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The Goals and Promise of the Sarbanes-Oxley Act

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Abstract

The primary goal of the Sarbanes-Oxley Act was to fix auditing of U.S. public companies, consistent with its full, official name: the Public Company Accounting Reform and Investor Protection Act of 2002. By consensus, auditing had been working poorly, and increasingly so. The most important, and most promising, part of Sarbanes-Oxley was the creation of a unique, quasi-public institution to oversee and regulate auditing, the Public Company Accounting Oversight Board (PCAOB). In controversial section 404, the law also created new disclosure-based incentives for

firms to spend money on internal controls, above increases that would have occurred in the wake of the scandals of the early 2000s. In exchange for these higher costs, Sarbanes-Oxley promises greater transparency, and greater accountability. Public companies will pay a lower cost of capital, and the economy will benefit because of a better allocation of resources and faster growth. Sarbanes-Oxley

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remains a work in progress – section 404 in particular was implemented too aggressively - but reformers should push for continued improvements in its implementation, by PCAOB, rather than for repeal of the legislation itself.

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