Cyber-Security Group Activity

Tatiyanna Henry, Gina Brierley, Alexis Coley, and Yvan Lafortune

Business Info Syst & Analytics GBA-327-CA03

Professor Bryan Reagan

April 10, 2019

In 2002 a law was made in order to diminish the likelihood of corporate fraud. This law was named after, “its sponsors, Senator Paul Sarbanes, D-Md., and Congressman Michael Oxley, R-Ohio (Amadeo, 2018).” It is known today as the Sarbanes Oxley Act (SOX). An act in which is enforced by the Securities and Exchange Commission. SOX is used ultimately to keep the companies “CEO’S personally responsible for errors made in the accounting audits (Amadeo, 2018).” If such financing has errors found by the SEC, then the CEO personally responsible may see jail time of twenty years. An example of SOX in action is when they “addressed the corporate scandals at Enron, WorldCom, and Arthur Anderson. It prohibited auditors from doing consulting work for their auditing clients. That prevented the conflict of interest which led to the Enron fraud. Congress responded to the Enron media fallout, a lagging stock market, and looming reelections” (Amadeo, 2018).

The Securities and Exchange of Commissions is defined as a, “federal agency that regulates the U.S. stock market” (Amadeo, 2019). Due to the SEC, ‘the government has drastically reduced the chance of our country experiencing another Great Depression” (Amadeo, 2019). When looking deeper into the topic of SEC, we can see that it is split into five divisions, appointed by the U.S President. These divisions go as follows: The Division of Corporation Finance, the Division of Corporation Finance, the overseeing of the Securities Investor Protection Corporation (SIPC), the Division of Enforcement investigates and prosecutes violations of securities laws and regulations and lastly, the Division of Economic and Risk Analysis.

The first division ultimately “allows investors to understand a company's health” (Amadeo, 2019). The second refers to, “the securities exchanges and securities firms. It also maintains surveillance over the industry's self-regulatory organizations” (Amadeo, 2019). The

third “non-profit corporation insures customers investment accounts in case a brokerage company goes bankrupt” (Amadeo, 2019). The fourth, “conducts its investigations privately. It can use a formal order of investigation to subpoena witnesses to testify and produce relevant documents” (Amadeo, 2019). And finally, the fifth division “conducts its investigations privately. It can use a formal order of investigation to subpoena witnesses to testify and produce relevant documents” (Amadeo, 2019).

An example of the SEC making an impact can be seen in the respect that “the SEC increases transparency, consistency, and trust in the U.S. stock market. That's a big reason why the New York Stock Exchange is the most sophisticated and popular exchange in the world. This transparency attracts much business to U.S. financial institutions, including banks, and legal firms” (Amadeo, 2019).

The Sarbanes Oxley act was passed by Congress in 2002 because there were many accounts of scandals at multiple companies. Enron, Global Crossing, WorldCom, Tyco, and Arthur Anderson: these corporates and investors lost billions of dollars. Investors lost trust in these companies and thought twice before investing in any other companies because of how great the loss was. This also affected the financial market tremendously. Now the act mandates an accounting framework for all companies to follow that are doing business within the United States. All wholly-owned subsidiaries and publicly-traded companies are expected to abide by the act. Even non-US companies that are doing business within the United States are to follow the regulations of the act; there are a few provisions that private companies must follow as well (Sarbanes Oxley 101, 2019).

The Sarbanes Oxley Act is composed of sixty pages with eleven sections, but sections 302, 401, 404, 409, 802, and 906 are considered the most important. Most companies have

trouble complying with them, and section 404 seems to be the toughest for companies to abide by. “For Section 404, public companies with a market capitalization over US $75 million needed to have their financial reporting frameworks operational for their first fiscal year-end report after November 15, 2006, then for all quarterly reports thereafter. For smaller companies, compliance is required for the first fiscal year-end financial report, then for all subsequent quarterly financial reports after July 15, 2006” (Sarbanes Oxley 101, 2019). A Public Company Accounting Oversight Board (PCAOB), which falls under the Security and Exchange Commission (SEC), was created for standards of accountability for auditors and corporate boards. (Sarbanes Oxley 101, 2019).

Also, they created even more detailed civil and criminal penalties for non-compliance individuals. All companies must provide an easy system that allows their source dates to be reviewed and traceable. Also, when any change is made to the system, it must be documented with a reason as to why there was change, who performed the change, and when did the change happen. Therefore, acts of non-intentional wrong-doing are just as heavily weighted as intentional non-compliance. The individuals that make mistakes on reports can be fined up to one million dollars and possibly face ten years in prison. Those who intentionally don’t comply can be fined up to five million dollars and can face twenty years in prison. The CEO and CFO are normally in charge of approving the financial statements of the company. (Sarbanes Oxley 101, 2019).

The United States Securities and Exchange Commission was created in 1934 by Congress. It was created in the stir of the 1929 stock market crash in order to try and regain and restore investor confidence. The United States Securities and Exchange Commission (SEC) is

"an independent federal government agency responsible for protecting investors, maintaining fair and orderly functioning of the securities markets, and facilitating capital formation" (Chen, 2019).It was the first federal regulator of the securities market. This commission allows for the protection of investors against fraudulent and unscrupulous practices throughout the market, endorses full public disclosure, and lastly oversees corporate takeover actions in the United States of America (Chen, 2019).

The SEC was designed and created to restore confidence in investors in our capital markets by allowing for the investors to rely much more heavily upon the markets with more reliable and notable information (What We Do, 2013). The SEC has prided itself upon the notion of "clear rules of honest dealing" (What We Do, 2013). Some of the organizations and individuals that are overseen by the SEC are brokerage firms, dealers, investment advisors and investment funds. The SEC goes even further by providing investors with the access to "registration statements, periodic financial reports, and other securities forms through its electronic data-gathering, analysis and retrieval database, known as EDGAR" (Chen, 2019).

The Securities and Exchange Commission is headed by 5 commissioners. Each commissioner is chosen by the president. The term for each commissioner lasts for five years in total but may remain and assist for an extra 18 months until their substitute is ready and available. The United States law requires that "no more than three of the five commissioners come from the same political party" (Chen, 2019). In total, the SEC is made up of five distinct divisions and 23 offices. The role of these divisions is to interpret and enforce actions upon "securities laws, issue new rules, provide oversight of securities institutions and coordinate regulation among different levels of government" (Chen, 2019). The five divisions are Division of Corporate Finance, Division of Enforcement, Division of Investment Management, Division

of Economic and Rick Analysis, and Division of Trading and Markets. Criminal cases are not allowed to be brought before the federal court or in front of an administrative judge under the wing of the SEC. Strictly, the SEC is only allowed to bring civil actions, although they do usually work closely with the Justice Department or other agencies to help provide evidence and aid with court proceedings.

To deal with the troubles that were rising with some companies in the financial world, the Sarbanes-Oxley act was created. The act served as a hovering threat above companies' CEO's as to what would happen in the event that would fall subject to corruption. The penalty could go from a fine of a million dollars to a fine of five million dollars. In a worst-case scenario, the corrupt head of companies could face serious jail time from five years to twenty years. It is why, almost two decades later, it makes sense that some people might want the act to be rolled back. Despite enforcing stricter regulations for financial companies, the Sarbanes-Oxley act has adversely created a stigma and hinders some companies from going public. For the case of the Securities and Exchange Commission, it had been created to restore a trust that had been lost in the stock market of the United States. Following the crash of 1929, the country would enter a period dubbed as the Great Depression. Subsequently, people were afraid to invest their money. Basically, the job of the Securities and Exchange Commission is to give an investor all the details surrounding what they would invest in. The financial documents are all in a database called EDGAR. Even though the SEC works closely with the justice department, it can only bring civil action and the criminal cases cannot be brought before a judge under their wing.

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