realized from the sale of securities of the issuer during that 12-month period.

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

#### SEC. 305. OFFICER AND DIRECTOR BARS AND PENALTIES.

(a) UNFITNESS STANDARD-

(1) SECURITIES EXCHANGE ACT OF 1934- Section 21(d)(2) of the Securities Exchange Act of 1934 (15 U.S.C. 78u(d)(2)) is amended by striking 'substantial unfitness' and inserting 'unfitness'.

(2) SECURITIES ACT OF 1933- Section 20(e) of the Securities Act of 1933 (15 U.S.C. 77t(e)) is amended by striking 'substantial unfitness' and inserting 'unfitness'.

(b) EQUITABLE RELIEF- Section 21(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78u(d)) is amended by adding at the end the following:

'(5) EQUITABLE RELIEF- In any action or proceeding brought or instituted by the Commission under any provision of the securities laws, the Commission may seek, and any Federal court may grant, any equitable relief that may be appropriate or necessary for the benefit of investors.'

#### SEC. 306. INSIDER TRADES DURING PENSION FUND BLACKOUT PERIODS.

##### (a) PROHIBITION OF INSIDER TRADING DURING PENSION FUND BLACKOUT PERIODS-

(1) IN GENERAL- Except to the extent otherwise provided by rule of the Commission pursuant to paragraph (3), it shall be unlawful for any director or executive officer of an issuer of any equity security (other than an exempted security), directly or indirectly, to purchase, sell, or otherwise acquire or transfer any equity security of the issuer (other than an exempted security) during any blackout period with respect to such equity security if such director or officer acquires such equity security in connection with his or her service or employment as a director or executive officer.

##### (2) REMEDY-

(A) IN GENERAL- Any profit realized by a director or executive officer referred to in paragraph (1) from any purchase, sale, or other acquisition or transfer in violation of this subsection shall inure to and be recoverable by the issuer, irrespective of any intention on the part of such director or executive officer in entering into the transaction.

(B) ACTIONS TO RECOVER PROFITS- An action to recover profits in accordance with this subsection may be instituted at law or in equity in any court of competent jurisdiction by the issuer, or by the owner of any security of the issuer in the name and in behalf of the issuer if the issuer fails or refuses to bring such action within 60 days after the date of request, or fails diligently to prosecute the action thereafter, except that no such suit shall be brought more than 2 years after the date on which such profit was realized.

(3) RULEMAKING AUTHORIZED- The Commission shall, in consultation with the Secretary of Labor, issue rules to clarify the application of this subsection and to prevent evasion thereof. Such rules shall provide for the application of the requirements of paragraph (1) with respect to entities treated as a single employer with respect to an issuer under section 414(b), (c), (m), or (o) of the Internal Revenue Code of 1986 to the extent necessary to clarify the application of such requirements and to prevent evasion thereof. Such rules may also provide for appropriate exceptions from the requirements of this subsection, including exceptions for purchases pursuant to an automatic dividend reinvestment program or purchases or sales made pursuant to an advance election.

(4) BLACKOUT PERIOD- For purposes of this subsection, the term 'blackout period', with respect to the equity securities of any issuer--

(A) means any period of more than 3 consecutive business days during which the ability of not fewer than 50 percent of the participants or beneficiaries under all individual account plans maintained by the issuer to purchase, sell, or otherwise acquire or transfer an interest in any equity of such issuer held in such an individual account plan is temporarily suspended by the issuer or by a fiduciary of the plan; and

(B) does not include, under regulations which shall be prescribed by the Commission--

(i) a regularly scheduled period in which the participants and beneficiaries may not purchase, sell, or otherwise acquire or transfer an interest in any equity of such issuer, if such period is--

(I) incorporated into the individual account plan; and

(II) timely disclosed to employees before becoming participants under the individual account plan or as a subsequent amendment to the plan; or

(ii) any suspension described in subparagraph (A) that is imposed solely in connection with persons becoming participants or beneficiaries, or ceasing to be participants or beneficiaries, in an individual account plan by reason of a corporate merger, acquisition, divestiture, or similar transaction involving the plan or plan sponsor.

(5) INDIVIDUAL ACCOUNT PLAN- For purposes of this subsection, the term 'individual account plan' has the meaning provided in section 3(34) of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1002(34)), except that such term shall not include a one-participant retirement plan (within the meaning of section 101(i)(8)(B) of such Act (29 U.S.C. 1021(i)(8)(B))).

(6) NOTICE TO DIRECTORS, EXECUTIVE OFFICERS, AND THE COMMISSION- In any case in which a director or executive officer is subject to the requirements of this subsection in connection with a blackout period (as defined in paragraph (4)) with respect to any equity securities, the issuer of such equity securities shall timely notify such director or officer and the Securities and Exchange Commission of such blackout period.

##### (b) NOTICE REQUIREMENTS TO PARTICIPANTS AND BENEFICIARIES UNDER ERISA-



(1) IN GENERAL- Section 101 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1021) is amended by redesignating the second subsection (h) as subsection (j), and by inserting after the first subsection (h) the following new subsection:

“(i) NOTICE OF BLACKOUT PERIODS TO PARTICIPANT OR BENEFICIARY UNDER INDIVIDUAL ACCOUNT PLAN-

“(1) DUTIES OF PLAN ADMINISTRATOR- In advance of the commencement of any blackout period with respect to an individual account plan, the plan administrator shall notify the plan participants and beneficiaries who are affected by such action in accordance with this subsection.

“(2) NOTICE REQUIREMENTS-

“(A) IN GENERAL- The notices described in paragraph (1) shall be written in a manner calculated to be understood by the average plan participant and shall include--

“(i) the reasons for the blackout period,

“(ii) an identification of the investments and other rights affected,

“(iii) the expected beginning date and length of the blackout period,

“(iv) in the case of investments affected, a statement that the participant or beneficiary should evaluate the appropriateness of their current investment decisions in light of their inability to direct or diversify assets credited to their accounts during the blackout period, and

“(v) such other matters as the Secretary may require by regulation.

“(B) NOTICE TO PARTICIPANTS AND BENEFICIARIES- Except as otherwise provided in this subsection, notices described in paragraph (1) shall be furnished to all participants and beneficiaries under the plan to whom the blackout period applies at least 30 days in advance of the blackout period.

“(C) EXCEPTION TO 30-DAY NOTICE REQUIREMENT- In any case in which--

“(i) a deferral of the blackout period would violate the requirements of subparagraph (A) or (B) of section 404(a)(1), and a fiduciary of the plan reasonably so determines in writing, or

“(ii) the inability to provide the 30-day advance notice is due to events that were unforeseeable or circumstances beyond the reasonable control of the plan administrator, and a fiduciary of the plan reasonably so determines in writing,

subparagraph (B) shall not apply, and the notice shall be furnished to all participants and beneficiaries under the plan to whom the blackout period applies as soon as reasonably possible under the circumstances unless such a notice in advance of the termination of the blackout period is impracticable.

“(D) WRITTEN NOTICE- The notice required to be provided under this subsection shall be in writing, except that such notice may be in electronic or other form to the extent that such form is reasonably accessible to the recipient.

“(E) NOTICE TO ISSUERS OF EMPLOYER SECURITIES SUBJECT TO BLACKOUT PERIOD- In the case of any blackout period in connection with an individual account plan, the plan administrator shall provide timely notice of such blackout period to the issuer of any employer securities subject to such blackout period.

“(3) EXCEPTION FOR BLACKOUT PERIODS WITH LIMITED APPLICABILITY- In any case in which the blackout period applies only to 1 or more participants or beneficiaries in connection with a merger, acquisition, divestiture, or similar transaction involving the plan or plan sponsor and occurs solely in connection with becoming or ceasing to be a participant or beneficiary under the plan by reason of such merger, acquisition, divestiture, or transaction, the requirement of this subsection that the notice be provided to all participants and beneficiaries shall be treated as met if the notice required under paragraph (1) is provided to such participants or beneficiaries to whom the blackout period applies as soon as reasonably practicable.

“(4) CHANGES IN LENGTH OF BLACKOUT PERIOD- If, following the furnishing of the notice pursuant to this subsection, there is a change in the beginning date or length of the blackout period (specified in such notice pursuant to paragraph (2)(A)(iii)), the administrator shall provide affected participants and beneficiaries notice of the change as soon as reasonably practicable. In relation to the extended blackout period, such notice shall meet the requirements of paragraph (2)(D) and shall specify any material change in the matters referred to in clauses (i) through (v) of paragraph (2)(A).

“(5) REGULATORY EXCEPTIONS- The Secretary may provide by regulation for additional exceptions to the requirements of this subsection which the Secretary determines are in the interests of participants and beneficiaries.

“(6) GUIDANCE AND MODEL NOTICES- The Secretary shall issue guidance and model notices which meet the requirements of this subsection.

“(7) BLACKOUT PERIOD- For purposes of this subsection--

“(A) IN GENERAL- The term ‘blackout period’ means, in connection with an individual account plan, any period for which any ability of participants or beneficiaries under the plan, which is otherwise available under the terms of such plan, to direct or diversify assets

credited to their accounts, to obtain loans from the plan, or to obtain distributions from the plan is temporarily suspended, limited, or restricted, if such suspension, limitation, or restriction is for any period of more than 3 consecutive business days.

`(B) EXCLUSIONS- The term `blackout period' does not include a suspension, limitation, or restriction--

`(i) which occurs by reason of the application of the securities laws (as defined in section 3(a)(47) of the Securities Exchange Act of 1934),

`(ii) which is a change to the plan which provides for a regularly scheduled suspension, limitation, or restriction which is disclosed to participants or beneficiaries through any summary of material modifications, any materials describing specific investment alternatives under the plan, or any changes thereto, or

`(iii) which applies only to 1 or more individuals, each of whom is the participant, an alternate payee (as defined in section 206(d)(3)(K)), or any other beneficiary pursuant to a qualified domestic relations order (as defined in section 206(d)(3)(B)(i)).

`(8) INDIVIDUAL ACCOUNT PLAN-

`(A) IN GENERAL- For purposes of this subsection, the term `individual account plan' shall have the meaning provided such term in section 3(34), except that such term shall not include a one-participant retirement plan.

`(B) ONE-PARTICIPANT RETIREMENT PLAN- For purposes of subparagraph (A), the term `one-participant retirement plan' means a retirement plan that--

`(i) on the first day of the plan year--

`(I) covered only the employer (and the employer's spouse) and the employer owned the entire business (whether or not incorporated), or

`(II) covered only one or more partners (and their spouses) in a business partnership (including partners in an S or C corporation (as defined in section 1361(a) of the Internal Revenue Code of 1986)),

`(ii) meets the minimum coverage requirements of section 410(b) of the Internal Revenue Code of 1986 (as in effect on the date of the enactment of this paragraph) without being combined with any other plan of the business that covers the employees of the business,

`(iii) does not provide benefits to anyone except the employer (and the employer's spouse) or the partners (and their spouses),

`(iv) does not cover a business that is a member of an affiliated service group, a controlled group of corporations, or a group of businesses under common control, and

`(v) does not cover a business that leases employees.'.

(2) ISSUANCE OF INITIAL GUIDANCE AND MODEL NOTICE- The Secretary of Labor shall issue initial guidance and a model notice pursuant to section 101(i)(6) of the Employee Retirement Income Security Act of 1974 (as added by this subsection) not later than January 1, 2003. Not later than 75 days after the date of the enactment of this Act, the Secretary shall promulgate interim final rules necessary to carry out the amendments made by this subsection.

(3) CIVIL PENALTIES FOR FAILURE TO PROVIDE NOTICE- Section 502 of such Act (29 U.S.C. 1132) is amended--

(A) in subsection (a)(6), by striking `(5), or (6)' and inserting `(5), (6), or (7)';

(B) by redesignating paragraph (7) of subsection (c) as paragraph (8); and

(C) by inserting after paragraph (6) of subsection (c) the following new paragraph:

`(7) The Secretary may assess a civil penalty against a plan administrator of up to \$100 a day from the date of the plan administrator's failure or refusal to provide notice to participants and beneficiaries in accordance with section 101(i). For purposes of this paragraph, each violation with respect to any single participant or beneficiary shall be treated as a separate violation.'.

(3) PLAN AMENDMENTS- If any amendment made by this subsection requires an amendment to any plan, such plan amendment shall not be required to be made before the first plan year beginning on or after the effective date of this section, if--

(A) during the period after such amendment made by this subsection takes effect and before such first plan year, the plan is operated in good faith compliance with the requirements of such amendment made by this subsection, and

(B) such plan amendment applies retroactively to the period after such amendment made by this subsection takes effect and before such first plan year.

(c) EFFECTIVE DATE- The provisions of this section (including the amendments made thereby) shall take effect 180 days after the date of the enactment of this Act. Good faith compliance with the requirements of such provisions in advance of the issuance of applicable regulations thereunder shall be treated as compliance with such provisions.

SEC. 307. RULES OF PROFESSIONAL RESPONSIBILITY FOR ATTORNEYS.

Not later than 180 days after the date of enactment of this Act, the Commission shall issue rules, in the public interest and for the protection of investors, setting forth minimum standards of professional conduct for attorneys appearing and practicing before the Commission in any way in the representation of issuers, including a rule--

(1) requiring an attorney to report evidence of a material violation of securities law or breach of fiduciary duty or similar violation by the company or any agent thereof, to the chief legal counsel or the chief executive officer of the company (or the equivalent thereof); and

(2) if the counsel or officer does not appropriately respond to the evidence (adopting, as necessary, appropriate remedial measures or sanctions with respect to the violation), requiring the attorney to report the evidence to the audit committee of the board of directors of the issuer or to another committee of the board of directors comprised solely of directors not employed directly or indirectly by the issuer, or to the board of directors.

#### SEC. 308. FAIR FUNDS FOR INVESTORS.

(a) CIVIL PENALTIES ADDED TO DISGORGEMENT FUNDS FOR THE RELIEF OF VICTIMS- If in any judicial or administrative action brought by the Commission under the securities laws (as such term is defined in section 3(a)(47) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(47))) the Commission obtains an order requiring disgorgement against any person for a violation of such laws or the rules or regulations thereunder, or such person agrees in settlement of any such action to such disgorgement, and the Commission also obtains pursuant to such laws a civil penalty against such person, the amount of such civil penalty shall, on the motion or at the direction of the Commission, be added to and become part of the disgorgement fund for the benefit of the victims of such violation.

(b) ACCEPTANCE OF ADDITIONAL DONATIONS- The Commission is authorized to accept, hold, administer, and utilize gifts, bequests and devises of property, both real and personal, to the United States for a disgorgement fund described in subsection (a). Such gifts, bequests, and devises of money and proceeds from sales of other property received as gifts, bequests, or devises shall be deposited in the disgorgement fund and shall be available for allocation in accordance with subsection (a).

(c) STUDY REQUIRED-

(1) SUBJECT OF STUDY- The Commission shall review and analyze--

(A) enforcement actions by the Commission over the five years preceding the date of the enactment of this Act that have included proceedings to obtain civil penalties or disgorgements to identify areas where such proceedings may be utilized to efficiently, effectively, and fairly provide restitution for injured investors; and

(B) other methods to more efficiently, effectively, and fairly provide restitution to injured investors, including methods to improve the collection rates for civil penalties and disgorgements.

(2) REPORT REQUIRED- The Commission shall report its findings to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate within 180 days after the date of the enactment of this Act, and shall use such findings to revise its rules and regulations as necessary. The report shall include a discussion of regulatory or legislative actions that are recommended or that may be necessary to address concerns identified in the study.

(d) CONFORMING AMENDMENTS- Each of the following provisions is amended by inserting ` , except as otherwise provided in section 308 of the Sarbanes-Oxley Act of 2002' after `Treasury of the United States':

(1) Section 21(d)(3)(C)(i) of the Securities Exchange Act of 1934 (15 U.S.C. 78u(d)(3)(C)(i)).

(2) Section 21A(d)(1) of such Act (15 U.S.C. 78u-1(d)(1)).

(3) Section 20(d)(3)(A) of the Securities Act of 1933 (15 U.S.C. 77t(d)(3)(A)).

(4) Section 42(e)(3)(A) of the Investment Company Act of 1940 (15 U.S.C. 80a-41(e)(3)(A)).

(5) Section 209(e)(3)(A) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-9(e)(3)(A)).

(e) DEFINITION- As used in this section, the term `disgorgement fund' means a fund established in any administrative or judicial proceeding described in subsection (a).

#### TITLE IV--ENHANCED FINANCIAL DISCLOSURES

##### SEC. 401. DISCLOSURES IN PERIODIC REPORTS.

(a) DISCLOSURES REQUIRED- Section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m) is amended by adding at the end the following:

`(i) ACCURACY OF FINANCIAL REPORTS- Each financial report that contains financial statements, and that is required to be prepared in accordance with (or reconciled to) generally accepted accounting principles under this title and filed with the Commission shall reflect all material correcting adjustments that have been identified by a registered public accounting firm in accordance with generally accepted accounting principles and the rules and regulations of the Commission.

`(j) OFF-BALANCE SHEET TRANSACTIONS- Not later than 180 days after the date of enactment of the Sarbanes-Oxley Act of 2002, the Commission shall issue final rules providing that each annual and quarterly financial report required to be filed with the Commission shall disclose all material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the issuer with unconsolidated entities or other persons, that may have a material current or future effect on financial

condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses.'.

(b) COMMISSION RULES ON PRO FORMA FIGURES- Not later than 180 days after the date of enactment of the Sarbanes-Oxley Act of 2002, the Commission shall issue final rules providing that pro forma financial information included in any periodic or other report filed with the Commission pursuant to the securities laws, or in any public disclosure or press or other release, shall be presented in a manner that--

(1) does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the pro forma financial information, in light of the circumstances under which it is presented, not misleading; and

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

(c) STUDY AND REPORT ON SPECIAL PURPOSE ENTITIES-

(1) STUDY REQUIRED- The Commission shall, not later than 1 year after the effective date of adoption of off-balance sheet disclosure rules required by section 13(j) of the Securities Exchange Act of 1934, as added by this section, complete a study of filings by issuers and their disclosures to determine--

(A) the extent of off-balance sheet transactions, including assets, liabilities, leases, losses, and the use of special purpose entities; and

(B) whether generally accepted accounting rules result in financial statements of issuers reflecting the economics of such off-balance sheet transactions to investors in a transparent fashion.

(2) REPORT AND RECOMMENDATIONS- Not later than 6 months after the date of completion of the study required by paragraph (1), the Commission shall submit a report to the President, the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Committee on Financial Services of the House of Representatives, setting forth--

(A) the amount or an estimate of the amount of off-balance sheet transactions, including assets, liabilities, leases, and losses of, and the use of special purpose entities by, issuers filing periodic reports pursuant to section 13 or 15 of the Securities Exchange Act of 1934;

(B) the extent to which special purpose entities are used to facilitate off-balance sheet transactions;

(C) whether generally accepted accounting principles or the rules of the Commission result in financial statements of issuers reflecting the economics of such transactions to investors in a transparent fashion;

(D) whether generally accepted accounting principles specifically result in the consolidation of special purpose entities sponsored by an issuer in cases in which the issuer has the majority of the risks and rewards of the special purpose entity; and

(E) any recommendations of the Commission for improving the transparency and quality of reporting off-balance sheet transactions in the financial statements and disclosures required to be filed by an issuer with the Commission.

#### SEC. 402. ENHANCED CONFLICT OF INTEREST PROVISIONS.

(a) PROHIBITION ON PERSONAL LOANS TO EXECUTIVES- Section 13 of the Securities Exchange Act of 1934 (15 U.S.C. 78m), as amended by this Act, is amended by adding at the end the following:

“(k) PROHIBITION ON PERSONAL LOANS TO EXECUTIVES-

“(1) IN GENERAL- It shall be unlawful for any issuer (as defined in section 2 of the Sarbanes-Oxley Act of 2002), directly or indirectly, including through any subsidiary, to extend or maintain credit, to arrange for the extension of credit, or to renew an extension of credit, in the form of a personal loan to or for any director or executive officer (or equivalent thereof) of that issuer. An extension of credit maintained by the issuer on the date of enactment of this subsection shall not be subject to the provisions of this subsection, provided that there is no material modification to any term of any such extension of credit or any renewal of any such extension of credit on or after that date of enactment.

“(2) LIMITATION- Paragraph (1) does not preclude any home improvement and manufactured home loans (as that term is defined in section 5 of the Home Owners' Loan Act (12 U.S.C. 1464)), consumer credit (as defined in section 103 of the Truth in Lending Act (15 U.S.C. 1602)), or any extension of credit under an open end credit plan (as defined in section 103 of the Truth in Lending Act (15 U.S.C. 1602)), or a charge card (as defined in section 127(c)(4)(e) of the Truth in Lending Act (15 U.S.C. 1637(c)(4)(e))), or any extension of credit by a broker or dealer registered under section 15 of this title to an employee of that broker or dealer to buy, trade, or carry securities, that is permitted under rules or regulations of the Board of Governors of the Federal Reserve System pursuant to section 7 of this title (other than an extension of credit that would be used to purchase the stock of that issuer), that is--

“(A) made or provided in the ordinary course of the consumer credit business of such issuer;

“(B) of a type that is generally made available by such issuer to the public; and

“(C) made by such issuer on market terms, or terms that are no more favorable than those offered by the issuer to the general public for such extensions of credit.

“(3) RULE OF CONSTRUCTION FOR CERTAIN LOANS- Paragraph (1) does not apply to any loan made or maintained by an insured depository institution (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)), if the loan is subject to the insider lending restrictions of section 22(h) of the Federal Reserve Act (12 U.S.C. 375b).’.

SEC. 403. DISCLOSURES OF TRANSACTIONS INVOLVING MANAGEMENT AND PRINCIPAL STOCKHOLDERS.

(a) AMENDMENT- Section 16 of the Securities Exchange Act of 1934 (15 U.S.C. 78p) is amended by striking the heading of such section and subsection (a) and inserting the following:

SEC. 16. DIRECTORS, OFFICERS, AND PRINCIPAL STOCKHOLDERS.

(a) DISCLOSURES REQUIRED-

(1) DIRECTORS, OFFICERS, AND PRINCIPAL STOCKHOLDERS REQUIRED TO FILE- Every person who is directly or indirectly the beneficial owner of more than 10 percent of any class of any equity security (other than an exempted security) which is registered pursuant to section 12, or who is a director or an officer of the issuer of such security, shall file the statements required by this subsection with the Commission (and, if such security is registered on a national securities exchange, also with the exchange).

(2) TIME OF FILING- The statements required by this subsection shall be filed--

(A) at the time of the registration of such security on a national securities exchange or by the effective date of a registration statement filed pursuant to section 12(g);

(B) within 10 days after he or she becomes such beneficial owner, director, or officer;

(C) if there has been a change in such ownership, or if such person shall have purchased or sold a security-based swap agreement (as defined in section 206(b) of the Gramm-Leach-Bliley Act (15 U.S.C. 78c note)) involving such equity security, before the end of the second business day following the day on which the subject transaction has been executed, or at such other time as the Commission shall establish, by rule, in any case in which the Commission determines that such 2-day period is not feasible.

(3) CONTENTS OF STATEMENTS- A statement filed--

(A) under subparagraph (A) or (B) of paragraph (2) shall contain a statement of the amount of all equity securities of such issuer of which the filing person is the beneficial owner; and

(B) under subparagraph (C) of such paragraph shall indicate ownership by the filing person at the date of filing, any such changes in such ownership, and such purchases and sales of the security-based swap agreements as have occurred since the most recent such filing under such subparagraph.

(4) ELECTRONIC FILING AND AVAILABILITY- Beginning not later than 1 year after the date of enactment of the Sarbanes-Oxley Act of 2002--

(A) a statement filed under subparagraph (C) of paragraph (2) shall be filed electronically;

(B) the Commission shall provide each such statement on a publicly accessible Internet site not later than the end of the business day following that filing; and

(C) the issuer (if the issuer maintains a corporate website) shall provide that statement on that corporate website, not later than the end of the business day following that filing.

(b) EFFECTIVE DATE- The amendment made by this section shall be effective 30 days after the date of the enactment of this Act.

SEC. 404. MANAGEMENT ASSESSMENT OF INTERNAL CONTROLS.

(a) RULES REQUIRED- The Commission shall prescribe rules requiring each annual report required by section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) to contain an internal control report, which shall--

(1) state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and

(2) contain an assessment, as of the end of the most recent fiscal year of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.

(b) INTERNAL CONTROL EVALUATION AND REPORTING- With respect to the internal control assessment required by subsection (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement.

SEC. 405. EXEMPTION.

Nothing in section 401, 402, or 404, the amendments made by those sections, or the rules of the Commission under those sections shall apply to any investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

SEC. 406. CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS.

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

(b) CHANGES IN CODES OF ETHICS- The Commission shall revise its regulations concerning matters requiring prompt disclosure on Form 8-K (or any successor thereto) to require the immediate disclosure, by means of the filing of such form, dissemination by the Internet or by other electronic means, by any issuer of any change in or waiver of the code of ethics for senior financial officers.

(c) DEFINITION- In this section, the term 'code of ethics' means such standards as are reasonably necessary to promote--

(1) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(2) full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the issuer; and

(3) compliance with applicable governmental rules and regulations.

(d) DEADLINE FOR RULEMAKING- The Commission shall--

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

(2) issue final rules to implement this section, not later than 180 days after that date of enactment.

#### SEC. 407. DISCLOSURE OF AUDIT COMMITTEE FINANCIAL EXPERT.

(a) RULES DEFINING 'FINANCIAL EXPERT'- The Commission shall issue rules, as necessary or appropriate in the public interest and consistent with the protection of investors, to require each issuer, together with periodic reports required pursuant to sections 13(a) and 15(d) of the Securities Exchange Act of 1934, to disclose whether or not, and if not, the reasons therefor, the audit committee of that issuer is comprised of at least 1 member who is a financial expert, as such term is defined by the Commission.

(b) CONSIDERATIONS- In defining the term 'financial expert' for purposes of subsection (a), the Commission shall consider whether a person has, through education and experience as a public accountant or auditor or a principal financial officer, comptroller, or principal accounting officer of an issuer, or from a position involving the performance of similar functions--

(1) an understanding of generally accepted accounting principles and financial statements;

(2) experience in--

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

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

(3) experience with internal accounting controls; and

(4) an understanding of audit committee functions.

(c) DEADLINE FOR RULEMAKING- The Commission shall--

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

(2) issue final rules to implement this section, not later than 180 days after that date of enactment.

#### SEC. 408. ENHANCED REVIEW OF PERIODIC DISCLOSURES BY ISSUERS.

(a) REGULAR AND SYSTEMATIC REVIEW- The Commission shall review disclosures made by issuers reporting under section 13(a) of the Securities Exchange Act of 1934 (including reports filed on Form 10-K), and which have a class of securities listed on a national securities exchange or traded on an automated quotation facility of a national securities association, on a regular and systematic basis for the protection of investors. Such review shall include a review of an issuer's financial statement.

(b) REVIEW CRITERIA- For purposes of scheduling the reviews required by subsection (a), the Commission shall consider, among other factors--

(1) issuers that have issued material restatements of financial results;

(2) issuers that experience significant volatility in their stock price as compared to other issuers;

(3) issuers with the largest market capitalization;

(4) emerging companies with disparities in price to earning ratios;

(5) issuers whose operations significantly affect any material sector of the economy; and

(6) any other factors that the Commission may consider relevant.

(c) MINIMUM REVIEW PERIOD- In no event shall an issuer required to file reports under section 13(a) or 15(d) of the Securities Exchange Act of 1934 be reviewed under this section less frequently than once every 3 years.

#### SEC. 409. REAL TIME ISSUER DISCLOSURES.

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

“(I) REAL TIME ISSUER DISCLOSURES- Each issuer reporting under section 13(a) or 15(d) shall disclose to the public on a rapid and current basis such additional information concerning material changes in the financial condition or operations of the issuer, in plain English, which may include trend and qualitative information and graphic presentations, as the Commission determines, by rule, is necessary or useful for the protection of investors and in the public interest.”.

#### TITLE V--ANALYST CONFLICTS OF INTEREST

##### SEC. 501. TREATMENT OF SECURITIES ANALYSTS BY REGISTERED SECURITIES ASSOCIATIONS AND NATIONAL SECURITIES EXCHANGES.

(a) RULES REGARDING SECURITIES ANALYSTS- The Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.) is amended by inserting after section 15C the following new section:

##### “SEC. 15D. SECURITIES ANALYSTS AND RESEARCH REPORTS.

“(a) ANALYST PROTECTIONS- The Commission, or upon the authorization and direction of the Commission, a registered securities association or national securities exchange, shall have adopted, not later than 1 year after the date of enactment of this section, rules reasonably designed to address conflicts of interest that can arise when securities analysts recommend equity securities in research reports and public appearances, in order to improve the objectivity of research and provide investors with more useful and reliable information, including rules designed--

“(1) to foster greater public confidence in securities research, and to protect the objectivity and independence of securities analysts, by--

“(A) restricting the prepublication clearance or approval of research reports by persons employed by the broker or dealer who are engaged in investment banking activities, or persons not directly responsible for investment research, other than legal or compliance staff;

“(B) limiting the supervision and compensatory evaluation of securities analysts to officials employed by the broker or dealer who are not engaged in investment banking activities; and

“(C) requiring that a broker or dealer and persons employed by a broker or dealer who are involved with investment banking activities may not, directly or indirectly, retaliate against or threaten to retaliate against any securities analyst employed by that broker or dealer or its affiliates as a result of an adverse, negative, or otherwise unfavorable research report that may adversely affect the present or prospective investment banking relationship of the broker or dealer with the issuer that is the subject of the research report, except that such rules may not limit the authority of a broker or dealer to discipline a securities analyst for causes other than such research report in accordance with the policies and procedures of the firm;

“(2) to define periods during which brokers or dealers who have participated, or are to participate, in a public offering of securities as underwriters or dealers should not publish or otherwise distribute research reports relating to such securities or to the issuer of such securities;

“(3) to establish structural and institutional safeguards within registered brokers or dealers to assure that securities analysts are separated by appropriate informational partitions within the firm from the review, pressure, or oversight of those whose involvement in investment banking activities might potentially bias their judgment or supervision; and

“(4) to address such other issues as the Commission, or such association or exchange, determines appropriate.

“(b) DISCLOSURE- The Commission, or upon the authorization and direction of the Commission, a registered securities association or national securities exchange, shall have adopted, not later than 1 year after the date of enactment of this section, rules reasonably designed to require each securities analyst to disclose in public appearances, and each registered broker or dealer to disclose in each research report, as applicable, conflicts of interest that are known or should have been known by the securities analyst or the broker or dealer, to exist at the time of the appearance or the date of distribution of the report, including--

“(1) the extent to which the securities analyst has debt or equity investments in the issuer that is the subject of the appearance or research report;

“(2) whether any compensation has been received by the registered broker or dealer, or any affiliate thereof, including the securities analyst, from the issuer that is the subject of the appearance or research report, subject to such exemptions as the Commission may determine appropriate and necessary to prevent disclosure by virtue of this paragraph of material non-public information regarding specific potential future investment banking transactions of such issuer, as is appropriate in the public interest and consistent with the protection of investors;

“(3) whether an issuer, the securities of which are recommended in the appearance or research report, currently is, or during the 1-year period preceding the date of the appearance or date of distribution of the report has been, a client of the registered broker or dealer, and if so, stating the types of services provided to the issuer;

“(4) whether the securities analyst received compensation with respect to a research report, based upon (among any other factors) the investment banking revenues (either generally or specifically earned from the issuer being analyzed) of the registered broker or dealer; and

“(5) such other disclosures of conflicts of interest that are material to investors, research analysts, or the broker or dealer as the Commission, or such association or exchange, determines appropriate.

`(c) DEFINITIONS- In this section--

`(1) the term `securities analyst' means any associated person of a registered broker or dealer that is principally responsible for, and any associated person who reports directly or indirectly to a securities analyst in connection with, the preparation of the substance of a research report, whether or not any such person has the job title of `securities analyst'; and

`(2) the term `research report' means a written or electronic communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision.'

(b) ENFORCEMENT- Section 21B(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78u-2(a)) is amended by inserting `15D,' before `15B'.

(c) COMMISSION AUTHORITY- The Commission may promulgate and amend its regulations, or direct a registered securities association or national securities exchange to promulgate and amend its rules, to carry out section 15D of the Securities Exchange Act of 1934, as added by this section, as is necessary for the protection of investors and in the public interest.

#### TITLE VI--COMMISSION RESOURCES AND AUTHORITY

##### SEC. 601. AUTHORIZATION OF APPROPRIATIONS.

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

##### `SEC. 35. AUTHORIZATION OF APPROPRIATIONS.

`In addition to any other funds authorized to be appropriated to the Commission, there are authorized to be appropriated to carry out the functions, powers, and duties of the Commission, \$776,000,000 for fiscal year 2003, of which--

`(1) \$102,700,000 shall be available to fund additional compensation, including salaries and benefits, as authorized in the Investor and Capital Markets Fee Relief Act (Public Law 107-123; 115 Stat. 2390 et seq.);

`(2) \$108,400,000 shall be available for information technology, security enhancements, and recovery and mitigation activities in light of the terrorist attacks of September 11, 2001; and

`(3) \$98,000,000 shall be available to add not fewer than an additional 200 qualified professionals to provide enhanced oversight of auditors and audit services required by the Federal securities laws, and to improve Commission investigative and disciplinary efforts with respect to such auditors and services, as well as for additional professional support staff necessary to strengthen the programs of the Commission involving Full Disclosure and Prevention and Suppression of Fraud, risk management, industry technology review, compliance, inspections, examinations, market regulation, and investment management.'

##### SEC. 602. APPEARANCE AND PRACTICE BEFORE THE COMMISSION.

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

##### `SEC. 4C. APPEARANCE AND PRACTICE BEFORE THE COMMISSION.

`(a) AUTHORITY TO CENSURE- The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practicing before the Commission in any way, if that person is found by the Commission, after notice and opportunity for hearing in the matter--

`(1) not to possess the requisite qualifications to represent others;

`(2) to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or

`(3) to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations issued thereunder.

`(b) DEFINITION- With respect to any registered public accounting firm or associated person, for purposes of this section, the term `improper professional conduct' means--

`(1) intentional or knowing conduct, including reckless conduct, that results in a violation of applicable professional standards; and

`(2) negligent conduct in the form of--

`(A) a single instance of highly unreasonable conduct that results in a violation of applicable professional standards in circumstances in which the registered public accounting firm or associated person knows, or should know, that heightened scrutiny is warranted; or

`(B) repeated instances of unreasonable conduct, each resulting in a violation of applicable professional standards, that indicate a lack of competence to practice before the Commission.'

##### SEC. 603. FEDERAL COURT AUTHORITY TO IMPOSE PENNY STOCK BARS.

(a) Securities Exchange Act of 1934- Section 21(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78u(d)), as amended by this Act, is amended by adding at the end the following:

`(6) AUTHORITY OF A COURT TO PROHIBIT PERSONS FROM PARTICIPATING IN AN OFFERING OF PENNY STOCK-



`(A) IN GENERAL- In any proceeding under paragraph (1) against any person participating in, or, at the time of the alleged misconduct who was participating in, an offering of penny stock, the court may prohibit that person from participating in an offering of penny stock, conditionally or unconditionally, and permanently or for such period of time as the court shall determine.

`(B) DEFINITION- For purposes of this paragraph, the term `person participating in an offering of penny stock' includes any person engaging in activities with a broker, dealer, or issuer for purposes of issuing, trading, or inducing or attempting to induce the purchase or sale of, any penny stock. The Commission may, by rule or regulation, define such term to include other activities, and may, by rule, regulation, or order, exempt any person or class of persons, in whole or in part, conditionally or unconditionally, from inclusion in such term.'

(b) Securities Act of 1933- Section 20 of the Securities Act of 1933 (15 U.S.C. 77t) is amended by adding at the end the following:

`(g) AUTHORITY OF A COURT TO PROHIBIT PERSONS FROM PARTICIPATING IN AN OFFERING OF PENNY STOCK-

`(1) IN GENERAL- In any proceeding under subsection (a) against any person participating in, or, at the time of the alleged misconduct, who was participating in, an offering of penny stock, the court may prohibit that person from participating in an offering of penny stock, conditionally or unconditionally, and permanently or for such period of time as the court shall determine.

`(2) DEFINITION- For purposes of this subsection, the term `person participating in an offering of penny stock' includes any person engaging in activities with a broker, dealer, or issuer for purposes of issuing, trading, or inducing or attempting to induce the purchase or sale of, any penny stock. The Commission may, by rule or regulation, define such term to include other activities, and may, by rule, regulation, or order, exempt any person or class of persons, in whole or in part, conditionally or unconditionally, from inclusion in such term.'

SEC. 604. QUALIFICATIONS OF ASSOCIATED PERSONS OF BROKERS AND DEALERS.

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

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

`(F) is subject to any order of the Commission barring or suspending the right of the person to be associated with a broker or dealer;'; and

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

`(H) is subject to any final order of a State securities commission (or any agency or officer performing like functions), State authority that supervises or examines banks, savings associations, or credit unions, State insurance commission (or any agency or office performing like functions), an appropriate Federal banking agency (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(q))), or the National Credit Union Administration, that--

`(i) bars such person from association with an entity regulated by such commission, authority, agency, or officer, or from engaging in the business of securities, insurance, banking, savings association activities, or credit union activities; or

`(ii) constitutes a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct.'

(b) INVESTMENT ADVISERS- Section 203(e) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-3(e)) is amended--

(1) by striking paragraph (7) and inserting the following:

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

(2) in paragraph (8), by striking the period at the end and inserting `; or'; and

(3) by adding at the end the following:

`(9) is subject to any final order of a State securities commission (or any agency or officer performing like functions), State authority that supervises or examines banks, savings associations, or credit unions, State insurance commission (or any agency or office performing like functions), an appropriate Federal banking agency (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(q))), or the National Credit Union Administration, that--

`(A) bars such person from association with an entity regulated by such commission, authority, agency, or officer, or from engaging in the business of securities, insurance, banking, savings association activities, or credit union activities; or

`(B) constitutes a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct.'

(c) CONFORMING AMENDMENTS-

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

(A) in section 3(a)(39)(F) (15 U.S.C. 78c(a)(39)(F))--

(i) by striking `or (G)' and inserting `(H), or (G)'; and

(ii) by inserting ` , or is subject to an order or finding,' before `enumerated';

(B) in each of section 15(b)(6)(A)(i) (15 U.S.C. 78o(b)(6)(A)(i)), paragraphs (2) and (4) of section 15B(c) (15 U.S.C. 78o-4(c)), and subparagraphs (A) and (C) of section 15C(c)(1) (15 U.S.C. 78o-5(c)(1))--

(i) by striking `or (G)' each place that term appears and inserting `(H), or (G)'; and

(ii) by striking `or omission' each place that term appears, and inserting ` , or is subject to an order or finding,'; and

(C) in each of paragraphs (3)(A) and (4)(C) of section 17A(c) (15 U.S.C. 78q-1(c))--

(i) by striking `or (G)' each place that term appears and inserting `(H), or (G)'; and

(ii) by inserting ` , or is subject to an order or finding,' before `enumerated' each place that term appears.

(2) INVESTMENT ADVISERS ACT OF 1940- Section 203(f) of the Investment Advisers Act of 1940 (15 U.S.C. 80b-3(f)) is amended--

(A) by striking `or (8)' and inserting `(8), or (9)'; and

(B) by inserting `or (3)' after `paragraph (2)'.

#### TITLE VII--STUDIES AND REPORTS

##### SEC. 701. GAO STUDY AND REPORT REGARDING CONSOLIDATION OF PUBLIC ACCOUNTING FIRMS.

(a) STUDY REQUIRED- The Comptroller General of the United States shall conduct a study--

(1) to identify--

(A) the factors that have led to the consolidation of public accounting firms since 1989 and the consequent reduction in the number of firms capable of providing audit services to large national and multi-national business organizations that are subject to the securities laws;

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

(C) solutions to any problems identified under subparagraph (B), including ways to increase competition and the number of firms capable of providing audit services to large national and multinational business organizations that are subject to the securities laws;

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

(A) higher costs;

(B) lower quality of services;

(C) impairment of auditor independence; or

(D) lack of choice; and

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

(b) CONSULTATION- In planning and conducting the study under this section, the Comptroller General shall consult with--

(1) the Commission;

(2) the regulatory agencies that perform functions similar to the Commission within the other member countries of the Group of Seven Industrialized Nations;

(3) the Department of Justice; and

(4) any other public or private sector organization that the Comptroller General considers appropriate.

(c) REPORT REQUIRED- Not later than 1 year after the date of enactment of this Act, the Comptroller General shall submit a report on the results of the study required by this section to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

##### SEC. 702. COMMISSION STUDY AND REPORT REGARDING CREDIT RATING AGENCIES.

(a) STUDY REQUIRED-

(1) IN GENERAL- The Commission shall conduct a study of the role and function of credit rating agencies in the operation of the securities market.

(2) AREAS OF CONSIDERATION- The study required by this subsection shall examine--

- (A) the role of credit rating agencies in the evaluation of issuers of securities;
- (B) the importance of that role to investors and the functioning of the securities markets;
- (C) any impediments to the accurate appraisal by credit rating agencies of the financial resources and risks of issuers of securities;
- (D) any barriers to entry into the business of acting as a credit rating agency, and any measures needed to remove such barriers;
- (E) any measures which may be required to improve the dissemination of information concerning such resources and risks when credit rating agencies announce credit ratings; and
- (F) any conflicts of interest in the operation of credit rating agencies and measures to prevent such conflicts or ameliorate the consequences of such conflicts.

(b) **REPORT REQUIRED-** The Commission shall submit a report on the study required by subsection (a) to the President, the Committee on Financial Services of the House of Representatives, and the Committee on Banking, Housing, and Urban Affairs of the Senate not later than 180 days after the date of enactment of this Act.

#### SEC. 703. STUDY AND REPORT ON VIOLATORS AND VIOLATIONS.

(a) **STUDY-** The Commission shall conduct a study to determine, based upon information for the period from January 1, 1998, to December 31, 2001--

(1) the number of securities professionals, defined as public accountants, public accounting firms, investment bankers, investment advisers, brokers, dealers, attorneys, and other securities professionals practicing before the Commission--

(A) who have been found to have aided and abetted a violation of the Federal securities laws, including rules or regulations promulgated thereunder (collectively referred to in this section as 'Federal securities laws'), but who have not been sanctioned, disciplined, or otherwise penalized as a primary violator in any administrative action or civil proceeding, including in any settlement of such an action or proceeding (referred to in this section as 'aiders and abettors'); and

(B) who have been found to have been primary violators of the Federal securities laws;

(2) a description of the Federal securities laws violations committed by aiders and abettors and by primary violators, including--

(A) the specific provision of the Federal securities laws violated;

(B) the specific sanctions and penalties imposed upon such aiders and abettors and primary violators, including the amount of any monetary penalties assessed upon and collected from such persons;

(C) the occurrence of multiple violations by the same person or persons, either as an aider or abettor or as a primary violator; and

(D) whether, as to each such violator, disciplinary sanctions have been imposed, including any censure, suspension, temporary bar, or permanent bar to practice before the Commission; and

(3) the amount of disgorgement, restitution, or any other fines or payments that the Commission has assessed upon and collected from, aiders and abettors and from primary violators.

(b) **REPORT-** A report based upon the study conducted pursuant to subsection (a) shall be submitted to the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Committee on Financial Services of the House of Representatives not later than 6 months after the date of enactment of this Act.

#### SEC. 704. STUDY OF ENFORCEMENT ACTIONS.

(a) **STUDY REQUIRED-** The Commission shall review and analyze all enforcement actions by the Commission involving violations of reporting requirements imposed under the securities laws, and restatements of financial statements, over the 5-year period preceding the date of enactment of this Act, to identify areas of reporting that are most susceptible to fraud, inappropriate manipulation, or inappropriate earnings management, such as revenue recognition and the accounting treatment of off-balance sheet special purpose entities.

(b) **REPORT REQUIRED-** The Commission shall report its findings to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate, not later than 180 days after the date of enactment of this Act, and shall use such findings to revise its rules and regulations, as necessary. The report shall include a discussion of regulatory or legislative steps that are recommended or that may be necessary to address concerns identified in the study.

#### SEC. 705. STUDY OF INVESTMENT BANKS.

(a) **GAO STUDY-** The Comptroller General of the United States shall conduct a study on whether investment banks and financial advisers assisted public companies in manipulating their earnings and obfuscating their true financial condition. The study should address the role of investment banks and financial advisers--

(1) in the collapse of the Enron Corporation, including with respect to the design and implementation of derivatives transactions, transactions involving special purpose vehicles, and other financial arrangements that may have had the effect of altering the company's reported financial statements in ways that obscured the true financial picture of the company;

(2) in the failure of Global Crossing, including with respect to transactions involving swaps of fiberoptic cable capacity, in the designing transactions that may have had the effect of altering the company's reported financial statements in ways that obscured the true financial picture of the company; and

(3) generally, in creating and marketing transactions which may have been designed solely to enable companies to manipulate revenue streams, obtain loans, or move liabilities off balance sheets without altering the economic and business risks faced by the companies or any other mechanism to obscure a company's financial picture.

(b) REPORT- The Comptroller General shall report to Congress not later than 180 days after the date of enactment of this Act on the results of the study required by this section. The report shall include a discussion of regulatory or legislative steps that are recommended or that may be necessary to address concerns identified in the study.

## TITLE VIII--CORPORATE AND CRIMINAL FRAUD ACCOUNTABILITY

### SEC. 801. SHORT TITLE.

This title may be cited as the 'Corporate and Criminal Fraud Accountability Act of 2002'.

### SEC. 802. CRIMINAL PENALTIES FOR ALTERING DOCUMENTS.

(a) IN GENERAL- Chapter 73 of title 18, United States Code, is amended by adding at the end the following:

'Sec. 1519. Destruction, alteration, or falsification of records in Federal investigations and bankruptcy

'Whoever knowingly alters, destroys, mutilates, conceals, covers up, falsifies, or makes a false entry in any record, document, or tangible object with the intent to impede, obstruct, or influence the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States or any case filed under title 11, or in relation to or contemplation of any such matter or case, shall be fined under this title, imprisoned not more than 20 years, or both.

'Sec. 1520. Destruction of corporate audit records

'(a)(1) Any accountant who conducts an audit of an issuer of securities to which section 10A(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78j-1(a)) applies, shall maintain all audit or review workpapers for a period of 5 years from the end of the fiscal period in which the audit or review was concluded.

'(2) The Securities and Exchange Commission shall promulgate, within 180 days, after adequate notice and an opportunity for comment, such rules and regulations, as are reasonably necessary, relating to the retention of relevant records such as workpapers, documents that form the basis of an audit or review, memoranda, correspondence, communications, other documents, and records (including electronic records) which are created, sent, or received in connection with an audit or review and contain conclusions, opinions, analyses, or financial data relating to such an audit or review, which is conducted by any accountant who conducts an audit of an issuer of securities to which section 10A(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78j-1(a)) applies. The Commission may, from time to time, amend or supplement the rules and regulations that it is required to promulgate under this section, after adequate notice and an opportunity for comment, in order to ensure that such rules and regulations adequately comport with the purposes of this section.

'(b) Whoever knowingly and willfully violates subsection (a)(1), or any rule or regulation promulgated by the Securities and Exchange Commission under subsection (a)(2), shall be fined under this title, imprisoned not more than 10 years, or both.

'(c) Nothing in this section shall be deemed to diminish or relieve any person of any other duty or obligation imposed by Federal or State law or regulation to maintain, or refrain from destroying, any document.'

(b) CLERICAL AMENDMENT- The table of sections at the beginning of chapter 73 of title 18, United States Code, is amended by adding at the end the following new items:

'1519. Destruction, alteration, or falsification of records in Federal investigations and bankruptcy.

'1520. Destruction of corporate audit records.'

### SEC. 803. DEBTS NONDISCHARGEABLE IF INCURRED IN VIOLATION OF SECURITIES FRAUD LAWS.

Section 523(a) of title 11, United States Code, is amended--

(1) in paragraph (17), by striking 'or' after the semicolon;

(2) in paragraph (18), by striking the period at the end and inserting '; or'; and

(3) by adding at the end, the following:

'(19) that--

'(A) is for--

'(i) the violation of any of the Federal securities laws (as that term is defined in section 3(a)(47) of the Securities Exchange Act of 1934), any of the State securities laws, or any regulation or order issued under such Federal or State securities laws; or

'(ii) common law fraud, deceit, or manipulation in connection with the purchase or sale of any security; and

`(B) results from--

`(i) any judgment, order, consent order, or decree entered in any Federal or State judicial or administrative proceeding;

`(ii) any settlement agreement entered into by the debtor; or

`(iii) any court or administrative order for any damages, fine, penalty, citation, restitutionary payment, disgorgement payment, attorney fee, cost, or other payment owed by the debtor.'.

#### SEC. 804. STATUTE OF LIMITATIONS FOR SECURITIES FRAUD.

(a) IN GENERAL- Section 1658 of title 28, United States Code, is amended--

(1) by inserting `(a)' before `Except'; and

(2) by adding at the end the following:

`(b) Notwithstanding subsection (a), a private right of action that involves a claim of fraud, deceit, manipulation, or contrivance in contravention of a regulatory requirement concerning the securities laws, as defined in section 3(a)(47) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(47)), may be brought not later than the earlier of--

`(1) 2 years after the discovery of the facts constituting the violation; or

`(2) 5 years after such violation.'.

(b) EFFECTIVE DATE- The limitations period provided by section 1658(b) of title 28, United States Code, as added by this section, shall apply to all proceedings addressed by this section that are commenced on or after the date of enactment of this Act.

(c) NO CREATION OF ACTIONS- Nothing in this section shall create a new, private right of action.

#### SEC. 805. REVIEW OF FEDERAL SENTENCING GUIDELINES FOR OBSTRUCTION OF JUSTICE AND EXTENSIVE CRIMINAL FRAUD.

(a) ENHANCEMENT OF FRAUD AND OBSTRUCTION OF JUSTICE SENTENCES- Pursuant to section 994 of title 28, United States Code, and in accordance with this section, the United States Sentencing Commission shall review and amend, as appropriate, the Federal Sentencing Guidelines and related policy statements to ensure that--

(1) the base offense level and existing enhancements contained in United States Sentencing Guideline 2J1.2 relating to obstruction of justice are sufficient to deter and punish that activity;

(2) the enhancements and specific offense characteristics relating to obstruction of justice are adequate in cases where--

(A) the destruction, alteration, or fabrication of evidence involves--

(i) a large amount of evidence, a large number of participants, or is otherwise extensive;

(ii) the selection of evidence that is particularly probative or essential to the investigation; or

(iii) more than minimal planning; or

(B) the offense involved abuse of a special skill or a position of trust;

(3) the guideline offense levels and enhancements for violations of section 1519 or 1520 of title 18, United States Code, as added by this title, are sufficient to deter and punish that activity;

(4) a specific offense characteristic enhancing sentencing is provided under United States Sentencing Guideline 2B1.1 (as in effect on the date of enactment of this Act) for a fraud offense that endangers the solvency or financial security of a substantial number of victims; and

(5) the guidelines that apply to organizations in United States Sentencing Guidelines, chapter 8, are sufficient to deter and punish organizational criminal misconduct.

(b) EMERGENCY AUTHORITY AND DEADLINE FOR COMMISSION ACTION- The United States Sentencing Commission is requested to promulgate the guidelines or amendments provided for under this section as soon as practicable, and in any event not later than 180 days after the date of enactment of this Act, in accordance with the procedures set forth in section 219(a) of the Sentencing Reform Act of 1987, as though the authority under that Act had not expired.

#### SEC. 806. PROTECTION FOR EMPLOYEES OF PUBLICLY TRADED COMPANIES WHO PROVIDE EVIDENCE OF FRAUD.

(a) IN GENERAL- Chapter 73 of title 18, United States Code, is amended by inserting after section 1514 the following:

`Sec. 1514A. Civil action to protect against retaliation in fraud cases

`(a) WHISTLEBLOWER PROTECTION FOR EMPLOYEES OF PUBLICLY TRADED COMPANIES- No company with a class of securities registered under section 12 of the Securities Exchange Act of 1934 (15 U.S.C. 78l), or that is required to file reports under

section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78o(d)), or any officer, employee, contractor, subcontractor, or agent of such company, may discharge, demote, suspend, threaten, harass, or in any other manner discriminate against an employee in the terms and conditions of employment because of any lawful act done by the employee--

`(1) to provide information, cause information to be provided, or otherwise assist in an investigation regarding any conduct which the employee reasonably believes constitutes a violation of section 1341, 1343, 1344, or 1348, any rule or regulation of the Securities and Exchange Commission, or any provision of Federal law relating to fraud against shareholders, when the information or assistance is provided to or the investigation is conducted by--

`(A) a Federal regulatory or law enforcement agency;

`(B) any Member of Congress or any committee of Congress; or

`(C) a person with supervisory authority over the employee (or such other person working for the employer who has the authority to investigate, discover, or terminate misconduct); or

`(2) to file, cause to be filed, testify, participate in, or otherwise assist in a proceeding filed or about to be filed (with any knowledge of the employer) relating to an alleged violation of section 1341, 1343, 1344, or 1348, any rule or regulation of the Securities and Exchange Commission, or any provision of Federal law relating to fraud against shareholders.

`(b) ENFORCEMENT ACTION-

`(1) IN GENERAL- A person who alleges discharge or other discrimination by any person in violation of subsection (a) may seek relief under subsection (c), by--

`(A) filing a complaint with the Secretary of Labor; or

`(B) if the Secretary has not issued a final decision within 180 days of the filing of the complaint and there is no showing that such delay is due to the bad faith of the claimant, bringing an action at law or equity for de novo review in the appropriate district court of the United States, which shall have jurisdiction over such an action without regard to the amount in controversy.

`(2) PROCEDURE-

`(A) IN GENERAL- An action under paragraph (1)(A) shall be governed under the rules and procedures set forth in section 42121(b) of title 49, United States Code.

`(B) EXCEPTION- Notification made under section 42121(b)(1) of title 49, United States Code, shall be made to the person named in the complaint and to the employer.

`(C) BURDENS OF PROOF- An action brought under paragraph (1)(B) shall be governed by the legal burdens of proof set forth in section 42121(b) of title 49, United States Code.

`(D) STATUTE OF LIMITATIONS- An action under paragraph (1) shall be commenced not later than 90 days after the date on which the violation occurs.

`(c) REMEDIES-

`(1) IN GENERAL- An employee prevailing in any action under subsection (b)(1) shall be entitled to all relief necessary to make the employee whole.

`(2) COMPENSATORY DAMAGES- Relief for any action under paragraph (1) shall include--

`(A) reinstatement with the same seniority status that the employee would have had, but for the discrimination;

`(B) the amount of back pay, with interest; and

`(C) compensation for any special damages sustained as a result of the discrimination, including litigation costs, expert witness fees, and reasonable attorney fees.

`(d) RIGHTS RETAINED BY EMPLOYEE- Nothing in this section shall be deemed to diminish the rights, privileges, or remedies of any employee under any Federal or State law, or under any collective bargaining agreement.'

(b) CLERICAL AMENDMENT- The table of sections at the beginning of chapter 73 of title 18, United States Code, is amended by inserting after the item relating to section 1514 the following new item:

'1514A. Civil action to protect against retaliation in fraud cases.'

SEC. 807. CRIMINAL PENALTIES FOR DEFRAUDING SHAREHOLDERS OF PUBLICLY TRADED COMPANIES.

(a) IN GENERAL- Chapter 63 of title 18, United States Code, is amended by adding at the end the following:

'Sec. 1348. Securities fraud

'Whoever knowingly executes, or attempts to execute, a scheme or artifice--

`(1) to defraud any person in connection with any security of an issuer with a class of securities registered under section 12 of the Securities Exchange Act of 1934 (15 U.S.C. 78l) or that is required to file reports under section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78o(d)); or

`(2) to obtain, by means of false or fraudulent pretenses, representations, or promises, any money or property in connection with the purchase or sale of any security of an issuer with a class of securities registered under section 12 of the Securities Exchange Act of 1934 (15 U.S.C. 78l) or that is required to file reports under section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78o(d));

shall be fined under this title, or imprisoned not more than 25 years, or both.'.

(b) CLERICAL AMENDMENT- The table of sections at the beginning of chapter 63 of title 18, United States Code, is amended by adding at the end the following new item:

`1348. Securities fraud.'.

#### TITLE IX--WHITE-COLLAR CRIME PENALTY ENHANCEMENTS

##### SEC. 901. SHORT TITLE.

This title may be cited as the `White-Collar Crime Penalty Enhancement Act of 2002'.

##### SEC. 902. ATTEMPTS AND CONSPIRACIES TO COMMIT CRIMINAL FRAUD OFFENSES.

(a) IN GENERAL- Chapter 63 of title 18, United States Code, is amended by inserting after section 1348 as added by this Act the following:

`Sec. 1349. Attempt and conspiracy

`Any person who attempts or conspires to commit any offense under this chapter shall be subject to the same penalties as those prescribed for the offense, the commission of which was the object of the attempt or conspiracy.

(b) CLERICAL AMENDMENT- The table of sections at the beginning of chapter 63 of title 18, United States Code, is amended by adding at the end the following new item:

`1349. Attempt and conspiracy.'.

##### SEC. 903. CRIMINAL PENALTIES FOR MAIL AND WIRE FRAUD.

(a) MAIL FRAUD- Section 1341 of title 18, United States Code, is amended by striking `five' and inserting `20'.

(b) WIRE FRAUD- Section 1343 of title 18, United States Code, is amended by striking `five' and inserting `20'.

SEC. 904. CRIMINAL PENALTIES FOR VIOLATIONS OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974. Section 501 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1131) is amended--

(1) by striking `\$5,000' and inserting `\$100,000';

(2) by striking `one year' and inserting `10 years'; and

(3) by striking `\$100,000' and inserting `\$500,000'.

##### SEC. 905. AMENDMENT TO SENTENCING GUIDELINES RELATING TO CERTAIN WHITE-COLLAR OFFENSES.

(a) DIRECTIVE TO THE UNITED STATES SENTENCING COMMISSION- Pursuant to its authority under section 994(p) of title 18, United States Code, and in accordance with this section, the United States Sentencing Commission shall review and, as appropriate, amend the Federal Sentencing Guidelines and related policy statements to implement the provisions of this Act.

(b) REQUIREMENTS- In carrying out this section, the Sentencing Commission shall--

(1) ensure that the sentencing guidelines and policy statements reflect the serious nature of the offenses and the penalties set forth in this Act, the growing incidence of serious fraud offenses which are identified above, and the need to modify the sentencing guidelines and policy statements to deter, prevent, and punish such offenses;

(2) consider the extent to which the guidelines and policy statements adequately address whether the guideline offense levels and enhancements for violations of the sections amended by this Act are sufficient to deter and punish such offenses, and specifically, are adequate in view of the statutory increases in penalties contained in this Act;

(3) assure reasonable consistency with other relevant directives and sentencing guidelines;

(4) account for any additional aggravating or mitigating circumstances that might justify exceptions to the generally applicable sentencing ranges;

(5) make any necessary conforming changes to the sentencing guidelines; and

(6) assure that the guidelines adequately meet the purposes of sentencing, as set forth in section 3553(a)(2) of title 18, United States Code.

(c) EMERGENCY AUTHORITY AND DEADLINE FOR COMMISSION ACTION- The United States Sentencing Commission is requested to promulgate the guidelines or amendments provided for under this section as soon as practicable, and in any event not later than 180 days after the date of enactment of this Act, in accordance with the procedures set forth in section 219(a) of the Sentencing Reform Act of 1987, as though the authority under that Act had not expired.

#### SEC. 906. CORPORATE RESPONSIBILITY FOR FINANCIAL REPORTS.

(a) IN GENERAL- Chapter 63 of title 18, United States Code, is amended by inserting after section 1349, as created by this Act, the following:

“Sec. 1350. Failure of corporate officers to certify financial reports

(a) CERTIFICATION OF PERIODIC FINANCIAL REPORTS- Each periodic report containing financial statements filed by an issuer with the Securities Exchange Commission pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) shall be accompanied by a written statement by the chief executive officer and chief financial officer (or equivalent thereof) of the issuer.

“(b) CONTENT- The statement required under subsection (a) shall certify that the periodic report containing the financial statements fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) and that information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of the issuer.

“(c) CRIMINAL PENALTIES- Whoever--

“(1) certifies any statement as set forth in subsections (a) and (b) of this section knowing that the periodic report accompanying the statement does not comport with all the requirements set forth in this section shall be fined not more than \$1,000,000 or imprisoned not more than 10 years, or both; or

“(2) willfully certifies any statement as set forth in subsections (a) and (b) of this section knowing that the periodic report accompanying the statement does not comport with all the requirements set forth in this section shall be fined not more than \$5,000,000, or imprisoned not more than 20 years, or both.”.

(b) CLERICAL AMENDMENT- The table of sections at the beginning of chapter 63 of title 18, United States Code, is amended by adding at the end the following:

“1350. Failure of corporate officers to certify financial reports.”.

#### TITLE X--CORPORATE TAX RETURNS

##### SEC. 1001. SENSE OF THE SENATE REGARDING THE SIGNING OF CORPORATE TAX RETURNS BY CHIEF EXECUTIVE OFFICERS.

It is the sense of the Senate that the Federal income tax return of a corporation should be signed by the chief executive officer of such corporation.

#### TITLE XI--CORPORATE FRAUD ACCOUNTABILITY

##### SEC. 1101. SHORT TITLE.

This title may be cited as the “Corporate Fraud Accountability Act of 2002”.

##### SEC. 1102. TAMPERING WITH A RECORD OR OTHERWISE IMPEDING AN OFFICIAL PROCEEDING.

Section 1512 of title 18, United States Code, is amended--

(1) by redesignating subsections (c) through (i) as subsections (d) through (j), respectively; and

(2) by inserting after subsection (b) the following new subsection:

“(c) Whoever corruptly--

“(1) alters, destroys, mutilates, or conceals a record, document, or other object, or attempts to do so, with the intent to impair the object's integrity or availability for use in an official proceeding; or

“(2) otherwise obstructs, influences, or impedes any official proceeding, or attempts to do so,

shall be fined under this title or imprisoned not more than 20 years, or both.”.

##### SEC. 1103. TEMPORARY FREEZE AUTHORITY FOR THE SECURITIES AND EXCHANGE COMMISSION.

(a) IN GENERAL- Section 21(c) of the Securities Exchange Act of 1934 (15 U.S.C. 78u-3(c)) is amended by adding at the end the following:

“(3) TEMPORARY FREEZE-

“(A) IN GENERAL-



`(i) ISSUANCE OF TEMPORARY ORDER- Whenever, during the course of a lawful investigation involving possible violations of the Federal securities laws by an issuer of publicly traded securities or any of its directors, officers, partners, controlling persons, agents, or employees, it shall appear to the Commission that it is likely that the issuer will make extraordinary payments (whether compensation or otherwise) to any of the foregoing persons, the Commission may petition a Federal district court for a temporary order requiring the issuer to escrow, subject to court supervision, those payments in an interest-bearing account for 45 days.

`(ii) STANDARD- A temporary order shall be entered under clause (i), only after notice and opportunity for a hearing, unless the court determines that notice and hearing prior to entry of the order would be impracticable or contrary to the public interest.

`(iii) EFFECTIVE PERIOD- A temporary order issued under clause (i) shall--

`(I) become effective immediately;

`(II) be served upon the parties subject to it; and

`(III) unless set aside, limited or suspended by a court of competent jurisdiction, shall remain effective and enforceable for 45 days.

`(iv) EXTENSIONS AUTHORIZED- The effective period of an order under this subparagraph may be extended by the court upon good cause shown for not longer than 45 additional days, provided that the combined period of the order shall not exceed 90 days.

`(B) PROCESS ON DETERMINATION OF VIOLATIONS-

`(i) VIOLATIONS CHARGED- If the issuer or other person described in subparagraph (A) is charged with any violation of the Federal securities laws before the expiration of the effective period of a temporary order under subparagraph (A) (including any applicable extension period), the order shall remain in effect, subject to court approval, until the conclusion of any legal proceedings related thereto, and the affected issuer or other person, shall have the right to petition the court for review of the order.

`(ii) VIOLATIONS NOT CHARGED- If the issuer or other person described in subparagraph (A) is not charged with any violation of the Federal securities laws before the expiration of the effective period of a temporary order under subparagraph (A) (including any applicable extension period), the escrow shall terminate at the expiration of the 45-day effective period (or the expiration of any extension period, as applicable), and the disputed payments (with accrued interest) shall be returned to the issuer or other affected person.'

(b) TECHNICAL AMENDMENT- Section 21C(c)(2) of the Securities Exchange Act of 1934 (15 U.S.C. 78u-3(c)(2)) is amended by striking 'This' and inserting 'paragraph (1)'.

#### SEC. 1104. AMENDMENT TO THE FEDERAL SENTENCING GUIDELINES.

(a) REQUEST FOR IMMEDIATE CONSIDERATION BY THE UNITED STATES SENTENCING COMMISSION- Pursuant to its authority under section 994(p) of title 28, United States Code, and in accordance with this section, the United States Sentencing Commission is requested to--

(1) promptly review the sentencing guidelines applicable to securities and accounting fraud and related offenses;

(2) expeditiously consider the promulgation of new sentencing guidelines or amendments to existing sentencing guidelines to provide an enhancement for officers or directors of publicly traded corporations who commit fraud and related offenses; and

(3) submit to Congress an explanation of actions taken by the Sentencing Commission pursuant to paragraph (2) and any additional policy recommendations the Sentencing Commission may have for combating offenses described in paragraph (1).

(b) CONSIDERATIONS IN REVIEW- In carrying out this section, the Sentencing Commission is requested to--

(1) ensure that the sentencing guidelines and policy statements reflect the serious nature of securities, pension, and accounting fraud and the need for aggressive and appropriate law enforcement action to prevent such offenses;

(2) assure reasonable consistency with other relevant directives and with other guidelines;

(3) account for any aggravating or mitigating circumstances that might justify exceptions, including circumstances for which the sentencing guidelines currently provide sentencing enhancements;

(4) ensure that guideline offense levels and enhancements for an obstruction of justice offense are adequate in cases where documents or other physical evidence are actually destroyed or fabricated;

(5) ensure that the guideline offense levels and enhancements under United States Sentencing Guideline 2B1.1 (as in effect on the date of enactment of this Act) are sufficient for a fraud offense when the number of victims adversely involved is significantly greater than 50;

(6) make any necessary conforming changes to the sentencing guidelines; and

(7) assure that the guidelines adequately meet the purposes of sentencing as set forth in section 3553 (a)(2) of title 18, United States Code.

(c) EMERGENCY AUTHORITY AND DEADLINE FOR COMMISSION ACTION- The United States Sentencing Commission is requested to promulgate the guidelines or amendments provided for under this section as soon as practicable, and in any event not later than the

180 days after the date of enactment of this Act, in accordance with the procedures set forth in section 21(a) of the Sentencing Reform Act of 1987, as though the authority under that Act had not expired.

SEC. 1105. AUTHORITY OF THE COMMISSION TO PROHIBIT PERSONS FROM SERVING AS OFFICERS OR DIRECTORS.

(a) SECURITIES EXCHANGE ACT OF 1934- Section 21C of the Securities Exchange Act of 1934 (15 U.S.C. 78u-3) is amended by adding at the end the following:

“(f) AUTHORITY OF THE COMMISSION TO PROHIBIT PERSONS FROM SERVING AS OFFICERS OR DIRECTORS- In any cease-and-desist proceeding under subsection (a), the Commission may issue an order to prohibit, conditionally or unconditionally, and permanently or for such period of time as it shall determine, any person who has violated section 10(b) or the rules or regulations thereunder, from acting as an officer or director of any issuer that has a class of securities registered pursuant to section 12, or that is required to file reports pursuant to section 15(d), if the conduct of that person demonstrates unfitness to serve as an officer or director of any such issuer.”.

(b) SECURITIES ACT OF 1933- Section 8A of the Securities Act of 1933 (15 U.S.C. 77h-1) is amended by adding at the end of the following:

“(f) AUTHORITY OF THE COMMISSION TO PROHIBIT PERSONS FROM SERVING AS OFFICERS OR DIRECTORS- In any cease-and-desist proceeding under subsection (a), the Commission may issue an order to prohibit, conditionally or unconditionally, and permanently or for such period of time as it shall determine, any person who has violated section 17(a)(1) or the rules or regulations thereunder, from acting as an officer or director of any issuer that has a class of securities registered pursuant to section 12 of the Securities Exchange Act of 1934, or that is required to file reports pursuant to section 15(d) of that Act, if the conduct of that person demonstrates unfitness to serve as an officer or director of any such issuer.”.

SEC. 1106. INCREASED CRIMINAL PENALTIES UNDER SECURITIES EXCHANGE ACT OF 1934.

Section 32(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78ff(a)) is amended—

(1) by striking “\$1,000,000, or imprisoned not more than 10 years” and inserting “\$5,000,000, or imprisoned not more than 20 years”; and

(2) by striking “\$2,500,000” and inserting “\$25,000,000”.

SEC. 1107. RETALIATION AGAINST INFORMANTS.

(a) IN GENERAL- Section 1513 of title 18, United States Code, is amended by adding at the end the following:

“(e) Whoever knowingly, with the intent to retaliate, takes any action harmful to any person, including interference with the lawful employment or livelihood of any person, for providing to a law enforcement officer any truthful information relating to the commission or possible commission of any Federal offense, shall be fined under this title or imprisoned not more than 10 years, or both.”.

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<sup>1</sup> The Securities and Exchange Commission, “The Sarbanes-Oxley Act of 2002” [on-line].

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