

Valco Trading

The Sarbanes & Oxley Act

2002

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The Sarbanes-Oxley Act of 2002

Often referred to as SOX, was enacted in response to several high-profile financial scandals and corporate failure involving major corporations such as Enron and WorldCom. The act aims to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws and for other purposes

Implementing the Sarbanes-Oxley Act (SOX) in a organisation involves several critical steps aimed at ensuring compliance with its requirements for implementation of SOX effectively:

TITLE I—PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

Establishment; Administrative Provisions¹

- There is established the Public Company Accounting Oversight Board, to oversee the audit of public companies that are subject to the securities laws, and related matters, in order to protect the interests of investors and further the public interest in the preparation of informative, accurate, and independent audit reports for companies the securities of which are sold to, and held by and for, public investors.
- The Board shall not be an agency or establishment of Government, except as otherwise provided in this Act, shall be subject to, and have all the powers. The Board shall be deemed to be an agent of the government.

Valco Trading is well accomplished with the Govt Regulation relating to public company accounting oversight board and it makes sure that its audit securities laws, and related matters which is to protect the interests of investors and further the public interest and the compliance team do the internal audit of the same on regular intervals.

Sarbanes-Oxley Board

The members of the Board shall take such action (including hiring of staff, proposal of rules, and adoption of initial and transitional auditing and other professional standards) as may be necessary or appropriate to enable the Commission to determine, not later than 270 days after the date of enactment of this Act, have capacity to carry out the requirements and to

¹ SEC. 101.15 USC 7211

enforce compliance with this title by registered public accounting firms and associated persons.

Composition of the Board : The Board shall have 5 members, only 2 members of the Board shall be or have been Certified Public Accountants.

Other Members will be appointed from among prominent individuals of integrity and reputation who have a demonstrated commitment to the interests of investors.

The public understanding of the responsibilities for and nature of the financial disclosures required of issuers under the securities laws and the obligations of accountants with respect to the preparation and issuance of audit reports with respect to such disclosures.

Full-Time Independent Service: Each member of the Board shall serve on a full-time basis, and may not, concurrent with service on the Board, be employed by any other person or engage in any other professional or business activity.

No member of the Board may share in any of the profits or receive payments from, a public accounting firm other than fixed continuing payments, subject to such conditions as imposed.

Appointment Of Board Members

- Initial Board: Not later than 90 days after the date of enactment of this Act, the Commission, after consultation with the Chairman of the Board of Governors of the Federal Reserve System and the Secretary of the Treasury, shall appoint the chairperson and other initial members of the Board, and shall designate a term of service for each of them.
- The term of service of each Board member shall be 5 years, and until a successor is appointed.
 - The terms of office of the initial Board members (other than the chairperson) shall expire in annual increments, 1 on each of the first 4 anniversaries of the initial date of appointment;
 - Any Board member appointed to fill a vacancy occurring before the expiration of the term for which the predecessor was appointed shall be appointed only for the remainder of that term.
 - No person may serve as a member of the Board, or as chairperson of the Board, for more than 2 terms.

Powers Of The Board

In addition to any authority granted to the Board otherwise in this Act, the Board shall have the power² :

- To sue and be sued, complain and defend, in its corporate name and through its own Compliance team, with the approval of the Commission;

² subject to section 107

- To conduct its operations and maintain offices, and to exercise all other rights and powers authorized by this Act, in U.S. without regard to any qualification, licensing, or other provision of law in effect in such State (or a political subdivision thereof);
- To lease, purchase, accept gifts or donations of or otherwise acquire, improve, use, sell, exchange, or convey, all of or an interest in any property, wherever situated;
- To appoint such Employees, Accountants, Compliance, and other agents as may be necessary or appropriate, and to determine their qualifications, define their duties, and fix their salaries or other compensation (at a level that is comparable to private sector self-regulatory, accounting, technical, supervisory, or other staff or management positions);
- To allocate, assess, and collect accounting support fees established³, for the Board, and other fees and charges imposed under this title; and
- To enter into contracts, execute instruments, incur liabilities, and do any and all other acts and things necessary, appropriate, or incidental to the conduct of its operations and the exercise of its obligations, rights, and powers imposed or granted by this title.

Valco Trading ensures that it exercises all other rights and powers authorized by this Act, in the U.S., without regard to any qualification, licensing, or other provision of law in effect in such State (or a political subdivision thereof). As mentioned earlier, it also has a well equipped team of Accountants and Compliance to allocate, assess, and collect accounting support fees established for the Board, and other fees and charges imposed under this title. The Company also has the right to enter into contracts, execute instruments, incur liabilities, and do any and all other acts and things necessary, appropriate, or incidental to the conduct of its operations and the exercise of its obligations, rights, and powers imposed or granted by this title.

Duties Of The Board

The Board shall, subject to action by the Commission and once a determination is made by the Commission.

- The Board of Valco Trading shall, subject to action by the Commission⁴, and once a determination is made by the Commission under subsection (d) of this section—
- Register public accounting firms that prepare audit reports for issuers⁵;
- Establish or adopt, or both, by rule, auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for issuers⁶;
- Conduct inspections of registered public accounting firms, in accordance with⁷ and the rules of the Board;
- Conduct investigations and disciplinary proceedings concerning, and impose appropriate sanctions where justified upon, registered public accounting firms and associated persons of such firms⁸;

³ section 109

⁴ under section 107

⁵ in accordance with section 102

⁶ section 103

⁷ section 104

⁸ section 105

- Perform such other duties or functions as the Board (or the Commission, by rule or order) determines are necessary or appropriate to promote high professional standards among, and improve the quality of audit services offered by, registered public accounting firms and associated persons thereof, or otherwise to carry out this Act, in order to protect investors, or to further the public interest;
- Enforce compliance with this Act, the rules of the Board, professional standards, and the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto, by registered public accounting firms and associated persons thereof; and
- Set the budget and manage the operations of the Board and the staff of the Board.

Valco TradingPo has an Internal Board of both Compliance and Internal Auditors that prepare Audit reports for the Company. Not only are the Auditing and Compliance teams efficient in their respective duties, but also the teams perform periodic reviews of unreasonable and/or unethical practices within the Company's Jurisdiction. The Company also establish or adopt, or both, by rule, auditing, quality control, ethics, independence, and other standards relating to the preparation of audit reports for issuers.

Rules Of The Board

- To provide for the operation and administration of the Board, the exercise of its authority, and the performance of its responsibilities.
- permit, as the Board determines necessary or appropriate, delegation by the Board of any of its functions to an individual member or employee of the Board, or to a division of the Board, including functions with respect to hearing, determining, ordering, certifying, reporting, or otherwise acting as to any matter other than exceptions.

Valco Trading follows the rules set by the Internal Board. In all the operations & administration work these set of protocols are followed by the board members. Quality of the reporting is always a priority.

Annual Report To The Commission

The Board shall submit an annual report (including its audited financial statements) to the Commission, and the ⁹Commission shall transmit a copy of that report to the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Committee on Financial Services of the House of Representatives, not later than 30 days after the date of receipt of that report by the Commission.

Valco Trading shares all the report with the Board of Commission and Commission further forwards those reports to concern authorities within 30 days of submission.

Registration With The Board

- Mandatory Registration beginning 180 days after the date of the determination of the Commission, it shall be unlawful for any person that is not a registered public accounting firm to prepare or issue, or to participate in the preparation or issuance of,

⁹ As per sec 101

any audit report with respect to any issuer. A public accounting firm shall use such form as the Board may prescribe, by rule, to apply for registration under this section

- Each public accounting firm shall submit, as part of its application for registration, in such detail as the Board, shall specify, the names of all issuers for which the firm prepared or issued audit reports during the immediately preceding calendar year, and for which the firm expects to prepare or issue audit reports during the current calendar year.
- The annual fees received by the firm from each such issuer for audit services, other accounting services, and non-audit services, respectively.
- Such other current financial information for the most recently completed fiscal year of the firm as the Board may reasonably request.
- A statement of the quality control policies of the firm for its accounting and auditing practices.
- A list of all accountants associated with the firm who participate in or contribute to the preparation of audit reports, stating the licence or certification number of each such person, as well as the State licence numbers of the firm.
- 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.
- Copies of any periodic or annual disclosure filed by an issuer with the Commission during the immediately preceding calendar year which discloses accounting disagreements between such issuer and the firm in connection with an audit report furnished or prepared by the firm for such issuer.
- 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.

Consents

- A consent executed by the public accounting firm to cooperation in and compliance with any request for testimony or the production of documents made by the Board.
- A statement that such firm understands and agrees that cooperation and compliance, as described in the consent and the securing and enforcement of such consents from its associated persons, in accordance with the rules of the Board.

Action On Applications

- The Board shall approve a completed application for registration not later than 45 days after the date of receipt of the application, in accordance with the rules of the Board, unless the Board, prior to such date, issues a written notice of disapproval.
- A written notice of disapproval of a completed application for registration shall be treated as a disciplinary sanction for purposes¹⁰
- Each registered public accounting firm shall submit an annual report to the Board, and may be required periodically to update information in application and to provide to the Board such additional information as the Board or the Commission may specify.

¹⁰ Sec 105(d) and 107(c).

Auditing, Quality Control, And Independence Standards And Rules

¹¹The Board shall, by rule, establish, including, to the extent it determines appropriate, through adoption of standards proposed and amend or otherwise modify or alter, such auditing and related attestation standards, such quality control standards, and such ethics standards to be used by registered public accounting firms in the preparation and issuance of audit reports.

RULE REQUIREMENTS - Each registered public accounting firm shall prepare and maintain for a period of not less than 7 years, audit work papers, and other information related to any audit report, in sufficient detail to support the conclusions reached in such report.

- Registered public accounting firm will provide a concurring or second partner review and approval of such audit report and concurring approval in its issuance, by a qualified person associated with the public accounting firm, other than the person in charge of the audit, or by an independent reviewer.
- ¹²Will describe in each audit report the scope of the auditor's testing of the internal control structure and procedures of the issuer.
- An evaluation of whether such internal control structure and procedures include maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer.
 - Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer
 - A description at a minimum of material weaknesses in such internal controls and of any material non compliance found on the basis of such testing.
- A description, at a minimum, of material weaknesses in such internal controls, and of any material noncompliance found on the basis of such testing.
- Registered public accounting firm shall include, in the quality control standards that it adopts with respect to the issuance of audit reports which are required for every registered public accounting firm.
 - Monitoring of professional ethics and independence from issuers on behalf of which the firm issues audit reports;
 - Consultation within such firm on accounting and auditing questions;
 - Supervision of audit work;
 - Hiring, professional development, and advancement of personnel;
 - The acceptance and continuation of engagements;
 - Internal inspection
- **Authority To Adopt Other Standards** - May adopt as its rules, subject to the terms of section 107, any portion of any statement of auditing standards or other professional standards.

¹¹ Sec 103

¹²Sec 404(b)

Authority to modify, supplement, revise, or subsequently amend, modify, or repeal, in whole or in part, any portion of any statement.

- **Advisory Groups** - The Board shall convene, or authorize its staff to convene, such expert advisory groups as may be appropriate, which may include practising accountants and other experts, as well as representatives of other interested groups and subject to such rules as the Board may prescribe to prevent conflicts of interest, to make recommendations concerning the content.

¹³Inspections Of Registered Public Accounting Firms

The Board shall conduct a continuing program of inspections to assess the degree of compliance of each registered public accounting firm and associated persons of that firm in connection with its performance of audits, issuance of audit reports, and related matters involving issuers.

- Annually with respect to each registered public accounting firm that regularly provides audit reports for more than 100 issuers and not less frequently than once every 3 years with respect to each registered public accounting firm that regularly provides audit reports for 100 or fewer issuers.
- If the Board finds that different inspection schedules are consistent with the purposes of this Act, the public interest, and the protection of investors. The Board may conduct special inspections at the request of the Commission or upon its own motion.

Procedures

- Identify any act or practice or omission to act by the registered public accounting firm, or by any associated person thereof, revealed by such inspection that may be in violation of this Act, the rules of the Board, the rules of the Commission, the firm's own quality control policies, or professional standards;
- Report any such act, practice, or omission, if appropriate, to the Commission and each appropriate State regulatory authority;
- Begin a formal investigation or take disciplinary action, if appropriate, with respect to any such violation, in accordance with this Act and the rules of the Board.

Conduct Of Inspections

- Inspect and review selected audit and review engagements of the firm performed at various offices and by various associated persons of the firm, as selected by the Board.

¹⁵ Sec104

- Evaluate the sufficiency of the quality control system of the firm, and the manner of the documentation and communication of that system by the firm.
- Perform such other testing of the audit, supervisory, and quality control procedures of the firm as are necessary or appropriate in light of the purpose of the inspection and the responsibilities of the Board.

Record Retention

- ¹⁴The rules of the Board may require the retention by registered public accounting firms for inspection purposes of records whose retention is not otherwise required. No specific time.

Procedures For Review

- The Board shall provide a procedure for the review of and response to a draft inspection report by the registered public accounting firm under inspection.
- The text of any such response, appropriately redacted to protect information reasonably identified by the accounting firm as confidential.

Report

- A written report of the findings of the Board for each inspection transmitted, in appropriate detail, to the Commission and each appropriate State regulatory authority, accompanied by any letter or comments by the Board or the inspector.
- Made available in appropriate detail to the public and except that no portions of the inspection report that deal with criticisms of or potential defects in the quality control systems of the firm under inspection shall be made public if those criticisms or defects are addressed by the firm, to the satisfaction of the Board, not later than 12 months after the date of the inspection report.

Reviewable Matters—A registered public accounting firm may seek review by the Commission, pursuant to such rules as the Commission shall promulgate in

- Disagreement with the assessments contained in any final report.
- Disagrees with the determination of the Board that criticisms or defects identified in an inspection report have not been addressed to the satisfaction of the Board within 12 months

Timing

Review may be sought during the 30-day period following the date of the event giving rise to the review.

¹⁵Investigations And Disciplinary Proceedings

In General.—The Board shall establish, by rule, subject to the requirements of this section, fair procedures for the investigation and disciplining of registered public accounting firms and associated persons of such firms.

¹⁴ Sec 103

¹⁵ Sec105

Investigations

- 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 public accounting firm that may violate any provision of this Act, the rules of the Board, the provisions of the securities laws relating to the preparation and issuance of audit reports and the obligations and liabilities of accountants with respect thereto.
- The ¹⁶PCAOB can conduct inspections and investigations of registered firms and persons associated with them.
- It can require testimony under oath and demand production of audit workpapers/documents.
- If a firm refuses to cooperate, the PCAOB can suspend or bar individuals from the public audit practice.

Disciplinary Proceedings:

- The PCAOB can initiate disciplinary proceedings for violations of securities laws, PCAOB rules, or professional auditing standards.
- Proceedings are subject to due process protections including notice, opportunity for a public hearing, presenting evidence, etc.
- The PCAOB Board can impose sanctions including temporary suspension/permanent revocation of a firm's registration, bar an individual from audit practice, and levy civil money penalties.

Sanctions and Penalties:

- For violations, the PCAOB can impose civil money penalties up to \$100,000 for individuals and \$2 million for firms per violation.
- It can also censure firms/individuals, require accounting firms to take remedial actions.
- Any civil penalties are credited to the PCAOB Accounting Support Fee.

Appeals Process:

- ¹⁷PCAOB disciplinary sanctions are appealable to the SEC.
- The SEC can affirm, enhance, modify, remand or vacate the PCAOB's sanctions.
- SEC orders are then appealable to U.S. Courts of Appeals.

Other Provisions:

- Section 105 allows information sharing on investigations between the PCAOB and other regulatory agencies.
- It exempts documents/testimony from PCAOB proceedings from disclosure under FOIA.
- It also provides legal protections and document retention requirements related to investigations.

¹⁶ PCAOB - Public Company Accounting Oversight Board

¹⁷ PCAOB - Public Company Accounting Oversight Board

Valco Trading empowers the Public Company Accounting Oversight Board to inspect, investigate and bring disciplinary proceedings against accounting firms to enforce compliance with securities laws and auditing rules/standards.

¹⁸Foreign Public Accounting Firms

Applicability To Certain Foreign Firms

Any foreign public accounting firm that prepares or furnishes an audit report with respect to any issuer, shall be subject to this Act and the rules of the Board and the Commission issued under this Act, in the same manner and to the same extent as a public accounting firm that is organized and operates under the laws of the United States or any State other than exceptions.

Board Authority - The Board may, by rule, determine that a foreign public accounting firm that does not issue audit reports nonetheless plays such a substantial role in the preparation and furnishing of such reports for particular issuers, that it is necessary or appropriate.

Production Of Audit Workpapers

- foreign public accounting firm issues an opinion or otherwise performs material services upon which a registered public accounting firm relies in issuing all or part of any audit report or any opinion contained in an audit report, that foreign public accounting firm shall be deemed to have consented
 - To produce its audit workpapers or
 - Any request for production of such workpapers.

- A registered public accounting firm that relies upon the opinion of a foreign public accounting firm shall be deemed
 - to have consented to supplying the audit workpapers of that foreign public accounting firm in response to a request for production by the Board or the Commission.
 - to have secured the agreement of that foreign public accounting firm to such production, as a condition of its reliance on the opinion of that foreign public accounting firm.

Exemption Authority

The Commission, and the Board, subject to the approval of the Commission, determines necessary or appropriate in the public interest or for the protection of investors, either unconditionally or upon specified terms and conditions, to exempt any foreign public accounting firm, or any class of such firms.

¹⁸ Sec 106

¹⁹Commission Oversight Of The Board.

General Oversight Responsibility.—The Commission shall have oversight and enforcement authority over the Board, as outlined in this Act. ²⁰

Rules Of The Board.—The Boards have to abide by a few rules to comply to the existing laws and rules of the respective countries and states.

- "Proposed rule" refers to any new rule or modification of an existing rule by the Board. No Board rule becomes effective without prior Commission approval, except for initial or transitional standards²¹.
- The Commission will approve a rule if it is consistent with this Act, securities laws, or is necessary or appropriate for the public interest or investor protection.
- Valco Trading aligns with the governance of the Board's proposed rules as if the Board were a "registered securities association," with specific language adjustments to align with the Sarbanes-Oxley Act of 2002²².

Commission Review Of Disciplinary Action Taken By The Board.—The Board must promptly file notice with the Commission regarding any final sanctions imposed on registered public accounting firms or associated persons, in a prescribed form.

Review Of Sanctions— Valco Trading has a team of experts which govern Commission review of Board disciplinary sanctions, treating the Board as a self-regulatory organization, with certain adaptations for this Act²³.

Commission Modification Authority.—The Commission can modify Board sanctions if they are deemed unnecessary, excessive, oppressive, inadequate, or otherwise inappropriate after due consideration of public interest and investor protection.

Censure Of The Board; Other Sanctions—

Rescission Of Board Authority.—The Commission may, by rule, relieve the Board of enforcing compliance with any provision of this Act or securities laws when consistent with public interest and investor protection.

¹⁹ Sec 107

²⁰ The provisions of section 17(a)(1) and section 17(b)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78q(a)(1) and 78q(b)(1)) shall apply to the Board

²¹ section 103(a)(3)(B) of Securities Exchange Act, 1934

²² Sections 19(b)(1)-(3) of the Securities Exchange Act of 1934 (15 U.S.C. 78s(b))

²³ Sections 19(d)(2) and 19(e)(1) of the Securities Exchange Act of 1934 (15 U.S.C. 78s(d)(2) and (e)(1))

Censure Of The Board; Limitations.—The Commission can censure or limit Board activities if it finds, after a hearing, that the Board has violated or is unable to comply with any provision of this Act, the rules of the Board, or the securities laws, or has failed to enforce compliance without reasonable justification.

Censure Of Board Members; Removal From Office.—The Commission can remove or censure any Board member for willfully violating provisions of this Act, abusing authority, or failing to enforce compliance, following notice and a hearing.

²⁴**Accounting Standards**

Recognition of Accounting Standards - In carrying out its authority under subsection (a) and under section 13(b) of the Securities Exchange Act of 1934, the Commission may recognize, as 'generally accepted' for purposes of the securities laws, any accounting principles established by a standard setting body that

- Organised as a private entity.
- has, for administrative and operational purposes, a board of trustees serving in the public interest, the majority of whom are not, concurrent with their service on such board, and have not been during the 2-year period preceding such service associated persons of any registered public accounting firm.
- is funded as provided Act.²⁵
- has adopted procedures to ensure prompt consideration, by majority vote of its members, of changes to accounting principles necessary to reflect emerging accounting issues and changing business practices.
- In adopting accounting principles, changes in the business environment, the extent to which international convergence on high quality accounting standards is necessary for public interest and for the protection of investors.
- that the Commission determines has the capacity to assist the Commission in fulfilling the requirements because at a minimum, the standard setting body is capable of improving the accuracy and effectiveness of financial reporting and the protection of investors under the securities laws.

Annual Report

- A standard setting body shall submit an annual report to the Commission and the public, containing audited financial statements of that standard setting body.
- The Commission shall promulgate such rules and regulations shall as it deems necessary or appropriate in the public interest or for the protection of investors.
- Nothing in this Act, including this section and the amendment made by this section, shall be construed to impair or limit the authority of the Commission to establish accounting principles or standards for purposes of enforcement of the securities laws.

²⁴ Sec 108

²⁵ Sec 109 of SOX Act 2002

²⁶Funding

Accounting Support Fee:

- The Public Company Accounting Oversight Board must allocate the accounting support fee among public companies based on their relative market capitalization.
- The fee amount is intended to recover the costs of processing and reviewing audit reports.

Fee Calculation: Budgeting

- The Public Company Accounting Oversight Board calculates the total accounting support fee by first estimating its expenditures for the next year.
- It then accounts for funds remaining from the previous year's operation.
- The net amount required is the total to be recovered through the accounting support fees.

Fee Categories:

- Public companies are divided into four categories for fee assessment: Equity Issuers, Investment Company Issuers, Broker-Dealers, and Other Issuers.
- Within each category, fees are allocated based on the issuer's relative market capitalization or other appropriate metric.

Approval Process:

- The Public Company Accounting Oversight Board must submit its annual budget and proposed accounting support fees to the SEC for approval.
- The SEC reviews to ensure the fees are reasonable and consistent with Section 109 requirements.

Fee Collection:

- After SEC approval, the Public Company Accounting Oversight Board invoices issuers for their allocated portion of the fees.
- Issuers must pay the fees within 30 days of the invoice date.
- The Public Company Accounting Oversight Board can adjust fees in subsequent years if over/under collected.

Oversight:

- Section 109 grants the SEC oversight authority over the Public Company Accounting Oversight Board's budget and fee levels.

²⁶ Sec 109

- The SEC can adjust or rescind the Public Company Accounting Oversight Board's fees if they violate the "reasonable" requirement.

TITLE II—AUDITOR INDEPENDENCE

Title II of the Sarbanes-Oxley Act (SOX) aims to strengthen auditor independence from public companies they audit, in order to enhance audit quality and restore investor confidence after numerous corporate accounting scandals. It consists of Sections 201 through 209 and imposes significant restrictions and requirements related to non-audit services, auditor rotation, and other conflicts of interest.

²⁷Services Outside the Scope of Practice of Auditors

This section explicitly prohibits registered public accounting firms from providing certain non-audit services to their public audit clients. The restricted services include:

- Bookkeeping or other services related to accounting records or financial statements
- Financial information systems design and implementation
- Appraisal or valuation services
- Actuarial services
- Internal audit outsourcing services
- Management functions or human resources services
- Broker or dealer, investment adviser, or investment banking services
- Legal services and expert services unrelated to the audit

The intent is to avoid potential conflicts of interest that could arise if an auditor is involved in auditing their own work on non-audit services. There are some exceptions for specific tax services and certain other areas.

Pre-Approval Requirements

²⁸To provide a check on auditor independence, Section 202 requires that all auditing services and any permissible non-audit services must be pre-approved by the public company's audit committee. The audit committee may delegate this authority to one or more members, but the decisions must be presented to the full committee.

Audit Partner Rotation

²⁹This section aims to prevent auditors from becoming too familiarly with management over long tenures. It mandates that the lead audit partner and the audit partner responsible for reviewing the audit must rotate off the public company's audit after performing those roles for 5 consecutive years. They cannot return to the audit until another 5 years have elapsed.

²⁷ Sec 201

²⁸ Sec 202

²⁹ Sec 203

Auditor Reports to Audit Committees

³⁰To enhance communications and transparency, Section 204 requires the auditor to report certain items to the public company's audit committee, including:

1. Critical accounting policies and practices used
2. Alternative treatments of financial information discussed with management
3. Other material written communications between the auditor and management

This allows the audit committee to monitor the audit process and discussions between the auditor and management.

Conforming Amendments

³¹This section amends other securities laws and regulations to conform to the audit partner rotation requirements outlined in Section 203.

Conflicts of Interest

³²To prevent potential conflicts of interest, Section 206 prohibits a registered public accounting firm from performing audit services for a public company if the company's CEO, controller, CFO, chief accounting officer or equivalent was employed by the audit firm and participated in the company's audit during the preceding 1-year period.

Study of Mandatory Rotation of Audit Firms

³³While SOX stopped short of mandating regular rotation of audit firms for public companies, Section 207 requires the Government Accountability Office (GAO) to conduct a study and review potential effects of requiring public companies to rotate audit firms periodically. The results were to inform the Comptroller General's recommendation on whether more auditor rotation rules are needed.

Commission Authority

³⁴This section authorizes the Securities and Exchange Commission (SEC) to exempt certain public companies or audit firms from the prohibited non-audit services restrictions in Section 201, on a case-by-case basis. However, the SEC cannot absolve the pre-approval requirement for non-audit services under Section 202.

³⁰ Sec 204

³¹ Sec 205

³² Sec 206

³³ Sec 207

³⁴ Sec 208

Considerations by Appropriate State Regulatory Authorities

³⁵Section 209 requires state audit regulators and licensing authorities to make efforts to progress auditor independence rules and their enforcement at the state level, taking into consideration the provisions outlined in Title II of SOX.

Overall Impacts of Title II The auditor independence provisions under Title II of SOX aimed to minimise potential conflicts of interest and impairments to auditor independence and objectivity. Some key impacts included:

- Prohibiting accounting firms from providing a wide array of lucrative non-audit/consulting services to their audit clients, which could create self-review threats.
- Establishing a mandatory "cooling off" period before auditors can be hired into senior financial roles at audit clients, preventing the "revolving door."
- Requiring disclosure of auditor-management communications on accounting policies, treatments, and other matters to audit committees.
- Mandating regular rotation of lead audit partners to prevent excessive familiarity between auditors and clients over long tenures.
- Directing the GAO to study the potential costs/benefits of also requiring mandatory rotation of entire audit firms on a periodic basis.

The restricted non-audit services rules in particular upended the business model of major accounting firms that generated substantial revenue streams from consulting and advisory services beyond core auditing. This prompted some major accounting firms to divest or spin off certain consulting practices.

Valco Trading strongly safeguards and warranted to ensure auditors maintain independence and objectivity, after high-profile audit failures contributed to major corporate scandals that eroded public confidence. Valco Trading aimed to restructure auditor incentives and oversight to prioritize audit quality over potential consulting revenues and client interests.

TITLE III—CORPORATE RESPONSIBILITY

Public company audit committees

³⁶Requirement for Audit Committees

- Independence: Each member of the audit committee must be a member of the board of directors of the issuer, and must otherwise be independent. Independence is defined as:
 - Not accepting any consulting, advisory, or other compensatory fee from the issuer other than for board service.
 - Not being an affiliated person of the issuer or any subsidiary thereof.

³⁵ Sec 209

³⁶ Sec 301

³⁵ Sec 209

³⁶ Sec 301

Responsibilities of the Audit Committee

- **Appointment and Oversight of Auditors:** The audit committee is directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by the issuer (including the resolution of disagreements between management and the auditor regarding financial reporting).
- **Complaints Procedures:** The audit committee must establish procedures for:
 - The receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters.
 - The confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.
- **Authority to Engage Advisors:** The audit committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties.
- **Funding:** The issuer must provide appropriate funding for the payment of compensation to any registered public accounting firm employed by the issuer for the purpose of rendering or issuing an audit report, to any advisors employed by the audit committee, and for ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties.

Enhanced Disclosure Requirements

- **Financial Expertise:** Companies are required to disclose whether at least one member of the audit committee is a financial expert, and if not, why not. A financial expert is defined as someone who has:
 - An understanding of generally accepted accounting principles (GAAP) and financial statements.
 - Experience in preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those that can reasonably be expected to be raised by the issuer's financial statements, or experience actively supervising one or more persons engaged in such activities.
 - An understanding of internal controls and procedures for financial reporting.
 - An understanding of audit committee functions.

Implementation and Compliance Strategies

To comply with Section 301, public companies should consider the following steps:

1. **Audit Committee Charter:** Develop a comprehensive audit committee charter that outlines the committee's roles, responsibilities, and authority as per SOX requirements.
2. **Member Selection:** Ensure that audit committee members are independent and that at least one member qualifies as a financial expert. Regularly review the independence of committee members.
3. **Establish Procedures:** Implement procedures for the receipt and treatment of complaints regarding accounting, internal controls, and auditing matters, including mechanisms for confidential, anonymous submission by employees.
4. **Engage Advisors:** The audit committee should have the authority to hire independent legal, accounting, and other advisors to assist in fulfilling its duties.

5. **Funding:** Ensure that the audit committee has the necessary resources and funding to perform its responsibilities effectively, including compensation for auditors and advisors.
6. **Training and Education:** Provide ongoing training for audit committee members to keep them informed of developments in accounting, auditing, and regulatory requirements.

³⁷**Corporate Responsibility for Financial Reports**

- **Certification of Financial Reports:** Requires the CEO and CFO to personally certify the accuracy of quarterly and annual financial statements. They must confirm that:
 - They have reviewed the report.
 - Based on their knowledge, the report does not contain any untrue statement of a material fact or omit a material fact necessary to make the statements made not misleading.
 - The financial statements and other financial information in the report fairly present in all material respects the financial condition and results of operations.
 - They are responsible for establishing and maintaining disclosure controls and procedures, and they have evaluated the effectiveness of these controls within 90 days prior to the report.

³⁸**Improper Influence on Conduct of Audits**

- **Prohibitions:** Prohibits officers and directors of an issuer from taking any action to fraudulently influence, coerce, manipulate, or mislead the auditor engaged in auditing the financial statements of the issuer for the purpose of rendering such financial statements materially misleading.

³⁹**Forfeiture of Certain Bonuses and Profits**

- **Clawback Provision:** If a company is required to prepare an accounting restatement due to material non-compliance with financial reporting requirements as a result of misconduct, the CEO and CFO must reimburse the company for:
 - Any bonus or other incentive-based or equity-based compensation received within the 12-month period following the first public issuance or filing of the non-compliant financial report.
 - Any profits realized from the sale of securities of the company during that same 12-month period.

⁴⁰**Officer and Director Bars and Penalties**

³⁷ Sec 302

³⁸ Sec 303

³⁹ Sec 304

⁴⁰ Sec 305

- **Authority of the SEC:** Empowers the Securities and Exchange Commission (SEC) to issue an order to bar or suspend any person from serving as an officer or director of a public company if that person has violated certain securities laws or has committed fraud.

⁴¹**Insider Trades During Pension Fund Blackout Periods**

- **Restrictions on Insider Trading:** Prohibits directors and executive officers from trading company stock during blackout periods when employees are unable to trade in their 401(k) plans. Companies must notify directors and executive officers about the blackout periods.

⁴²**Rules of Professional Responsibility for Attorneys**

- **Attorney Conduct:** Requires attorneys representing public companies before the SEC to report evidence of material violations of securities laws or breaches of fiduciary duty by the company or any of its officers, directors, employees, or agents, to the chief legal counsel or the CEO. If the counsel or CEO does not appropriately respond, the attorney must report the evidence to the audit committee, another committee of independent directors, or the board of directors.

⁴³**Fair Funds for Investors**

- **Investor Compensation:** Provides that civil penalties imposed by the SEC in enforcement actions may be added to a disgorgement fund for the benefit of the victims of securities law violations.
- Enforcement actions by the Commission over the five years preceding the date of the enactment of this Act that have included proceedings to obtain civil penalties or disgorgements to identify areas where such proceedings may be utilised to efficiently, effectively, and fairly provide restitution for injured investors;
- Other methods to more efficiently, effectively, and fairly provide restitution to injured investors, including methods to improve the collection rates for civil penalties.
- Reporting shall be done within within 180 days.

Implementation and Compliance Strategies

1. **Internal Controls and Procedures:** Establish and maintain robust internal controls over financial reporting to ensure compliance with SOX requirements.
2. **Regular Training:** Conduct training programs for senior executives, directors, and relevant employees to ensure they understand their responsibilities under SOX.
3. **Audit and Compliance Committees:** Strengthen the role of audit and compliance committees in overseeing financial reporting and disclosures.
4. **Whistleblower Protection:** Implement policies to encourage reporting of fraudulent activities and protect whistleblowers from retaliation.

⁴¹ Sec 306

⁴² Sec 307

⁴³ Sec 308

5. **Documentation:** Maintain comprehensive documentation of financial transactions, controls, and compliance efforts to facilitate audits and regulatory reviews.

TITLE IV—ENHANCED FINANCIAL DISCLOSURES

It is called "Enhanced Financial Disclosures." It includes several sections that aim to improve the accuracy and reliability of corporate financial disclosures. Here are the key details of Title IV:

- **⁴⁴Disclosures in Periodic Reports**
 - Financial reports must reflect all material correcting adjustments identified by external auditors.
 - Companies must disclose all material off-balance sheet transactions and relationships that may impact their financial status.
 - Pro forma financial information included in any report must be presented in a manner that is not misleading and must be reconciled with the company's financial condition under Generally Accepted Accounting Principles (GAAP).
- **⁴⁵Enhanced Conflict of Interest Provisions**
 - It is unlawful for any issuer (public company) to extend or maintain credit, arrange for the extension of credit, or renew an extension of credit in the form of a personal loan to or for any director or executive officer of that issuer
 - Prohibits personal loans from the company to executives and directors, with some exceptions.
 - a) Any extension of credit existing before the enactment of the Sarbanes-Oxley Act, as long as there is no material modification to the terms of the loan or any renewal of the loan after the enactment.
 - b) Any extension of credit made or maintained by an insured depository institution (such as a bank) if the loan is subject to the insider lending restrictions of the Federal Reserve Act and is made on market terms.
 - c) Any loan made or maintained by a registered broker or dealer to its employees that:
 - Is made to buy, trade, or carry securities other than the broker-dealer's securities.
 - Is permitted under the rules or regulations of the Board of Governors of the Federal Reserve System.
 - Is made as per market terms.

Enforcement and Penalties

- Violations of this provision can result in civil and criminal penalties.

⁴⁴ Sec 401 of Sarbanes-Oxley Act

⁴⁵ Sec 402 of Sarbanes-Oxley Act

- The SEC has the authority to enforce this provision and may bring civil actions against violators.
- Criminal penalties for willful violations can include fines and/or imprisonment.

Valco Trading prevents from using personal loans to unduly influence or reward executives and directors, as such loans may create conflicts of interest and compromise the independence and objectivity of these individuals in their decision-making roles. By prohibiting most personal loans, Valco Trading aims to promote better corporate governance and protect shareholders' interests.

- ⁴⁶**Disclosures of Transactions Involving Management and Principal Stockholders**

Accelerated Reporting of Insider Transactions:

- Directors, officers, and principal stockholders (beneficial owners of more than 10% of any class of equity securities) must report any changes in their ownership of the company's securities within two business days following the execution of the transaction.
- This requirement applies to any acquisition, disposition, or other change in beneficial ownership of the company's equity securities, including stock options and other derivative securities.

Filing of Reports:

- The insider transactions must be reported to the Securities and Exchange Commission (SEC) using Form 4 (Statement of Changes in Beneficial Ownership).
- The reports must be filed electronically, and the SEC must make the information publicly available on its website by the end of the business day following the filing.

Exceptions:

Certain transactions are exempt from the accelerated reporting requirement, such as:

- a) Transactions pursuant to a contract, instruction, or written plan for the purchase or sale of securities that satisfies certain conditions.
- b) Transactions that do not exceed \$10,000 in market value, subject to certain limitations.
- c) Transactions related to employee benefit plans, such as the acquisition of securities through the exercise of stock options or the vesting of restricted stock awards.

Liability for Violations:

⁴⁶ Sec 403

- Insiders who fail to comply with the reporting requirements may be subject to civil and criminal penalties.
- The SEC has the authority to bring enforcement actions against violators, seeking monetary penalties, injunctive relief, or other sanctions.

Public Disclosure:

- Companies must disclose the information reported on Form 4 in their periodic reports (Annual reports on Form 10-K and quarterly reports on Form 10-Q) and in their proxy statements.

⁴⁷Management Assessment of Internal Controls

1. Management's Responsibility for Internal Controls:

- Management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting.
- The internal control structure should provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

2. Annual Internal Control Report:

- Management must include an internal control report in the company's annual report (e.g., Form 10-K).
- The report must: a) State management's responsibility for establishing and maintaining adequate internal control over financial reporting. b) Identify the framework used by management to evaluate the effectiveness of ICFR (e.g., the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework). c) Provide an assessment of the effectiveness of ICFR as of the end of the company's most recent fiscal year. d) Disclose any material weaknesses in ICFR identified by management.

3. Attestation by External Auditor:

- The company's external auditor must attest to and report on management's assessment of ICFR.
- The auditor's attestation report must be included in the company's annual report and must express an opinion on the effectiveness of the company's ICFR.

4. Remediation of Material Weaknesses:

- If a material weakness in ICFR is identified, management must develop and implement a remediation plan to address the weakness.
- The company must disclose the existence of the material weakness, its impact on financial reporting, and the steps being taken to remediate it.

5. Exemptions:

- Certain companies, such as smaller reporting companies and emerging growth companies, may be exempt from the external auditor attestation requirement, but they must still provide management's assessment of ICFR.

6. Penalties for Non-Compliance:

⁴⁷ Sec 405 of Sarbanes & Oxley Act



- Companies and their officers may face civil and criminal penalties for failure to comply with the internal control reporting requirements or for making false or misleading statements in their reports.

Valco Trading does assessment of internal controls provision is to ensure that companies have reliable financial reporting processes and that management takes responsibility for the effectiveness of those processes. By requiring management to assess and report on ICFR, and by having external auditors attest to management's assessment, Valco Trading aims to improve the accuracy and reliability of financial disclosures, prevent fraud, and protect investors.

- **⁴⁸Exemptions.**

Nothing in section 401, 402, or 404, the amendments made by those sections, or the rules of the Commission under those sections shall apply to any investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a– 8)

- **⁴⁹Code of Ethics for Senior Financial Officers:**

Adoption of Code of Ethics:

- Public companies must disclose whether they have adopted a written code of ethics that applies to their principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

Content of the Code of Ethics:

- The code of ethics should promote:
 - Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
 - Full, fair, accurate, timely, and understandable disclosure in periodic reports and other public communications.
 - Compliance with applicable governmental laws, rules, and regulations.
 - Prompt internal reporting of violations of the code to appropriate persons or authorities.
 - Accountability for adherence to the code.

Disclosure Requirements:

- Companies must disclose in their annual reports (e.g., Form 10-K) whether they have adopted a code of ethics for senior financial officers.
- If a company has not adopted a code of ethics, it must explain the reasons why.
- The company must also promptly disclose any amendments to or waivers from the code of ethics granted to senior financial officers.

⁴⁸ Sec 405

⁴⁹ Sec 406

Filing and Public Availability:

- The code of ethics, or any amendments or waivers, must be filed with the Securities and Exchange Commission (SEC) as an exhibit to the company's annual report or posted on the company's website.
- If posted on the website, the company must disclose in its annual report that the code is available on the website and provide the website address.

Enforcement and Penalties:

- Violations of the code of ethics provision may result in civil or criminal penalties.
- The SEC has the authority to enforce this provision and may bring enforcement actions against companies or individuals who fail to comply.

- **⁵⁰Disclosure of Audit Committee Financial Expert:**

Companies must disclose whether their audit committee includes at least one "financial expert" and, if not, explain why.

- **Disclosure Requirement:**

- Public companies must disclose in their annual reports whether their audit committee includes at least one member who is a "financial expert."
- If the audit committee does not include a financial expert, the company must explain why.

- **Definition of Financial Expert:**

- The Securities and Exchange Commission (SEC) is responsible for defining the term "financial expert" for the purposes of this disclosure requirement.
- The SEC has defined a financial expert as a person who has the following attributes:
 - i. An understanding of generally accepted accounting principles (GAAP) and financial statements.
 - ii. The ability to assess the general application of GAAP in connection with the accounting for estimates, accruals, and reserves.
 - iii. Experience preparing, auditing, analysing, or evaluating financial statements of a complexity comparable to the company's financial statements, or experience actively supervising others engaged in such activities.
 - iv. An understanding of internal controls over financial reporting.
 - v. An understanding of audit committee functions.

- **Basis for Determination:**

- The company's board of directors must determine whether an audit committee member qualifies as a financial expert.

⁵⁰ Sec 407

- In making this determination, the board should consider the individual's: a) Education and professional experience as a principal financial officer, principal accounting officer, controller, public accountant, or auditor. b) Experience overseeing or assessing the performance of companies or public accountants in preparing, auditing, or evaluating financial statements. c) Other relevant experience.
- **Liability of Financial Expert:**
 - The designation of an audit committee member as a financial expert does not impose any additional duties, obligations, or liabilities on that member.
 - The financial expert is not subject to a higher degree of individual liability than other audit committee members.
- **Penalties for Non-Compliance:**
 - Companies that fail to comply with the disclosure requirement may face civil penalties or other enforcement actions..

Valco Trading ensures the audit committee has a financial expert, who ensures that audit committees have the necessary expertise to effectively oversee the financial reporting process and the work of the external auditors. By requiring Valco Trading to disclose the presence or absence of a financial expert on their audit committees, Valco Trading aims to enhance the quality and reliability of financial disclosures, promote better corporate governance, and protect investors' interests.

- **⁵¹Enhanced Review of Periodic Disclosures by Issuers:**

Requires the SEC to review disclosures made by companies, particularly those that have issued material restatements of financial results or experienced significant stock price volatility.

Regular and Systematic Review

The Commission shall review disclosures made by issuers reporting and which have a class of ⁵²securities listed on a national securities exchange or traded on an automated quotation facility of a national securities association, on a regular and systematic basis for the protection of investors. Such review shall include a review of an issuer's financial statement.

Review Criteria

For purposes of scheduling the reviews required by subsection

(a), the Commission shall consider, among other factors

- Issuers that have issued material restatements of financial results;
- Issuers that experience significant volatility in their stock price as compared to other issuers;
- Issuers with the largest market capitalization;
- Emerging companies with disparities in price to earning ratios;
- Issuers whose operations significantly affect any material sector of the economy;

⁵¹ Sec 408 of Sarbanes & Oxley Act

⁵² Sec13(a) of the Securities Exchange Act of 1934

- Any other factors that the Commission may consider relevant.

Minimum Period of Review

In no event shall an issuer required to file reports be ⁵³reviewed under this section less frequently than once every 3 years.

- ⁵⁴**Real Time Issuer Disclosures**
 - Companies must disclose to the public on a rapid and current basis any additional information concerning material changes in their financial condition or operations, in plain English, which may include trend and qualitative information and graphic presentations.

Valco Trading aims to enhance transparency, improve the quality of financial reporting, and strengthen internal controls to protect investors and promote market stability.

TITLE V—ANALYST CONFLICTS OF INTEREST

⁵⁵**Treatment of securities analysts by registered securities associations and national securities exchanges.**

Purpose:

- To regulate conflicts of interest and promote objective, unbiased research by securities analysts employed by broker-dealers.
- To increase transparency into analysts' relationships with investment banks and public companies they cover.

Potential Requirements:

1. Disclosure Requirements
 - Analysts must disclose any actual or potential conflicts of interest related to a company they are recommending.
 - This may include disclosing compensation received from the company, ownership of the company's securities, investment banking relationships, etc.
2. Supervisory Review
 - Broker-dealers must establish supervisory procedures to review analysts' reports and public appearances for compliance with rules.
 - This may involve review by a designated supervisory analyst or committee.
3. Quiet Periods
 - Restrictions on analysts issuing research reports around the time of an investment banking deal like an IPO to prevent quid pro quo arrangements.
4. Personal Trading Restrictions

⁵³ Sec 13(a) or 15(d) of the Securities Exchange Act of 1934

⁵⁴ Sec 409 of Sarbanes & Oxley Act

⁵⁵ Sec. 501 of Sarbanes & Oxley Act

- Limits on when analysts can personally trade securities of companies they cover.
5. Separation of Research & Banking
 - Requiring informational barriers between research analysts and investment banking operations.
 - Prohibiting investment bankers from supervising or controlling analyst compensation.
 6. Certifications
 - Analysts must certify that their views accurately reflect their personal views and disclose whether they received compensation related to the recommendation.

Valco Trading's goals are to insulate analysts from conflicts, ensure transparency, and promote objective, fact-based research rather than biased promotional materials for banking clients.

TITLE VI—COMMISSION RESOURCES AND AUTHORITY

⁵⁶Authorization of appropriations

- It establishes or continues the operation of a federal program or agency for a specific period of time.
- Authorising legislation specifies the purpose for which funds may be used and sets a maximum amount of money that can be appropriated over the authorization period.
- The authorization of appropriations is separate from the actual appropriation of funds. Appropriations legislation must follow to provide funding from the Treasury.
- Many authorizations are temporary, requiring periodic reauthorization. Others are permanent, such as for entitlement programs like Medicare.
- The House and Senate legislative committees oversee the authorization process for programs under their jurisdiction.
- If a program's authorization expires before reauthorization, it may operate through legislative extensions or appropriations may lapse, requiring the program to shut down.

⁵⁷Appearance and practice before the Commission

Authority to Censure - The Commission may censure any person, or deny, temporarily or permanently, to any person the privilege of appearing or practising before the Commission in any way, if that person is found by the Commission, after notice and opportunity for hearing in the matter

- not to possess the requisite qualifications to represent others;
- to be lacking in character or integrity, or to have engaged in unethical or improper professional conduct; or

⁵⁶ Sec 601 of Sarbanes & Oxley Act

⁵⁷ Sec 602 of sarbanes & Oxley Act

- to have willfully violated, or willfully aided and abetted the violation of, any provision of the securities laws or the rules and regulations issued thereunder.

⁵⁸**Federal court authority to impose penny stock bars**

The Sarbanes-Oxley Act provides federal courts with the authority to prohibit persons from participating in an offering of penny stock. Penny stocks are generally defined as low-priced, speculative securities of very small companies.

- Court Authority: This section empowers federal courts to bar individuals from participating in any offering of penny stock. This includes acting as an officer, director, employee, partner, or in any other professional capacity.
- Grounds for Imposing Bar: The court can impose this bar if it finds that the person has violated securities laws or regulations related to penny stocks or been convicted.
- Scope of Bar: The penny stock bar can be permanent or temporary, and can apply to all penny stock offerings or be limited to specific offerings or issuers.
- SEC Recommendation: While courts have the authority to impose the bar, it is often done upon the recommendation of the Securities and Exchange Commission (SEC) as part of enforcement actions.

This aims to protect investors from unscrupulous practices and fraud associated with penny stocks, which are considered highly speculative and risky investments. By barring individuals with a history of violations or criminal convictions, it aims to enhance investor confidence and integrity in the penny stock market.

Valco Trading serves as a deterrent against misconduct and provides with a powerful tool to exclude bad actors from participating in the penny stock market.

⁵⁹**Qualifications Of Associated Persons Of Brokers And Dealers**

This section of the Sarbanes-Oxley Act of 2002 deals with the qualifications of associated persons of brokers and dealers.

Brokers And Dealers

- Bars such person from association with an entity regulated by such commission, authority, agency, or officer, or from engaging in the business of securities, insurance, banking, savings association activities, or credit union activities; or
- Constitutes a final order based on violations of any laws or regulations that prohibit fraudulent, manipulative, or deceptive conduct.

Registration Requirements:

- It requires that associated persons of brokers and dealers must meet specific qualifications and registration requirements established by the Securities and Exchange Commission (SEC) in order to engage in securities transactions.

⁵⁸ Sec 603

⁵⁹ Sec 604

- Qualifications Criteria: The SEC is authorized to prescribe qualifications standards for associated persons, which may include: a. Minimum competency and proficiency standards b. Examinations to test knowledge and understanding of securities laws and regulations c. Background checks and fingerprinting for criminal history d. Educational and experience requirements e. Ongoing training and continuing education requirements
- Disciplinary Actions: It empowers the SEC to censure, place limitations on the activities or functions of, suspend for a period not exceeding 12 months, or bar any associated person from being associated with a broker or dealer if the person violates securities laws or regulations or fails to meet the prescribed qualifications.

TITLE VII—STUDIES AND REPORTS

⁶⁰Gao Study And Report Regarding Consolidation Of Public Accounting Firms

The Comptroller General of the United States shall conduct a study to identify :-

- the factors that have led to the consolidation of public accounting firms since 1989 and the consequent reduction in the number of firms capable of providing audit services to large national and multi-national business organizations that are subject to the securities laws.
- the present and future impact of the condition described in subparagraph (A) on capital formation and securities markets, both domestic and international.
- solutions to any problems identified under subparagraph (B), including ways to increase competition and the number of firms capable of providing audit services to large national and multinational business organizations that are subject to the securities laws.

The Comptroller General of the United States shall conduct a study of the problems, if any, faced by business organizations that have resulted from limited competition among public accounting firms, including

- Higher costs;
- Lower quality of services;
- Impairment of auditor independence;
- Lack of choice

Consultation - In planning and conducting the study under this section, the Comptroller General shall consult with

- the Commission;
- the regulatory agencies that perform functions similar to the Commission within the other member countries of the Group of Seven Industrialized Nations;
- the Department of Justice; and

⁶⁰ Sec 701 of Sarbanes & Oxley Act

- any other public or private sector organization that the Comptroller General considers appropriate.

Report Required - Not later than 1 year after the date of enactment of this Act, the Comptroller General shall submit a report on the results of the study required by this section to the Committee on Banking, Housing, and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives.

⁶¹Commission Study And Report Regarding Credit Rating Agencies

The Commission shall conduct a study of the role and function of credit rating agencies in the operation of the securities market.

Areas Of Consideration-

- This subsection shall examine the role of credit rating agencies in the evaluation of issuers of securities.
- The importance of that role to investors and the functioning of the securities markets;
- Any impediments to the accurate appraisal by credit rating agencies of the financial resources and risks of issuers of securities;
- Any barriers to entry into the business of acting as a credit rating agency, and any measures needed to remove such barriers;
- Any measures which may be required to improve the dissemination of information concerning such resources and risks when credit rating agencies announce credit ratings; and
- Any conflicts of interest in the operation of credit rating agencies and measures to prevent such conflicts or ameliorate the consequences of such conflicts.

⁶²Study And Report On Violators And Violations

The Act includes several provisions related to the investigation, enforcement, and reporting of violations of securities laws and regulations, including:

Study of Enforcement Actions:

- This section required the Securities and Exchange Commission (SEC) to conduct a study and review of its enforcement actions over the preceding five years, including violations related to securities law and accounting fraud.
- The study aimed to identify areas of potential deficiency in the SEC's enforcement practices and provide recommendations for improvement.

Fair Funds for Investors:

- This section established the Fair Fund program, which allows the SEC to distribute civil penalties collected from violators of securities laws to harmed investors.
- The SEC is required to maintain a publicly available report on the Fair Fund program, including details on the collections and distributions from these funds.

⁶¹ Sec 702 of Sarbanes & Oxley Act

⁶² Sec 703 of Sarbanes & Oxley Act

Annual Reports:

- Both the SEC and the Public Company Accounting Oversight Board (PCAOB) are required to submit annual reports to Congress.
- These reports typically include information on enforcement actions, investigations, and disciplinary proceedings related to violations of securities laws and auditing standards.

⁶³Study Of Enforcement Actions

The Commission shall review and analyze all enforcement actions by the Commission involving violations of reporting requirements imposed under the securities laws, and restatements of financial statements, over the 5-year period preceding the date of enactment of this Act, to identify areas of reporting that are most susceptible to fraud, inappropriate manipulation, or inappropriate earnings management, such as revenue recognition and the accounting treatment of off-balance sheet special purpose entities.

⁶⁴Study Of Investment Banks

The Sarbanes-Oxley Act of 2002 was a major piece of legislation passed in response to corporate scandals like Enron and WorldCom. It aimed to improve corporate governance, financial reporting, and auditing practices for public companies

- In the collapse of the Enron Corporation, including with respect to the design and implementation of derivatives transactions, transactions involving special purpose vehicles, and other financial arrangements that may have had the effect of altering the company's reported financial statements in ways that obscured the true financial picture of the company;
- In the failure of Global Crossing, including with respect to transactions involving swaps of fiber optic cable capacity, in the designing transactions that may have had the effect of altering the company's reported financial statements in ways that obscured the true financial picture of the company; and
- Generally, in creating and marketing transactions which may have been designed solely to enable companies to manipulate revenue streams, obtain loans, or move liabilities off balance sheets without altering the economic and business risks faced by the companies or any other mechanism to obscure a company's financial picture.

TITLE VIII—CORPORATE AND CRIMINAL FRAUD ACCOUNTABILITY

⁶⁵Corporate and Criminal Fraud Accountability Act of 2002

⁶⁶Criminal Penalties For Altering Documents

⁶³ Sec 704

⁶⁴ Sec 705

⁶⁵ Sec 801

⁶⁶ Sec 802

The Sarbanes-Oxley Act deals with criminal penalties for altering documents with the intent to impede, obstruct or influence a federal investigation

" Whoever knowingly alters, destroys, mutilates, conceals, covers up, falsifies, or makes a false entry in any record, document, or tangible object with the intent to impede, obstruct, or influence the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States...shall be fined under this title, imprisoned not more than 20 years, or both."

- It applies to the alteration or destruction of any documents/records related to a federal investigation.
- The intent must be to impede, obstruct or influence the investigation.
- It covers investigations by any federal department or agency, not just the SEC.
- The penalties are severe - up to 20 years imprisonment and/or fines.
- It was intended to prevent companies from engaging in document shredding or doctoring of records when under investigation.

Valco Trading aims to preserve evidence and records integrity during federal probes and dis-encourage altering documents with the intent to impede, obstruct or influence a federal investigation

⁶⁷Debts Nondischargeable If Incurred In Violation Of Securities Fraud Laws.

It Specifically addresses debts that are non-dischargeable if incurred as a result of violating securities fraud laws. Debts incurred in violation of securities fraud laws are non-dischargeable in bankruptcy proceedings for certain crimes.

- It makes debts arising from violation of federal or state securities laws non-dischargeable in bankruptcy proceedings.
- This applies to the broad definition of "securities laws" in the Securities Exchange Act, covering anti-fraud provisions.
- The intent was to prevent perpetrators of securities fraud from being able to walk away from monetary penalties/judgments by declaring bankruptcy.
- It deters fraud by ensuring ill-gotten gains or fines/penalties cannot be discharged through bankruptcy filings.
- Both individual and corporate bankruptcy filers are subject to this non-dischargeability provision for securities fraud debts.

⁶⁸Statute Of Limitations For Securities Fraud.

A private right of action that involves a claim of fraud, deceit, manipulation, or contrivance in contravention of a regulatory requirement concerning the securities laws, may be brought not later than the earlier of:

- (1) 5 years after the date of such violation; or

⁶⁷ Sec 803

⁶⁸ Sec 804

(2) 2 years after the discovery of the facts constituting the violation, but no more than 5 years after such violation."

- It lengthened the statute of limitations for private securities fraud lawsuits to the earlier of 5 years from the violation, or 2 years from discovery of the violation (but capped at 5 years total).
- Previously, the limitations period was shorter at 1 year from discovery, up to 3 years maximum.
- This gave investors more time to file suits against companies for securities fraud/misrepresentations.
- It recognized that complex fraud may not be detected immediately, so allowed more leeway.
- The intent was to prevent fraudsters from being able to escape liability just because the violations went undiscovered initially.

⁶⁹Review Of Federal Sentencing Guidelines For Obstruction Of Justice And Extensive Criminal Fraud

The United States Sentencing Commission to review and potentially revise the federal sentencing guidelines regarding obstruction of justice and extensive criminal fraud.

⁷⁰In accordance with this section, the United States Sentencing Commission shall review and amend, as appropriate, the Federal Sentencing Guidelines and related policy statements to ensure that:

- The statutory penalties for violations of the securities laws, including periods of incarceration, are sufficient to deter and punish such violations; and
- The guidelines and policy statements appropriately account for the potential and actual harm to the public and other victims."
- It instructed the U.S. Sentencing Commission to review the sentencing guidelines related to securities violations.
- The goal was to ensure penalties, including incarceration periods, were severe enough to deter and punish securities fraud.
- It asked the Commission to account for both potential and actual harm caused by fraud to the public and victims.
- This section recognized that the previous penalties may have been too lenient to discourage corporate fraud effectively.
- It gave the Sentencing Commission flexibility to increase guidelines for fraud, especially involving greater harm.

Valco Trading aimed to toughen for white-collar crimes like obstruction of justice and extensive corporate fraud. Valco Trading overall intent to crack down harder on such misconduct.

⁶⁹ Sec 805

⁷⁰ Section 994 of title 28, United States Code

⁷¹Protection For Employees Of Publicly Traded Companies Who Provide Evidence Of Fraud

No company may discharge, demote, suspend, threaten, harass, or in any other manner discriminate against an employee in the terms and conditions of employment because of any lawful act done by the employee -

- To provide information, cause information to be provided, or otherwise assist in an investigation regarding any conduct which the employee reasonably believes constitutes a violation, any ⁷²rule or regulation of the Securities and Exchange Commission, or any provision of Federal law relating to fraud against shareholders, when the information or assistance is provided to or the investigation is conducted by regulatory or law enforcement agency.
- It prohibits publicly traded companies from retaliating against employees who report suspected fraud or assist in fraud investigations.
- Protections cover employees reporting mail fraud, wire fraud, bank fraud, securities fraud, or violations of SEC rules or shareholder fraud laws.
- Reporting must be to regulatory agencies like the SEC or law enforcement.
- Retaliation prohibited includes firing, demoting, harassing, or discriminating against the whistleblower.
- It was intended to encourage and protect corporate whistleblowers coming forward about fraudulent activities.

This "whistleblower protection" provision aimed to remove disincentives and barriers that could deter employees from reporting fraud externally by shielding them from employer retaliation. Protecting whistleblowers was seen as critical for detecting and addressing corporate misconduct.

⁷³Criminal penalties for defrauding shareholders of publicly traded companies

Whoever knowingly executes, or attempts to execute, a scheme or artifice

(1) to defraud any person in connection with any security of an issuer with a class of securities registered; or

(2) to obtain, by means of false or fraudulent pretenses, representations, or promises, any money or property in connection with the purchase or sale of any such security; shall be fined under this title, or imprisoned not more than 25 years, or both."

- It establishes criminal penalties for defrauding shareholders of publicly traded companies listed on exchanges or required to file reports with the SEC.
- The fraud can relate to securities of those public companies or in connection with trading of those securities.

⁷¹ Sec 806 of Sarbanes & Oxley Act

⁷² Section 1341 (mail fraud), 1343 (wire fraud), 1344 (bank fraud), or 1348 (securities fraud)

⁷³ Sec 807 of Sarbanes & Oxleys Act

- It covers schemes using false pretenses, representations or promises to wrongfully obtain money or property.
- The maximum criminal penalty is a fine and/or up to 25 years imprisonment.
- It aimed to deter and punish corporate fraud that impacts public securities markets and shareholders.

TITLE IX—WHITE-COLLAR CRIME PENALTY ENHANCEMENTS

⁷⁴Attempts and conspiracies to commit criminal fraud offenses

Any person who attempts or conspires to commit any offense under this chapter shall be subject to the same penalties as those prescribed for the offense, the commission of which was the object of the attempt or conspiracy

Section 808 of the Sarbanes-Oxley Act addresses attempts and conspiracies to commit criminal fraud offenses related to securities.

- It establishes that merely attempting or conspiring to commit securities/corporate fraud offenses is a crime, subject to the same penalties as if the fraud was actually completed.
- This includes attempts or conspiracies related to mail fraud, wire fraud, securities fraud, or any of the other criminal fraud provisions under the Sarbanes-Oxley Act.
- The intent was to allow prosecution of individuals even if the planned fraudulent scheme was not fully carried out, as long as there was an overt attempt or agreement to commit the fraud.
- It aims to deter and punish those who actively take steps towards executing corporate/securities fraud schemes, even if not fully successful.
- Penalties can include fines and up to 25 years imprisonment, the same as the maximum for the underlying completed fraud offense.

⁷⁵Criminal penalties for mail and wire fraud

The Sarbanes-Oxley Act establishes criminal penalties specifically for mail and wire fraud related to defrauding shareholders of publicly traded companies.

Whoever knowingly executes, or attempts to execute, a scheme or artifice

- to defraud any person in connection with any security of an issuer
- to obtain, by means of false or fraudulent pretenses, representations, or promises, any money or property in connection with the purchase or sale of any such security.

⁷⁴ Sec 901 & 902

⁷⁵ Sec 903 of Sarbanes & Oxley Act

shall be fined under this title, or imprisoned not more than 25 years, or both.

- It applies to fraudulent schemes involving trading of securities of public companies.
- Using mail, wires, emails or other communications in furthering the scheme would constitute mail/wire fraud.
- The penalties are severe up to 25 years imprisonment and/or fines. It covers both completed fraud as well as uncompleted attempts.

⁷⁶Criminal penalties for violations of the Employee Retirement Income Security Act of 1974.

- (1) ⁷⁷by striking “\$5,000” and inserting “\$100,000”;
- (2) by striking “one year” and inserting “10 years”; and
- (3) by striking “\$100,000” and inserting “\$500,000”.

⁷⁸Amendment to sentencing guidelines relating to certain white-collar offenses.

Section 905 of the Sarbanes-Oxley Act of 2002 (SOX) directed the United States Sentencing Commission to review and amend the federal sentencing guidelines relating to certain white-collar offenses. The main provisions of Section 905 are as follows:

- Review and Amendment of Sentencing Guidelines: Instructed the Sentencing Commission to review and amend the federal sentencing guidelines applicable to fraud and related offenses involving violations of securities and accounting laws, as well as ⁷⁹violations.
- Consideration of Certain Factors: In amending the guidelines, the Sentencing Commission was required to consider:
 - a. The statutory penalties applicable to these offenses.
 - b. The potential for deterring such offenses through increased penalties.
 - c. The seriousness of the offenses, including the harm caused to victims and the public.
 - d. The role of corporate fraud and accounting failures in contributing to the erosion of public confidence in the financial markets.
- Emergency Authority: Section 905 granted the Sentencing Commission emergency authority to promulgate temporary, amended sentencing guidelines without going through the usual lengthy process for amending guidelines.

Valco Trading ensured that the sentencing guidelines adequately reflected the seriousness of white-collar crimes, particularly those involving corporate fraud and accounting irregularities, which were seen as contributing factors to the corporate scandals that led to the enactment of SOX.

⁷⁶ Sec 904

⁷⁷ Section 501 of the Employee Retirement Income Security Act of 1974 (29 U.S.C. 1131) amended

⁷⁸ Sec 905 of Sarbanes & Oxley Act

⁷⁹ Employee Retirement Income Security Act (ERISA)

⁸⁰Corporate responsibility for financial reports

This section addresses the personal responsibility of corporate officers for the accuracy and completeness of financial reports filed with the Securities and Exchange Commission (SEC).

- Certification of Periodic Financial Reports: It requires that the principal executive officer(s) and principal financial officer(s) of a public company certify in writing that the company's periodic reports (annual and quarterly) fully comply with the ⁸¹requirements and that the information contained in the reports fairly presents, in all material respects, the financial condition and results of operations of the company.
 - Content of Certification: The certification must state that:
 - The certifying officer has reviewed the report.
 - Based on the officer's knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.
 - Based on the officer's knowledge, the financial statements and other financial information included in the report fairly present, in all material respects, the financial condition and results of operations of the company as of, and for, the periods presented in the report.
- Criminal Penalties: Section 906 establishes criminal penalties for certifications that violate the requirements of the section. Specifically, it states that anyone who certifies a report knowing that the periodic report accompanying the statement does not comport with all the requirements set forth in the section shall be fined not more than \$1,000,000 or imprisoned not more than 10 years, or both.

Valco Trading hold corporate officers personally accountable for the accuracy and completeness of financial reports, aiming to deter and prevent corporate accounting fraud and misrepresentation of financial information.

TITLE X—CORPORATE TAX RETURNS

- It is the sense of the Senate that the Federal income tax return of a corporation should be signed by the chief executive officer of such corporation.
- The chief executive officer (CEO) of a corporation should be required to personally sign the corporation's federal income tax return.

⁸⁰ Sec 906

⁸¹ Section 13(a) or 15(d) of the Securities Exchange Act of 1934

TITLE XI—CORPORATE FRAUD AND ACCOUNTABILITY

⁸²Tampering with a record or otherwise impeding an official proceeding

This section created a new criminal offense for the following

- Alters, destroys, mutilates, or conceals a record, document, or other object, or attempts to do so, with the intent to impair the object's integrity or availability for use in an official proceeding.
- Otherwise obstructs, influences, or impedes any official proceeding, or attempts to do so, shall be fined under this title or imprisoned not more than 20 years, or both

⁸³Temporary freeze authority for the Securities and Exchange Commission.

- It allowed the SEC, during the course of a lawful investigation involving possible violations of federal securities laws, to petition a federal court for a temporary order freezing extraordinary payments by the company under investigation.
- The extraordinary payments covered include those to any director, officer, partner, controlling person, agent, or employee of the company during the investigation.
- The purpose was to prevent the transfer or dissipation of funds or other assets that could ultimately be subject to disgorgement or other remedial relief by the SEC in an enforcement action.
- For the court to issue the temporary freeze order, it had to find that the order was necessary to preserve the status quo or prevent dissipation of assets.
- The order could prohibit any person from withdrawing, transferring, removing, dissipating, or disposing of any funds, assets or other property.
- The order would be valid for 45 days initially, but could be extended by the court as necessary for the investigation or any related prosecution for 45 or 60 day periods.
- This freeze authority was intended to strengthen the SEC's ability to preserve funds for the ultimate benefit of victims of securities law violations during investigations.

⁸⁴Amendment to the Federal Sentencing Guidelines

⁸² Sec 1101 & 1102

⁸³ Sec 1103

⁸⁴ Sec 1104

This section directed the U.S. Sentencing Commission to review and amend the federal sentencing guidelines to ensure that they are sufficient to deter and punish securities violations and accounting fraud.

- Promptly review the sentencing guidelines applicable to securities and accounting fraud and related offenses.
- Expeditiously consider the promulgation of new sentencing guidelines or amendments to existing sentencing guidelines to provide an enhancement for officers or directors of publicly traded corporations who commit fraud and related offenses.
- Greater penalties for organizations that obstruct justice or don't have effective compliance programs.
- Requirements for compliance standards, oversight, training, and periodic review.
- Considerations of whether compliance personnel had sufficient authority and resources.
- Expectations for organizations to periodically assess their compliance risk areas.

The goal was to incentivize organizations to proactively maintain rigorous compliance, efforts to prevent and detect criminal conduct. Failure to have an effective ethics and compliance program became a potential basis for harsher sentences.

⁸⁵Authority of the Commission to prohibit persons from serving as officers or directors

The authority to prohibit individuals from serving as officers or directors of public companies if:

- The person has violated securities laws and regulations prohibiting fraudulent, deceptive or manipulative conduct.
- The person's conduct demonstrates "unfitness" to serve as an officer or director.

This provision was intended to allow the SEC to bar certain individuals from executive roles at public companies if their past conduct showed they could not be trusted in those positions.

- It applies to "any person" who was an officer or director at a public company within the previous 5 years.
- It requires notice and an opportunity for a hearing before prohibiting service.
- Violations can result in permanent or temporary bars from being an officer/director.
- It gave the SEC stronger authority to discipline executive misconduct at public companies beyond just monetary penalties.

⁸⁵ Sec 1105

⁸⁶Increased criminal penalties under Securities Exchange Act of 1934

This section significantly raised the potential ⁸⁷criminal penalties for knowingly violating securities laws or certifying misleading financial reports. Specifically:

1. It increased the maximum prison sentence to 20 years for securities fraud and certain other violations.
2. It raised the maximum criminal fines to \$5 million for individuals and \$25 million for non-natural persons (like corporations).
3. It established a maximum 20-year prison term and \$25 million fine for willfully certifying a misleading or fraudulent financial report.

⁸⁸Retaliation against informants.

Whoever knowingly, with the intent to retaliate, takes any action harmful to any person, including interference with the lawful employment or livelihood of any person, for providing to a law enforcement officer any truthful information relating to the commission or possible commission of any Federal offense, shall be fined under this title or imprisoned not more than 10 years, or both.'

⁸⁶ Sec 1106 of Sarbanes & Oxley Act

⁸⁷ Securities Exchange Act of 1934

⁸⁸ Sec 1107 of Sarbanes & Oxley Act

