



Consumer Federation of America

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House Financial Services Committee to Vote on Sarbanes-Oxley Act Rollback Vote Will Test Congress's Commitment to Pro-Investor Reform

The House Financial Services Committee is scheduled to vote next week on two amendments to the Investor Protection Act that will test the Committee's commitment to protecting investors and promoting market integrity.

Both amendments would roll back reforms adopted in the wake of the Enron scandal to improve the quality of financial reporting at public companies by requiring an independent audit of the company's internal controls to prevent accounting fraud and errors. "These amendments would weaken protections adopted in the wake of the last major financial crisis as part of a regulatory reform package designed to prevent a recurrence of the current financial crisis," said CFA Director of Investor Protection Barbara Roper. "It is a scandal that these amendments are even being offered in this context."

- The first amendment to be voted on, an amendment offered by Rep. John Adler (D-NJ), would require the Securities and Exchange Commission to once again revise its regulations under Section 404(b) of the Sarbanes-Oxley Act to make them less "burdensome" on small and mid-sized public companies. The Adler amendment ignores the fact that both the SEC and PCAOB have already extensively revised these requirements to make them more scalable based on company size and complexity and have reported dramatic implementation cost reductions as a result. Moreover, the amendment would not only further delay implementation of internal control audit requirement for small companies (those with market capitalization under \$75 million), it would rescind implementation for mid-sized public companies (those with market capitalizations between \$75 million and \$700 million) that have been complying with the law for years. If this amendment is adopted, the vast majority of public companies would be subject to weaker standards to prevent fraud.
- The second amendment to be voted on, an amendment offered by Rep. Carolyn Maloney (D-NY) and Rep. Scott Garrett (D-NJ), would apply to small public companies but not mid-sized companies. It would further delay implementation of the requirement for public companies with a market cap under \$75 million, implementation that has already been delayed by nearly eight years. In the meantime, it would require additional study, in this case by the SEC and Government Accountability Office, to determine whether additional implementation cost reductions could be found. This amendment, while

somewhat less onerous than the Adler amendment, ignores the fact that the SEC has already extensively studied this issue and that the SEC and PCAOB have both adopted an approach that is designed to minimize the burden on smaller companies.

“The members who are offering these amendments continue to peddle the discredited notion that it is regulation that harms our markets. Surely, with investors continuing to suffer the devastating effects of a financial crisis in which faulty financial reporting once again played a role, we should be able to agree that the opposite is true, that it is lax regulation that does the real damage to the economy.”

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The Consumer Federation of America is a non-profit association of approximately 280 national, state, and local pro-consumer organizations. It was founded in 1968 to advance the consumer interest through research, advocacy, and education.