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## GAO: Sarbanes-Oxley Costs Are High

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WASHINGTON — A new report by congressional auditors finds that the costs for public companies to comply with a 2002 anti-fraud law have been higher than anticipated, providing ammunition to business interests that have been complaining about the law's impact.

At the same time, though, the report by the Government Accountability Office released

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Monday raises concerns about the recommendations of an official advisory committee for exemptions from the law for smaller public companies. The scope of the proposed exemptions could damage the investor protection afforded by the Sarbanes-Oxley law that arose from the 2002 corporate scandals, the report says.

The two Republican senators who requested the GAO report, Olympia Snowe of Maine and Mike Enzi of Wyoming, said it showed that regulators must find ways to lessen the law's impact on smaller companies.

At issue is a key part of the law: the requirement for companies to file reports on the strength of their internal financial controls and fix any problems. The advisory committee, appointed by the Securities and Exchange Commission, formally proposed last month that the agency exempt smaller companies from the requirement — a move that would affect about 70 percent of all public companies in the United States.

"This report leads me to caution the Securities and Exchange Commission against creating complex and cumbersome regulations that have the potential to place small businesses in a paralyzing state of regulatory limbo and damage their ability to create jobs," said Snowe, who heads the Senate's Small Business Committee. "Instead, I urge the SEC to adopt clear, unambiguous and practical small-business rules."

SEC Chairman Christopher Cox has said the goal should be to make the internal-controls requirement work so that it can apply to companies of all sizes.

Cynthia Glassman, who sits on the five-member commission with Cox, said in a speech Monday that regulators should allow companies to take a broad approach to the requirement, focusing on the parts of their business that present the biggest potential financial risk.

"It appears that companies need more practical guidance as to how to conduct their assessments," Glassman told a gathering of company finance chiefs in Tampa, Fla. "... Any practical guidance should be premised on a risk-based approach."

A few lawmakers, meanwhile, are drafting legislation that would exempt companies with a market value of less than \$700 million from complying with the requirement.

The GAO study, begun in November 2004, found:

\_ For companies of all sizes, the costs of complying with the internal-controls requirement have been higher than anticipated and that they have disproportionately affected smaller companies.

\_ A significant increase in public companies going private to avoid having to comply with the requirement. The number of U.S. companies going private jumped from 143 in 2001 \_ the year before Sarbanes-Oxley was enacted \_ to 245 in 2004, according to the report.

"By any measure ..., the companies that went private over the 2004-2005 period represent some of the smallest companies in the public arena," the report said.

\_ A marked rise in audit fees paid by companies as a result of the law.

A number of industry-funded or consultants' studies in recent years have had similar findings.

The latest of them, a report by the nonpartisan think tank Rand Corp. released Monday, affirmed the notion that smaller companies were disproportionately affected by Sarbanes-Oxley, but said that effect only lasted for the first year or so.

"The GAO report ratifies the growing chorus of economists, investors, legal experts and political leaders that have expressed concern that Sarbanes-Oxley has produced costly, unintended consequences that disproportionately affect smaller businesses, innovation and entrepreneurship," O'Brien Murray, executive director of the conservative Free Enterprise Fund, said in a statement.

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Government Accountability Office: <http://www.gao.gov>