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## Schapiro wants to Sarbox smaller companies

BIg headache for little businesses, as incoming SEC chief backs Sec. 404 compliance for smaller companies.

By Neil Roland

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Mary Schapiro (Bloomberg)

Incoming Securities and Exchange Commission Chairman Mary Schapiro indicated she wants small public businesses to start complying with the internal controls requirement of the Sarbanes-Oxley Act. Section 404 of the landmark legislation mandates that publicly traded companies—and some private ones with public debt—get independent certification that their internal controls over financial reporting are reliable.

The 5,000 or so publicly traded companies with less than \$75 million in market value, however, have never had to comply with this requirement of the 2002 law, which sought to deter financial manipulation after massive accounting scandals came to light at Enron, WorldCom and Adelphia.

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

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 Senator Carl Levin (D-Mich.), who released the exchange late on 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 a third of all publicly 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

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internal controls until fiscal years ending on or after Dec. 15.

The Commission's 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 in August found a sharp decline in the number of larger companies that disclosed material weaknesses in their key internal controls. 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 Senator 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—less than the \$91,000 initially predicted by the SEC.

[To see Ms. Schapiro's answers to Senator Levin's questions, ["CLICK HERE"](#)]

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