

Schapiro wants small companies to comply with Sarbox on audits

By Neil Roland, Financial Week
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WASHINGTON—Incoming Securities and Exchange Commission Chairman Mary Schapiro indicated she wants small public businesses to start complying with the Sarbanes-Oxley Act requirement that companies' internal controls be audited to ensure that their financial reports are reliable.

The 5,000 companies with less than \$75 million in market value have never had to comply with this requirement of the 2002 law, which sought to deter financial manipulation after the accounting scandals at Enron Corp. and WorldCom Inc.

Under Ms. Schapiro's predecessors, most recently Christopher Cox, the SEC granted a series of one-year exemptions that have waived the requirement for small businesses under Section 404 of Sarbanes-Oxley.

Separately, Ms. Schapiro, whose appointment by President Barack Obama was confirmed by the Senate Thursday, also said she favors giving corporate shareholders an advisory vote on executive compensation.

"Executive compensation has been a concern of mine for some time now, and I believe that it's an appropriate measure to give shareholders an advisory vote on these matters," she said in written answers to questions submitted by Sen. Carl Levin, D-Mich., who released the exchange Friday.

In 2007, the House passed a bill with an advisory vote provision for shareholders, though a similar measure introduced in the Senate by then-Senator Obama stalled. The SEC hasn't previously considered giving shareholders a so-called "say on pay," though it has the legal authority to do so, said Jeffrey Mahoney, general counsel of the nonprofit Council of Institutional Investors.

Ms. Schapiro, 53, who most recently headed the brokerage self-policing group called the Financial Industry Regulatory Authority, said she wants to work with small businesses to make sure they have the tools to comply with Sarbanes-Oxley.

"It's time that we bring uniformity to the system so that investors know what to expect from companies, while being sensitive to the needs of small businesses," she said.

The new SEC chairman said internal company controls guarantee "accurate, robust and easy-to-understand financial reporting," which is "critically important to investors and to the efficient functioning of our markets."

Small businesses, which make up well over half of all traded companies though a tiny fraction of overall market value, have complained that the costs of complying with the law would impose an undue burden on them. Mr. Levin, who heads the Senate Permanent Subcommittee on Investigations, had asked Ms. Schapiro if she would let the legislation take effect for small businesses "without additional delay."

The SEC's most recent one-year extension means that small companies won't have to disclose audit findings on their internal controls until fiscal years ending on or after Dec. 15.

Commission staff is now conducting a study of the costs and benefits of Sarbanes-Oxley by surveying companies and interviewing corporate officers. Mr. Cox had said this study would provide a basis for deciding what to do about small-business requirements once the latest waiver ended.

A Compliance Week study last August found a sharp decline in "material weaknesses" in financial reporting disclosed by large companies. These reporting weaknesses fell from 800 at more than 400 companies in 2006 to only 14 from about the same number of companies a year later.

Former Treasury Secretary Henry Paulson had praised the SEC under Mr. Cox for trying to reduce the law's impact on small businesses. Mr. Cox also had the support of the Democratic lawmakers who headed the small business committees, Rep. Nydia Velazquez of New York and Sen. John Kerry of Massachusetts.

NYSE Euronext chief executive Duncan Niederauer said last year he planned to lobby Congress to relax Sarbanes-Oxley for small and mid-size companies, arguing that compliance costs were deterring companies from listing on U.S. stock markets.

A January 2008 study by consulting firm Lord & Benoit found that complying with Sarbanes-Oxley would cost small companies an average of \$78,000 the first year, or less than the \$91,000 initially predicted by the SEC.

To see Ms. Schapiro's answers to Senator Levin's questions:

<http://levin.senate.gov/newsroom/supporting/2009/PSI.SchapiroResponses.012209.pdf>.

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