Association of Government Accountants (AGA) – Austin Chapter
Luncheon # 1: Dodd-Frank and the JOBS Act of 2012
September 20, 2012

I. Course Overview

Date and Time	September 20, 2012 11:30 AM - 12:50 PM
Location	Scholz Garten, 1607 San Jacinto Blvd, Austin, TX 78701
Topic:	Dodd-Frank and the Jobs Act: Developments in SEC and Financial Market Regulation
Instructor:	Dr. Urton Anderson, CIA, CCSA, CGAP, CFSA, CCEP
CPE Credit:	1 hour

II. Course Objectives

A) Understand the regularoty environment with various changes coming under the Dodd-Frank and JOBS Act of 2012.
B) Develop an awareness of some of the new strategies being implemented in the Dodd-Frank and JOBS Act of 2012.

III. A brief history of securities regulation

A) The Securities Act of 1933

1) Congress enacted The Securities Act of 1933 to prevent the stock market crash of 1929 from happening again. This regulation makes it mandatory for companies to provide complete and accurate information about their securities to potential investors. The purpose of this regulation is to improve investor confidence in the securities purchased, the primary stock market, and in companies.

2) The major scandal that led to The Securities Act of 1933 was a Ponzi scheme implemented by Ivar Kreuger, a Swedish engineer and financier that cofounded Kreuger & Toll Byggnards. Ivar was known as the “Match King” as his company’s match production controlled between 66-75% of the worldwide match market. Kreuger didn’t employ accountants, often made up financial reports, and committed suicide when Kreuger & Toll financial activities were exposed.

B) The Securities Exchange Act of 1934

1) Congress enacted The Securities Exchange Act of 1934 to regulate secondary trading markets (stocks, bonds and debentures that are traded through brokers and dealers), as well as establish the Securities and Exchange Commission (SEC) to enforce federal security laws.

2) The SEC regulates the physical exchange of securities (for example, the New York Stock Exchange and the American Stock Exchange), the National Association of Securities Dealers Automated Quotation System (NASDAQ), and Self-regulatory organizations (SRO). The SEC requires companies with more than 500 shareholders and $10 million in assets to file forms regularly, which are made public via EDGAR.

C) Other Regulations during 1939 and 1940

1) The Trust Indenture Act of 1939 applies to debt and bonds.
2) The Investment Company Act of 1940 applies to mutual and investment funds.
3) The Investment Advisers Act of 1940 applies to financial advisory firms.

D) Sarbanes-Oxley Act of 2002

1) Congress enacted The Sarbanes Oxley-Act of 2002 (SOX) as a response to corporate accounting scandals, which include Enron and WorldCom. The purpose of this act was for top management to certify the accuracy of financial information provided, increase the severity for fraudulent financial activity, increase the independence of outside auditors, and increase the board of director's oversight role.

2) There are eleven titles in the Act, which are sumamrized below:

- The Public Company Accounting Oversight Board (PCAOB) was established to provide oversight over companies that provide auditing services.
- Established standards for external auditor independence.
- Top management are required to take responsibility for completeness and accuracy of corporate financial reports.
- Financial discloure requirements have been enhanced.
- Established a code of conduct for securities analysts.
- The SEC has the authority to censure or bar securities analysts from practice.
- The Comptroller General and SEC perform studies on the industry.
- Provides whistleblower protection as well as the penalties for manipulating, destroying, and altering financial data.
- Increases penalties for white collar crimes.
- The CEO is required to sign the corporate tax return.
- Increases penalties for corporate fraud.

IV. **Dodd-Frank Wall Street Reform and Consumer Protection Act**

A) There are 16 titles and 243 rules in the Dodd-Frank Act. The Financial Stability Oversight Council was established to enhance the integrity, efficiency, competitiveness and stability of the financial markets; promote market discipline; and maintain investor confidence.

B) The Voelker Rule is establised in Title VI. This rule puts back the Glass-Steagall Act that originally separated commerical and investment banking.

C) Title IX Subtitle E requires that executive compentation be voted on by shareholders and disclosed along with the median annual compensation of employees.

D) Title XV requires the disclosure of conflict minerals in or near the Democratic Republic of the Congo. 5,000 of the 12,000 SEC registered companies are affected by this disclosure. The cost to implement this policy will be $4-8 billion the first year and between $300-400 million in the following years. Affected companies are concerned about the disclosure being reported on the 10K, as inaccuracies on the 10K form are subject to civil litigation. Their platform against this regulation is that the costs of implementation far exceeds the benefits. In addition, external auditors are required to use GAO auditing standards (Yellow Book) in their reviews.

V. **JOBS Act of 2012**

A) Congress enacted Jumpstart Our Business Startups (JOBS) in April 2012, and its purpose is to regulate small business funding. This Act establishes Emerging Growth Company (EGC) as a new type of business entity for businesses with less than $1 billion in revenue. EGC's are exempt from SOX 404, auditor rotations, and is allowed confidential submission of IPO information.

The online crowdfunding websites and its members will be heavily affected by this Act. For small businesses that receive less than $100,000 in funding are required to report this income on tax returns, businesses that receive between $100,000 and $500,000 are required to prepare a compilation document, and businesses that receive more than $500,000 are required to prepare a financial statement.

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