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To improve quality and transparency in financial reporting and independent audits and accounting services, to designate an Independent Public Accounting Board, to enhance the standard setting process for accounting practices, to improve Securities and Exchange Commission resources and oversight, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 8, 2002

Mr. DODD (for himself, Mr. CORZINE, Ms. STABENOW, Mr. JOHNSON, and Mrs. BOXER) introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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A BILL

To improve quality and transparency in financial reporting and independent audits and accounting services, to designate an Independent Public Accounting Board, to enhance the standard setting process for accounting practices, to improve Securities and Exchange Commission resources and oversight, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the ''Investor Confidence in Public Accounting 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. Purposes.
Sec. 3. Definitions.

TITLE I—INDEPENDENT PUBLIC ACCOUNTING BOARD

Sec. 101. Designation of Independent Public Accounting Board.
Sec. 102. Administrative rules of the Board.
Sec. 103. Duties of the Board.
Sec. 104. Securities and Exchange Commission oversight of the Board.

TITLE II—ACCOUNTING AND AUDIT STANDARDS

Sec. 201. Auditor independence.
Sec. 202. Registration of public accounting firms.
Sec. 203. Investigations and disciplinary proceedings.
Sec. 204. Accounting standards.
Sec. 205. Misrepresentations to auditors.
Sec. 206. Commission rules and enforcement.
Sec. 207. Enhanced Commission oversight.

TITLE III—OTHER INVESTOR SAFEGUARDS

Sec. 301. Improved financial disclosures.
Sec. 302. Commission recommendations on treatment of stock options.
Sec. 303. Commission recommendations on treatment of special purpose entities.
Sec. 304. Review of corporate governance practices.
Sec. 305. Study of mandatory rotation of registered independent public accounting firms.

SEC. 2. PURPOSES.

The purposes of this Act are—

(1) to designate an independent regulatory organization, subject to Commission oversight, with adequate authority and resources—

(A) to register public accounting firms that prepare or issue audit reports with respect to financial statements, reports, or other documents required to be filed with the Commission under the securities laws;

(B) to promulgate and enforce compliance with quality control and auditing standards designed to improve the quality of audits conducted by such firms;

(C) to administer a continuing program of review of the accounting and auditing practices of registered independent public accounting firms; and

(D) to investigate and discipline appropriately such firms, and persons associated with such firms, who violate this Act, the securities laws, the rules and regulations thereunder, the rules of the Board, or professional standards;

(2) to establish an independent funding source for any accounting standard setting body that is recognized by and subject to oversight by the Commission, in accordance with this Act;

(3) to ensure greater independence of public audits; and

(4) to increase funding and staff resources to improve the oversight responsibilities of the Commission in the area of accounting.

SEC. 3. DEFINITIONS.

In this Act, the following definitions shall apply:

(1) APPROPRIATE STATE REGULATORY AUTHORITY.—With respect to a registered independent public accounting firm or associated person thereof, 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 having jurisdiction over the firm or associated person.

(2) AUDIT COMMITTEE.—The term ''audit committee'' means—

(A) a committee (or equivalent body) established by 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.

(3) AUDIT REPORT.—The term ''audit report'' means a document or other record—

(A) prepared in connection with auditing services performed for purposes of compliance by an issuer with the requirements of the securities laws; and

(B) in which a registered independent public accounting firm—

(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.

(4) BOARD.—The term ''Board'' means the entity designated as the Independent Public Accounting Board pursuant to section 101.

(5) COMMISSION.—The term ''Commission'' means the Securities and Exchange Commission.

(6) GAAP.—The term ''generally accepted accounting principles'' means any accounting standards and principles—

(A) recognized by the Commission as being established by a standard setting body in accordance with section 204; and

(B) established by rule, regulation, or order of the 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 the Securities and Exchange Act of 1934 (15 U.S.C. 78*l*).

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

(9) PERSON ASSOCIATED WITH A PUBLIC ACCOUNTING FIRM.—The terms ''person associated with a public accounting firm'' and ''associated person of a public accounting firm'' mean any individual proprietor, partner, shareholder, principal, or professional employee of that firm, or any other natural person or other entity associated with that firm, that—

(A) shares in the profits of that firm; or

(B) engages in any conduct or practice by that firm in connection with the preparation or issuance of any audit report.

(10) PROFESSIONAL STANDARDS.—The term ''professional standards'' means generally accepted accounting principles established by a standard setting body described in section 204(a), generally accepted auditing standards, generally accepted stand-

ards for attestation engagements, generally accepted quality control policies and procedures, and any other standards that the Board or the Commission determines, by rule—

(A) relate to the preparation or issuance of financial statements or audit reports, or to auditor ethics and independence; and

(B) are promulgated as rules of the Commission, the Board, or by a standard setting body generally recognized or endorsed by the Board, subject to the approval of the Commission.

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

(A) a sole proprietorship, incorporated association, partnership, 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 an entity described in subparagraph (A).

(12) REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM.—The term ''registered independent

public accounting firm'' means a firm registered with the Board in accordance with this Act.

(13) RULES OF THE BOARD.—The term ''rules of the Board'' means the bylaws, rules, stated policies, standards, practices, interpretations, and other instruments of the Board that the Commission, by rule, may determine to be necessary or appropriate in the public interest or for the protection of investors to be deemed to be rules of the Board.

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

(16) SELF-REGULATORY ORGANIZATION.—The term ''self-regulatory organization'' has the same meaning as in section 3(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)).

(17) 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.

TITLE I—INDEPENDENT PUBLIC ACCOUNTING BOARD

SEC. 101. DESIGNATION OF INDEPENDENT PUBLIC ACCOUNTING BOARD.

(a) DESIGNATION OF THE BOARD.—Not later than 180 days after the date of enactment of this Act, the Commission shall designate an entity that meets the requirements of this Act and the rules of the Commission issued under this Act as the Independent Public Accounting Board, which shall be a independent regulatory entity, subject to the oversight of the Commission, as provided in this Act and applicable law.

(b) PRIVATE STATUS OF THE BOARD.—The Board, as designated under this section, shall not, for any purpose, be an agency or instrumentality of the Federal Government, and no officer, employee, member of the Board, or other person associated with the Board shall be, for any purpose, an officer or employee of the Federal Government.

(c) DESIGNATION PROCEDURES.—Application by any entity or organization for designation under subsection (a) shall be in such form and subject to such procedures as the Commission may require, as necessary or appropriate in the public interest or for the protection of investors.

SEC. 102. ADMINISTRATIVE RULES OF THE BOARD.

(a) BOARD MEMBERSHIP.—

(1) APPOINTMENTS.—The Board shall be comprised of 5 members, except during a reasonable time period to fill any vacancies, appointed from among prominent individuals of integrity and reputation who have a demonstrated commitment to the interests of investors and the public.

(2) LIMITATION.—Not more than 2 members of the Board may be, on or before the date of appointment, or at any time during service on the Board, certified public accountants pursuant to the laws of any State.

(3) EXCLUSIONS.—No member of the Board may—

(A) concurrent with service on the Board, be engaged in the public practice of accounting;

(B) during the 3-year period preceding the date of appointment to the Board, be an associated person of a public accounting firm; or

(C) share in any of the profits of, or receive payments from, a public accounting firm.

(4) INDEPENDENT SERVICE.—Each member of the Board shall serve on a full-time basis, and may not, concurrent with service on the Board, be em-

ployed by any other entity, except as authorized by the Commission.

(5) TERM OF SERVICE.—

(A) IN GENERAL.—Each term of service of a member of the Board shall be for 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, as determined by the Commission at the time of designation of the Board under section 4, resulting in—

(I) 1 term expiring 1 year after the initial date of appointment;

(II) 1 term expiring 2 years after the initial date of appointment;

(III) 1 term expiring 3 years after the initial date of appointment; and

(IV) 1 term expiring 4 years after the initial date of appointment; and

(ii) any Board member appointed to fill a vacancy occurring before the expira-

tion 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 for more than 2 terms.

(6) APPOINTMENT COMMITTEE.—A 4-person appointment committee, composed of the Chairperson of the Board (after selection in accordance with paragraph (9)), the Chairman of the Board of Governors of the Federal Reserve System (or the designee of the Chairman), the Secretary of the Treasury (or the designee of the Secretary), and the Chairman of the Commission (or the designee of the Chairman), shall appoint new members to the Board for each vacancy arising after the initial designation of the Board.

(7) REMOVAL FROM OFFICE.—A member of the Board may be removed from office for cause before the expiration of the term of that member—

(A) by a majority vote of the other members of the Board, subject to the rules of the Board and the approval of the Commission; or

(B) by the Commission under section 104(f)(3).

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

(9) CHAIRPERSON OF THE BOARD.—The Chairperson of the Board—

(A) shall be selected by the Chairman of the Board of Governors of the Federal Reserve System (or the designee of the Chairman), the Secretary of the Treasury (or the designee of the Secretary), and the Chairman of the Commission (or the designee of the Chairman), from among the members of the Board who were not, on or before the date of appointment to the Board, or at any time during service on the Board, certified public accountants; and

(B) shall serve in such capacity for not longer than a 5-year term.

(b) 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, including the appointment of members and the Chairperson of the Board, as required by subsection (a);

(2) provide for the appointment and compensation of such accountants, attorneys, employees, and consultants as may be necessary or appropriate to carry out the functions of the Board in accordance with this Act;

(3) establish procedures for the registration of public accounting firms in accordance with this Act;

(4) establish procedures for the Board to enter into contracts, incur expenses, and take such other actions as may be necessary or appropriate for the Board to perform its duties under this Act;

(5) establish the compensation of members of the Board at a level comparable to similar professional positions in the private sector, subject to annual review and approval by the Commission; and

(6) provide as otherwise required by this Act.

(c) ANNUAL REPORT.—

(1) SUBMISSION TO THE COMMISSION.—The Board shall submit an annual report and proposed budget to the Commission for review and approval, at such times and in such form as the Commission may reasonably require.

(2) CONTENTS.—Each report required by paragraph (1) shall include a detailed description of the activities of the Board, its audited financial state-

ments, and such other matters as the Board, with the concurrence of the Commission, considers appropriate.

(3) TRANSMITTAL TO CONGRESS.—The Commission shall transmit each report received under this subsection to Congress.

SEC. 103. DUTIES OF THE BOARD.

(a) ESTABLISHMENT OF QUALITY CONTROL AND AUDITING STANDARDS.—The rules of the Board shall establish, and provide for the enforcement of, such standards of auditor quality control and auditing standards to be used by each registered independent public accounting firm in the preparation and issuance of any audit report, as required by this Act and the rules of the Commission, and as may be necessary or appropriate in the public interest or for the protection of investors.

(b) INSPECTIONS.—

(1) IN GENERAL.—The rules of the Board shall require the Board to conduct a continuing program of inspections of each registered independent public accounting firm, to assess compliance by that firm, and by associated persons of that firm, with this Act, the rules of the Board and the Commission, and professional standards.

(2) INSPECTION FREQUENCY.—Inspections required by this subsection shall be conducted—

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

(B) not less frequently than once every 2 years with respect to each registered independent public accounting firm that regularly provides audit reports for not more than 100 issuers.

(3) PROCEDURE.—The Board shall, with respect to each inspection required by this subsection—

(A) identify any act or practice, or omission to act, by the registered independent public accounting firm, or by any associated person thereof, that the Board determines may be in violation of this Act, the rules of the Board or the Commission, or professional standards;

(B) report any such act, practice, or omission to the Commission, the Attorney General of the United States, and the appropriate State regulatory authority for appropriate referral and investigation; and

(C) take any disciplinary action in accordance with this Act and the rules of the Board, as the Board determines appropriate.

(4) CONDUCT OF INSPECTIONS.—In conducting inspections under this subsection, the Board shall—

(A) review selected audit and review engagements of the registered independent public accounting firm, performed at various offices and by various associated persons of the firm;

(B) evaluate the sufficiency of the quality control system in place at the registered independent public accounting firm;

(C) determine whether the policies and procedures of the registered independent public accounting firm have been adequately documented and communicated to its employees and other associated persons of the firm;

(D) assess whether the level of compliance with the policies and procedures of the registered independent public accounting firm is sufficient to reasonably assure conformity with professional standards; and

(E) determine compliance by the registered independent public accounting firm with profes-

sional accounting, auditing, independence, and ethics standards.

(5) RECORD RETENTION.—To facilitate inspections required under this section, the rules of the Board shall address the retention of records by registered independent public accounting firms, including—

(A) which records are to be created and retained;

(B) the required retention period for each record identified under subparagraph (A); and

(C) the physical location where such records shall be stored.

(6) REPORT.—The Board shall prepare a written report of its findings for each inspection under this subsection, which report shall be—

(A) accompanied by any letter or comments by the Board or the inspector, and any letter of response from the registered independent public accounting firm under review;

(B) transmitted to the Commission;

(C) transmitted to the appropriate State regulatory authority; and

(D) made available to the public.

(c) PENALTIES.—The rules of the Board shall—

(1) provide for disciplinary actions for registered independent public accounting firms and associated persons thereof, in accordance with rules required by section 203, for violations of this Act, the rules of the Board or the Commission, or professional standards; and

(2) establish procedures for notification of any such disciplinary action to the Commission, the Attorney General of the United States, and the appropriate State regulatory authority for appropriate referral and action.

(d) OTHER DUTIES.—The Board shall perform such other duties or functions as the Commission determines are necessary or appropriate in the public interest or for the protection of investors, and to carry out the purposes of this Act.

SEC. 104. SECURITIES AND EXCHANGE 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.

(b) RULES OF THE BOARD.—

(1) DEFINITION.—In this section, the term ''proposed rule'' means any proposed rule of the

Board, and any change to, modification of, addition to, or deletion from any rule of the Board.

(2) PRIOR APPROVAL REQUIRED.—No rule of the Board shall become effective without approval of the Commission in accordance with the requirements of this section, except as specifically authorized in this section.

(3) FILING WITH THE COMMISSION.—The Board shall file with the Commission, in accordance with such rules as the Commission may prescribe, and before the effective date of any proposed rule, copies of the proposed rule, accompanied by a concise general statement of the basis and purpose of the proposed rule.

(4) PUBLICATION OF NOTICE.—The Commission shall publish a public notice of each proposed rule, together with the terms and substance of the proposed rule or a description of the subjects and issues involved, in the Federal Register—

(A) not later than 30 days after the date of receipt of a filing of the proposed rule under paragraph (3); or

(B) not later than 60 days after the date of such receipt, if the Commission finds such

longer period appropriate and publishes its reasons therefore, as to which the Board consents.

(5) OPPORTUNITY FOR COMMENT.—The Commission shall provide to interested persons an opportunity to submit written data, views, and arguments concerning any proposed rule of the Board.

(6) COMMISSION CONSIDERATION.—No proposed rule may take effect unless approved by the Commission, or otherwise permitted in accordance with the provisions of this section.

(7) TIMING.—

(A) INITIAL COMMISSION DECISION.—Not later than 30 days after the date of publication of notice of a proposed rule in accordance with paragraph (4), the Commission shall—

(i) by order, approve the proposed rule; or

(ii) institute proceedings under paragraph (9) to determine whether the proposed rule should be disapproved.

(B) AUTHORITY TO EXTEND PERIOD.—The 30-day period referred to in subparagraph (A) may be extended by the Commission to not more than 90 days after the date of publication of notice under paragraph (4), upon consent of

the Board or upon a finding of the Commission that such longer period is necessary or appropriate, and publication of its reasons for that finding.

(8) CRITERIA FOR COMMISSION DETERMINATION.—The Commission shall—

(A) approve a proposed rule, if the Commission finds that the proposed 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; and

(B) disapprove a proposed rule if it does not make a finding described in subparagraph (A), in accordance with paragraph (9).

(9) DISAPPROVAL PROCEDURES.—

(A) NOTICE AND HEARING.—If the Commission institutes proceedings under paragraph (7)(A)(ii), the Commission shall—

(i) notify the Board and other interested parties of the grounds for disapproval of the proposed rule;

(ii) provide to the Board and other interested parties an opportunity for hearing; and

(iii) not later than 180 days after the date of publication of notice under paragraph (4), conclude the proceedings and, by order published in the Federal Register, approve or disapprove the proposed rule, except that the Commission may extend such time period for up to 60 days if it finds good cause for such extension and publishes its reasons for that finding, or for such longer period as to which the Board consents.

(10) EFFECTIVE DATES.—

(A) IN GENERAL.—A proposed rule approved by the Commission under this subsection shall take effect not earlier than 30 days after the date of publication of notice under paragraph (4), unless the Commission finds good cause for an earlier effective date and publishes its reasons for that finding.

(B) EXPEDITED APPLICABILITY.—

(i) RULE EFFECTIVE UPON FILING.—Notwithstanding subparagraph (A), a proposed rule may take effect upon the date of receipt of a filing with the Commission

under paragraph (3), if the Board designates the proposed rule as—

(I) constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of the Board;

(II) establishing or changing a fee or other charge imposed by the Board; or

(III) concerned solely with the administration of the Board or other matters which the Commission, by rule, consistent with the public interest and the purposes of this Act, may exempt from the requirements of subparagraph (A).

(ii) PROTECTION OF INVESTORS.—Notwithstanding any other provision of this subsection, a proposed rule may be put into effect immediately if the Commission determines, after consultation with the Board, or the Board determines, after consultation with the Commission, that such action is necessary for the protection of in-

vestors. A proposed rule subject to treatment under this subparagraph shall be filed with the Commission promptly in accordance with paragraph (3).

(iii) RULE ENFORCEMENT.—Any proposed rule that has taken effect under this subparagraph shall be enforced by the Board to the extent that it is not inconsistent with this Act, the securities laws, the rules of the Commission, and other applicable Federal law.

(11) RULE ABROGATION.—

(A) GENERAL AUTHORITY.—Notwithstanding any other provision of this section, or any other provision of law, during the 60-day period following the date of receipt of the filing of a proposed rule under paragraph (3), the Commission may abrogate any proposed rule and require that the proposed rule be refiled in accordance with paragraph (3), if the Commission determines that such action is 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.

(B) PROCEDURE.—Commission action under this subparagraph—

(i) shall not affect the validity or force of the subject rule during any period for which it was in effect;

(ii) shall not be reviewable under section 25 of the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.); and

(iii) shall not be a final agency action for purposes of section 704 of title 5, United States Code.

(c) POWER OF THE COMMISSION TO AMEND RULES OF THE BOARD.—

(1) IN GENERAL.—The Commission, by rule or order, may amend the rules of the Board (including the abrogation, addition to, or deletion from such rules), as the Commission determines necessary or appropriate to—

(A) assure the fair administration of the Board;

(B) conform the rules promulgated by the Board to the requirements of this Act, and the securities laws; and

(C) otherwise further the purposes of this Act or the securities laws.

(2) NOTICE.—The Commission shall notify the Board and publish notice of a proposed rulemaking under this subsection in the Federal Register, which notice shall include the text of the proposed amendment to the rules of the Board and a statement of the reasons of the Commission, including the pertinent facts, for commencing such proposed rulemaking.

(3) HEARING.—The Commission, at its discretion, may give interested persons an opportunity for the oral presentation of data, views, and arguments, in addition to an opportunity to make written submissions, with respect to an action under this subsection. A transcript shall be kept of any such oral presentation.

(4) STATEMENT OF BASIS AND PURPOSE.—A rule adopted under this subsection shall incorporate the text of the amendment to the rules of the Board and a statement by the Commission on its basis for and purpose in so amending such rules, including an identification of any facts on which the Commission considers its determination to amend the rules of the Board to be based, including the reasons for the conclusions of the Commission as to any facts that were disputed in the rulemaking.

(5) CLARIFICATIONS.—

(A) NOT ON THE RECORD.—Except as provided in paragraphs (1) through (4), rulemaking under this subsection shall be in accordance with the procedures specified in section 553 of title 5, United States Code, for rulemaking not on the record.

(B) NO IMPACT ON COMMISSION RULEMAKING AUTHORITY.—Nothing in this subsection shall be construed to impair or limit the authority of the Commission to make, modify, or alter the procedures that the Commission may follow in making rules and regulations under any other authority under this Act or the securities laws.

(C) EFFECT OF COMMISSION AMENDMENTS TO BOARD RULES.—Any amendment to the rules of the Board made by the Commission under this subsection shall be considered for all purposes of this Act and the securities laws to be part of the rules of the Board, and shall not be considered to be a rule of the Commission.

(d) COMMISSION REVIEW OF DISCIPLINARY ACTION TAKEN BY THE BOARD.—

(1) NOTICE OF SANCTION.—If the Board imposes any final disciplinary or remedial sanction on any registered independent public accounting firm or on any associated person of a registered independent public accounting firm, the Board shall promptly file notice thereof with the Commission, in such form and containing such information as the Commission, by rule, may prescribe as necessary or appropriate in furtherance of the purposes of this Act and the securities laws.

(2) REVIEW OF SANCTION.—

(A) IN GENERAL.—Any sanction described in paragraph (1) shall be subject to review by the Commission, on its own motion, or upon application by any person aggrieved thereby.

(B) APPLICATION FOR REVIEW.—An application for review of a sanction described in paragraph (1) shall be filed not later than 30 days after the date on which the aggrieved person was notified of the sanction by the Board, or within such longer period as the Commission may determine appropriate.

(C) REVIEW DOES NOT SUSPEND SANCTION.—An application to the Commission for review of a sanction described in paragraph (1),

or the institution of review by the Commission on its own motion, shall not operate as a stay of the sanction, unless the Commission otherwise orders, summarily or after notice and opportunity for hearing on the question of a stay. Such hearing may consist solely of the submission of affidavits or presentation of oral arguments. The Commission shall establish an expedited procedure, in appropriate cases, for consideration and determination of the question of a stay.

(e) DISPOSITION OF REVIEW; NOTICE AND HEARING; AFFIRMATION; MODIFICATION OR CANCELLATION OF SANCTION.—

(1) NOTICE AND HEARING.—In any proceeding to review a final disciplinary or remedial sanction imposed by the Board on a registered independent public accounting firm or an associated person thereof, the firm or person shall be provided with notice and an opportunity for hearing. The hearing may consist solely of consideration of the record before the Board and an opportunity to present supporting reasons to affirm, modify, or set aside the sanction.

(2) AFFIRMATION.—The Commission shall, by order, affirm a sanction imposed by the Board, if the Commission finds that—

(A) the sanctioned registered independent public accounting firm or associated person has engaged in such acts or practices, or has omitted to act, as the Board has found that person to have engaged in or omitted;

(B) such acts or practices, or omissions to act, are in violation of any provision of this Act, the securities laws, the rules of the Board, or professional standards, as have been specified in the determination of the Board; and

(C) such provisions, laws, rules, or standards were applied with respect to the registered independent public accounting firm or associated person in a manner consistent with the purposes of this Act and the securities laws.

(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 independent 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 the purposes of this Act or the securities laws; or

(B) is excessive or oppressive.

(4) CANCELLATION.—If the Commission does not take any action under paragraph (2) or (3), it shall, by order, set aside the sanction imposed by the Board and, if appropriate, remand to the Board for further proceedings.

(f) BOARD COMPLIANCE AND ENFORCEMENT.—

(1) COMPLIANCE.—The Board shall comply with this Act, the securities laws, the rules of the Commission, and the rules of the Board.

(2) ENFORCEMENT.—Absent reasonable justification or excuse, the Board shall enforce compliance with this Act, the rules of the Board or the Commission, and professional standards by registered independent public accounting firms and associated persons thereof.

(g) 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 purposes

of this Act and the securities laws, may relieve the Board of any responsibility under this Act to enforce compliance with any provision of this Act, the securities laws, the rules of the Board or the Commission, or professional standards by any registered independent public accounting firm or associated person thereof, or any class of such firms or persons associated with such firms.

(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 securities laws, or the rules of the Board; 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 independent public accounting firm or an associated person thereof.

(3) CENSURE OF BOARD MEMBERS; REMOVAL FROM OFFICE.—If the Commission determines that an activity is 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, the Commission may 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 securities laws, or the rules of the Board;

(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 independent public accounting firm or any associated person thereof.

TITLE II—ACCOUNTING AND AUDIT STANDARDS

SEC. 201. AUDITOR INDEPENDENCE.

(a) PROHIBITION ON SERVICES OUTSIDE THE AUDITOR SCOPE OF PRACTICE.—

(1) IN GENERAL.—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.—It shall be unlawful for a registered independent public accounting firm that performs for any issuer any auditing service required by this title, or the rules of the Commission under this title (and any associated person of that accountant, to the extent determined appropriate by the Commission), or receives any general revenues from such issuer, to provide to that issuer, contemporaneously with the auditing service, any non-audit service, including—

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

''(2) financial information systems design and implementation consulting services (referred to as 'information technology' or 'IT' consulting services);

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

''(4) actuarial services;

''(5) internal audit out sourcing services;

''(6) any management or human resources function;

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

"(8) legal services;

"(9) expert services unrelated to the auditing service;

"(10) any other service that the Commission determines, by regulation, is outside the scope of the duties of an auditor; and

"(11) any non-audit service, including tax services, that is not described in any of paragraphs (1) through (10), except as approved in advance by the audit committee of the issuer, based on a determination that the performance of such service would be in the best interest of investors and would have no adverse effect on the independence of the accounting firm.".

(2) 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 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 INDEPENDENT PUBLIC ACCOUNTING FIRM.—The term 'registered independent public accounting firm' has the same meaning as in section 3 of the Investor Confidence in Public Accounting Act of 2002.".

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

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

(ii) by striking "the independent public accountant" each place that term appears and inserting "the registered independent public accounting firm";

(iii) in subsection (c), by striking "No independent public accountant" and insert-

ing "No registered independent public accounting firm"; and

(iv) in subsection (b)—

(I) by striking "the accountant" each place that term appears and inserting "the firm";

(II) by striking "such accountant" each place that term appears and inserting "such firm"; and

(III) 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—

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

(ii) 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 independent public accounting firm".

(3) COMMISSION REGULATIONS.—

(A) IN GENERAL.—Not later than 180 days after the date of enactment of this Act, the Commission shall issue final regulations to carry out section 10A(g) of the Securities Exchange Act of 1934, as added by this section.

(B) CONTENTS OF REGULATIONS.—The regulations issued under subparagraph (A), shall be substantially similar to the scope of practice provisions of the proposed rules issued by the Commission on July 13, 2000, consistent with the provisions of this Act, regarding revision of the auditor independence requirements contained in Parts 210 and 240 of title 17, of the Code of Federal Regulations (RIN 3235–AH91).

(b) AUDITOR 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:

"(h) CONFLICTS OF INTEREST.—It shall be unlawful for a registered independent public accounting firm to perform for any issuer any auditing service required by this

title, if the comptroller, principal accounting officer, or principal financial officer of the issuer, or any other individual serving in a management capacity for the issuer at any time during the period of such service, was employed by that registered independent public accounting firm during the 2-year period preceding the initiation of the auditing services.''.

(c) AUDITOR INDEPENDENCE.—It shall be unlawful for any registered independent 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—

(1) engages in any activity with respect to that issuer prohibited by section 10A(g) of the Securities Exchange Act of 1934, as added by this section, or any rule or regulation of the Commission issued thereunder; or

(2) violates section 10A(h) of the Securities Exchange Act of 1934, as added by this section, or any rule or regulation of the Commission issued thereunder with respect to that issuer.

SEC. 202. REGISTRATION OF PUBLIC ACCOUNTING FIRMS.

(a) MANDATORY REGISTRATION WITH THE BOARD.—Beginning 1 year after the date of the designation of the Board under section 101, it shall be unlawful

for any person to prepare or issue any audit report with respect to any issuer, unless that person—

(1) is a registered independent public accounting firm;

(2) is in compliance with this Act and all applicable rules of the Board and the Commission; and

(3) has paid all applicable registration and annual fees under this title.

(b) APPLICATION FOR REGISTRATION.—A public accounting firm may become registered under this title upon application to the Board, in such form and containing such information as the Board, by rule, may prescribe.

(c) CONTENTS OF APPLICATIONS.—Each application by a public accounting firm for registration under this title shall include—

(1) the names of all of the issuers for which the firm prepares or issues audit reports; and

(2) for each such issuer, the annual fees received by the firm from that issuer relating to—

(A) performance of any annual audit or quarterly interim review of the financial statements of the issuer to be filed in an audit report with the Commission under the securities laws;

(B) other accounting and auditing services;

(C) tax services;

(D) information technology consulting services; and

(E) all other consulting or advisory services, in such detail as the rules of the Board shall specify;

(3) financial information of the firm for the most recent fiscal year, including the total annual revenues, assets, liabilities, and net equity of the firm, and the aggregate revenues from each of the accounting, auditing, tax, and other professional services provided to any issuer;

(4) the names of any liability insurance carrier of the firm;

(5) a copy of the policies and procedures of the firm with respect to quality control of its accounting and auditing practices;

(6) a list of all persons associated with the firm, the license or certification number of each such person issued by the appropriate State regulatory authority, and a brief statement of the education and experience of each such person;

(7) 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 prepared or issued by the firm;

(8) a list of issuers for which the firm has been appointed as a successor auditor in the most recently completed fiscal year, and where unresolved disagreements exist between the successor and predecessor auditor on the application of generally accepted accounting principles, including a detailed description of the nature of any such disagreement; and

(9) 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.

(d) REGISTRATION AND ANNUAL FEES.—

(1) IN GENERAL.—The Board shall assess and collect a registration fee and annual dues from each registered independent public accounting firm, subject to annual review and approval by the Commission.

(2) AMOUNTS.—

(A) IN GENERAL.—Fees and dues under paragraph (1) shall be assessed at a level sufficient to recover the costs and expenses of the

Board and to permit the Board to operate on a self-funding basis.

(B) BASIS OF FEES.—The amount of fees and dues for each registered independent public accounting firm shall be based upon—

(i) the annual revenues of that firm from accounting, auditing, and other professional services provided to issuers for the purpose of preparing or issuing any audit report;

(ii) the number of persons associated with the firm that prepare or issue, or assist or otherwise participate in the preparation or issuance of audit reports;

(iii) the number of issuers for which the firm prepares or issues any audit report; and

(iv) such other criteria as the rules of the Board may establish.

(e) SPECIAL FEES.—The Board may prescribe and collect fees that fairly reflect the costs to the Board of conducting inspections and disciplinary actions in accordance with this Act, in addition to other fees authorized by this section.

(f) PERIODIC REPORTS.—

(1) ANNUAL REPORTS.—Each registered independent public accounting firm shall submit an annual report to the Board to update the information contained in its application for registration under this section, and to provide to the Board any additional information that the Board may require, in accordance with the rules of the Board.

(2) UPDATES.—Not later than 15 days after an event that affects any information referred to in paragraph (7) or (8) of subsection (c), or more frequently as the Board may require, each registered independent public accounting firm shall provide to the Board any relevant information with respect to such matters.

(3) PUBLIC AVAILABILITY.—Annual reports required by this subsection, or parts thereof, as designated by the rules of the Board or the Commission, shall be made available for public inspection, subject to applicable laws relating to the confidentiality of information contained in such reports.

(g) COMMISSION EXEMPTION AUTHORITY.—The Commission, by rule or order, upon its own motion or upon application, may conditionally or unconditionally exempt any public accounting firm or any audit report, or any class of public accounting firms or any class of audit

reports, from any provision of this Act, if the Commission finds that such exemption is consistent with the public interest, the protection of investors, and the purposes of this Act.

SEC. 203. INVESTIGATIONS AND DISCIPLINARY PROCEEDINGS.

(a) INVESTIGATIONS AND DISCIPLINARY PROCEEDINGS.—The rules of the Board shall establish fair procedures for investigating and disciplining registered independent public accounting firms and associated persons thereof for violations of this Act, the securities laws, the rules of the Board or the Commission, or professional standards.

(b) INVESTIGATION PROCEDURES.—

(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 independent public accounting firm, or by any associated person of a registered independent public accounting firm, that may violate any provision of this Act, the securities laws, the rules of the Board or the Commission, or professional standards, regardless of how the act, practice, or omission is brought to the attention of the Board. At the discretion of the Board, such an investigation, in light of

the circumstances, may relate to the entire registered independent public accounting firm, to 1 or more persons associated with the firm, or to 1 or more offices, engagements, or transactions of the firm.

(2) COMPULSION OF TESTIMONY AND DOCUMENT PRODUCTION.—For purposes of an investigation under this section, and 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 any person associated with a registered independent public accounting firm, with respect to any matter that the Board considers relevant or material to the investigation;

(B) require the production of audit work papers and of any other document or information in the possession of a registered independent 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; and

(C) require the testimony of, and production of any document in the possession of, any person, including any issuer client of a registered independent public accounting firm, that the Board considers relevant or material to an investigation under this section.

(3) PENALTIES FOR NONCOMPLIANCE WITH INVESTIGATION.—

(A) IN GENERAL.—Any person who fails to comply with the requirements of this section shall be subject to the same sanctions as are applicable for any failure to produce information or testimony to the Commission in the course of a formal investigation.

(B) REFUSAL TO COOPERATE.—If a registered independent 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 an issuer or a registered independent public accounting firm;

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

(iii) invoke such other sanctions as the Board considers appropriate.

(4) REFERRAL.—The Board may refer any investigation to the Commission, the Attorney General of the United States, and the appropriate State regulatory authority, as it determines appropriate, and each such entity shall evaluate any such referral and take such action with respect to the matter referred as it determines necessary or appropriate.

(5) USE OF DOCUMENTS.—

(A) CONFIDENTIALITY.—Except as provided in subparagraph (B), all reports, memoranda, and other information prepared or received by, and deliberations of the Board and its employees and agents in connection with an investigation under this section, shall be confidential and privileged, unless and until presented in connection with a public proceeding or the public release by the Board of its report of sanctions under subsection (d).

(B) AVAILABILITY TO GOVERNMENT AGENCIES.—All information referred to in subparagraph (A) shall be—

(i) made available to the Commission, the Attorney General of the United States,

to any other Federal department or agency, to any appropriate State regulatory authority, and to Federal and State authorities in connection with any criminal investigation or proceeding; and

(ii) admissible in any action brought by the Commission, the Attorney General of the United States, or any other Federal department or agency, or by any appropriate State regulatory authority, and in any criminal action.

(6) GOVERNMENT 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 independent 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.—All hearings under this section shall be public, unless otherwise ordered by the Board on its own motion or after considering the motion of a party.

(3) SANCTIONS.—If the Board finds that a registered independent public accounting firm, or a person associated with a registered independent public accounting firm, has engaged in any act or practice, or omitted to act, in violation of this Act, the securities laws, the rules of the Board or the Commission, or professional standards, the Board may impose such disciplinary or remedial sanctions as it determines appropriate, including—

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

(B) temporary or permanent limitation of activities, functions, or operations;

(C) civil money penalties;

(D) censure;

(E) in the case of an associated person of a registered independent public accounting firm, temporary or permanent suspension or bar from being associated with any registered independent public accounting firm; or

(F) any other appropriate sanction, subject to the approval of the Commission.

(4) CIVIL MONEY PENALTIES.—

(A) BOARD DETERMINATION.—Subject to the approval of the Commission, civil money penalties for a violation of this Act, the securities laws, the rules of the Board or the Commission, or professional standards, if any, shall be determined by the Board, based on the facts and circumstances.

(B) PENALTY LIMITS.—For each violation of this Act, the securities laws, the rules of the Board or the Commission, or professional standards, the amount of a penalty imposed under subparagraph (A) may not exceed the greater of—

(i) $100,000 for a natural person; or

(ii) $2,000,000 for any person other than a natural person.

(C) FRAUD.—Notwithstanding subparagraph (B), the amount of a penalty for each violation described in subparagraph (B) that involves fraud, deceit, manipulation, or deliberate or reckless disregard of the regulatory standard, may not exceed the greater of—

(i) $750,000 for a natural person; or

(ii) $15,000,000 for any person other than a natural person.

(D) USE OF AMOUNTS.—Civil money penalties assessed under this paragraph shall be deposited in the General Fund of the United States Treasury.

(5) SUPPORTING STATEMENT.—A determination by the Board to impose a disciplinary or remedial sanction or penalty under this section shall be supported by a statement setting forth—

(A) any prohibited act or practice in which the registered independent public accounting firm, or associated person of such firm, has engaged, or any required act or practice which such firm or person has omitted;

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

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

(6) EFFECT OF SUSPENSION—

(A) ASSOCIATION WITH A PUBLIC ACCOUNTING FIRM.—

(i) SUSPENDED OR BARRED PERSONS.—It shall be unlawful for any person that is suspended or barred from being associated with a registered independent public accounting firm in accordance with this section willfully to become or remain associated with a registered independent public accounting firm without the consent of the Board or the Commission.

(ii) REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRMS.—It shall be unlawful for any registered independent public accounting firm to permit a person that is suspended or barred from being associated with any such firm in accordance with this section to become or remain associated

with that firm without the consent of the Board or the Commission, if the firm knew, or, in the exercise of reasonable care should have known, of the suspension or bar.

(B) ASSOCIATION WITH AN ISSUER.—

(i) SUSPENDED OR BARRED PERSONS.—It shall be unlawful for any person that is suspended or barred from being associated with an issuer in accordance with this section willfully to become or remain associated with such an issuer without the consent of the Board or the Commission.

(ii) ISSUERS.—It shall be unlawful for any issuer to permit any person that is suspended or barred from being associated with an issuer in accordance with this section to become or remain an associated person of that issuer without the consent of the Board or the Commission, if the issuer knew, or, in the exercise of reasonable care should have known, of the suspension or bar.

(d) REPORTING OF SANCTIONS.—

(1) RECIPIENTS.—Whenever the Board imposes a disciplinary sanction or penalty against a registered independent public accounting firm, an associated person of a registered independent public accounting firm, or any other person, in accordance with this section, the Board shall report the sanction to—

(A) the Commission;

(B) any appropriate State regulatory authority with which such firm or person is licensed or certified to practice public accounting;

(C) the Attorney General of the United States; and

(D) the public.

(2) CONTENTS.—The information required to be reported under paragraph (1) shall include—

(A) the name of the registered independent public accounting firm or other person against whom the sanction or penalty is imposed;

(B) a description of the acts or practices, or omissions to act, upon which the sanction or penalty is based;

(C) the nature of the sanction; and

(D) such other information respecting the circumstances of the disciplinary sanction or penalty as the Board determines appropriate.

SEC. 204. ACCOUNTING STANDARDS.

(a) RECOGNITION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.—For purposes of this Act and the securities laws, the Commission shall recognize generally accepted accounting principles established by a United States standard setting body that the Commission determines is so organized and has such capacity to be capable of meeting the purposes and requirements of this section.

(b) QUALIFICATIONS.—A standard setting body described in subsection (a) shall—

(1) be a private entity;

(2) have, for administrative and operational purposes, a board of trustees (or equivalent body), the majority of whom are not, concurrent with such service, and have not been during the 2 years prior to such service, associated with any registered independent public accounting firm;

(3) propose and adopt rules establishing and improving standards of financial accounting and reporting for purposes of compliance with the securi-

ties laws, which rules shall, at a minimum, be designed—

(A) to improve the usefulness of financial reporting for such purposes by focusing on the primary characteristics of relevance and reliability and on the qualities of comparability and consistency;

(B) to keep standards current to reflect changes in methods of doing business and changes in the economic environment;

(C) to ensure the prompt consideration of any significant areas of deficiency in financial reporting that might be improved through the standard setting process;

(D) to promote convergence on high quality accounting standards and improvements in financial reporting; and

(E) to improve the common understanding of the nature and purpose of information contained in financial reports; and

(4) be funded solely—

(A) by fees and charges assessed against each issuer, as may be necessary or appropriate to defray the costs and expenses of operations in carrying out this section, subject to review by

the Commission in accordance with this section, which fees may differentiate between different classes of issuers, as necessary or appropriate; and

(B) by revenues collected from the sale of materials and publications produced by that body.

(c) ANNUAL REPORT.—

(1) IN GENERAL.—A standard setting body recognized under subsection (a) shall submit an annual report to the Board, the Commission, and the Congress.

(2) CONTENTS.—Each report required by paragraph (1) shall contain audited financial statements of the standard setting body recognized under subsection (a) and a detailed explanation of the fees and charges assessed under subsection (b).

(d) COMMISSION AUTHORITY.—The Commission shall promulgate such rules and regulations to carry out this section as it deems necessary or appropriate in the public interest or for the protection of investors.

(e) NO EFFECT ON COMMISSION POWERS.—Nothing in this section shall be construed to impair or limit the authority of the Commission to regulate the accounting profession, accounting firms, or persons associated with

such firms, or otherwise to establish accounting principles or standards, for purposes of enforcement of the securities laws.

(f) CONFORMING AMENDMENTS TO SECURITIES ACTS.—

(1) SECURITIES EXCHANGE ACT OF 1934.—Section 3(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)), as amended by this Act, is amended by adding at the end the following:

"(60) GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.—The term 'generally accepted accounting principles' means any accounting standards and principles—

"(A) recognized by the Commission as being established by a standard setting body in accordance with section 204 of the Investor Confidence in Public Accounting Act of 2002; and

"(B) established by rule, regulation, or order of the Commission.".

(2) SECURITIES ACT OF 1933.—Section 2(a) of the Securities Act of 1933 (15 U.S.C. 77b(a)) is amended by adding at the end the following:

"(17) GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.—The term 'generally accepted account-

ing principles' means any accounting standards and principles—

"(A) recognized by the Commission as being established by a standard setting body in accordance with section 204 of the Investor Confidence in Public Accounting Act of 2002; and

"(B) established by rule, regulation, or order of the Commission.".

SEC. 205. MISREPRESENTATIONS TO AUDITORS.

(a) IN GENERAL.—It shall be unlawful, in contravention of such rules and regulations as the Commission shall prescribe as necessary or appropriate in the public interest or for the protection of investors, for any officer, director, or affiliated person of an issuer of any security registered under section 12 of the Securities Exchange Act of 1934 (15 U.S.C. 78*l*) to take any action to willfully and improperly influence, coerce, manipulate, or mislead any registered independent public accounting firm engaged in the preparation or issuance of an audit report for the purpose of rendering any such audit report materially misleading.

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

SEC. 206. 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, consistent with this Act.

(b) ENFORCEMENT.—A violation by any person of this title, any rule or regulation of the Commission issued under this title, 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 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.

(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 auditor 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 independent public accounting firm or any associated person thereof.

SEC. 207. ENHANCED COMMISSION OVERSIGHT.

(a) INCREASE IN PROFESSIONALS.—

(1) STAFF INCREASES.—Not later than 180 days after the date of enactment of this Act, the Commission shall employ not fewer than an additional 150 qualified accounting professionals to provide enhanced oversight of auditors and auditing services required by the Federal securities laws, and to improve Commission investigative and disciplinary efforts with respect to such auditors and services.

(2) STATUS.—Accounting professionals described in paragraph (1) shall be appointed and compensated in the manner authorized for the appointment and compensation of officers and employees of the Commission under section 4(b) of the Securities Exchange Act of 1934.

(b) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated to the Commission such

amounts as may be necessary to carry out this section, which amounts shall be in addition to amounts otherwise appropriated to the Commission for any purpose, and which shall remain available until expended.

TITLE III—OTHER INVESTOR SAFEGUARDS

SEC. 301. IMPROVED FINANCIAL DISCLOSURES.

(a) IMPROVED TRANSPARENCY OF FINANCIAL DISCLOSURES.—

(1) MODIFICATION OF REGULATIONS REQUIRED.—Notwithstanding any rule, regulation, or order of the Commission that provides otherwise, the Commission shall issue regulations to require periodic financial reports and registration statements of issuers required under the securities laws to include adequate and appropriate disclosure of—

(A) each transaction and relationship of the issuer with any unconsolidated entity or other person, that the Commission determines is reasonably likely to—

(i) materially affect liquidity or the availability of, or requirements for, capital resources, or otherwise expose the issuer to material current or future possible liability,

obligations, expenses, or cash flow changes; or

(ii) affect the recognition of revenue, carrying value, or potential impairment of assets, credit ratings, earnings, cash flows, or stock price; and

(B) each relationship and material transaction with any associated person of the issuer or other persons or entities that may involve terms that differ materially from any such relationship or transaction that would likely be negotiated with a third party, including—

(i) a description of the elements of the relationship or transaction that are necessary for an understanding of its business purpose and economic substance;

(ii) the effects of the relationship or transaction on the financial statements of the issuer; and

(iii) the special risks or contingencies arising from the relationship transaction.

(b) ELECTRONIC DISCLOSURES OF AFFILIATE TRANSACTIONS.—Section 16 of the Securities Exchange Act of 1934 (15 U.S.C. 78p) is amended by adding at the end the following:

"(h) ENHANCED DISCLOSURE.—

"(1) IN GENERAL.—Except as otherwise specifically provided in this title or the securities laws, and notwithstanding any other provision of law, any disclosure of the sale of any security required to be made by any person described in subsection (a) shall be made available in electronic form—

"(A) to the Commission, before the end of the calendar day following the calendar day on which the transaction occurs;

"(B) to the public by the Commission, to the extent permitted under applicable law, upon receipt, but in no case later than the end of the business day on which the disclosure is received under subparagraph (A); and

"(C) in any case in which the issuer maintains a corporate website that is accessible only internally, on that internal website, before the end of the calendar day on which the transaction occurs.

"(2) OTHER FORMATS.—The requirement of disclosures in electronic form under paragraph (1) shall, at the discretion of the Commission, be in lieu of any other format required for such disclosures on

the day before the date of enactment of this subsection.''.

SEC. 302. COMMISSION RECOMMENDATIONS ON TREATMENT OF STOCK OPTIONS.

(a) COMMISSION RECOMMENDATIONS.—The Commission shall submit to the accounting standard setting body described in section 204(a), its recommendations regarding the treatment under such accounting standards of—

(1) options granted under an employee stock purchase plan, as defined in section 423(b) of the Internal Revenue Code of 1996;

(2) incentive stock options, as defined under section 422(b) of the Internal Revenue Code of 1986; and

(3) any other type of stock option regularly offered by issuers.

(b) TIMING.—The Commission shall submit its recommendations in accordance with subsection (a) not later than 60 days after the date on which the Commission first recognizes a standard setting body under section 204.

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to property transferred and wages provided on or after the date of enactment of this Act.

SEC. 303. COMMISSION RECOMMENDATIONS ON TREATMENT OF SPECIAL PURPOSE ENTITIES.

(a) COMMISSION RECOMMENDATIONS.—The Commission shall submit to the accounting standard setting body described in section 204(a), its recommendations regarding the appropriateness of the consolidation and disclosure of special purpose entities and similar types of affiliates or related parties under such accounting standards.

(b) TIMING.—The Commission shall submit its recommendations in accordance with subsection (a) not later than 60 days after the date on which the Commission first recognizes a standard setting body under section 204.

SEC. 304. REVIEW OF CORPORATE GOVERNANCE PRACTICES.

(a) STUDY AND REPORT ON CORPORATE GOVERNANCE PRACTICES.—

(1) STUDY.—Each self-regulatory organization shall conduct a study and review of current corporate governance standards and practices to determine whether such standards and practices are serving the best interests of shareholders.

(2) ANALYSIS REQUIRED.—The study and review required by paragraph (1) shall include an analysis of—

(A) whether current standards and practices promote full disclosure of relevant information to shareholders;

(B) whether corporate codes of ethics are adequate to protect shareholders, and to what extent deviations from such codes are tolerated;

(C) to what extent conflicts of interests are aggressively reviewed, and whether adequate means for redressing such conflicts exist;

(D) to what extent sufficient legal protections exist to ensure that any manager who attempts to manipulate or unduly influence an audit is subject to appropriate sanction and liability;

(E) whether rules, standards, and practices relating to determining whether independent directors are in fact independent are adequate;

(F) whether rules, standards, and practices relating to the independence of directors serving on audit committees are uniformly applied and adequate to protect investor interests;

(G) whether the duties and responsibilities of audit committees should be established by the Commission; and

(H) what further or additional rules, standards, or practices might best protect investors and promote the interests of shareholders.

(3) REPORT.—Each self-regulatory organization shall submit a report of its findings under paragraph (1) to the Commission and to the Congress, not later than 90 days after the date of enactment of this Act.

SEC. 305. STUDY OF MANDATORY ROTATION OF REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRMS.

(a) STUDY AND REVIEW REQUIRED.—The Commission shall conduct a study and review of the potential effects of requiring the mandatory rotation of registered independent public accounting firms.

(b) FACTORS TO BE CONSIDERED.—In conducting the study under subsection (a), the Commission shall consider—

(1) the degree, if any, to which mandatory rotation of registered independent public accounting firms would lessen the economic dependence of those firms on their larger audit clients;

(2) the competitive impact, if any, on registered independent public accounting firms that would result from mandatory rotation;

(3) whether the goals of mandatory rotation of registered independent public accounting firms would be better accomplished through the rotation of individual accountants within such firms on a particular audit; and

(4) the appropriate length of a mandatory rotation period, if the Commission determines that mandatory rotation of registered independent public accounting firms is advisable.

(c) REPORT REQUIRED.—Not later than 270 days after the date of enactment of this Act, the Commission 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.

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

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