

THE IMPACT OF SARBANES-OXLEY ON THE FASB AND ACCOUNTING REGULATION

Devon Baranek, Rider University

ABSTRACT

This paper examines the impact of Sarbanes-Oxley on the Financial Accounting Standards Board and the accounting standard setting regulatory process. Proxies are used to examine attributes of the FASB, including its workload and speed and attributes of the accounting regulatory process, including the level of constituent participation and the cost of guidance, to determine if and how they are affected by the SOX legislation.

This analysis finds that, consistent with other areas of the profession, the accounting regulators and the regulatory process were both substantially influenced by the passage of SOX. I find evidence of a post-SOX increase in the total workload of the FASB, along with a decrease in the speed of standard setting. Counter to the public outcry against the profession, I do not find evidence of an increase in constituent interest or participation in the years after the legislation. Evidence on the cost of accounting guidance is mixed. The costs associated with running the FASB increased, but more guidance was issued, translating to a decrease in the cost per regulatory document. Evidence from this study enhances our understanding of how the legislation influenced the FASB and the accounting standard setting process and provides some guidelines for future research.

Keyword: Sarbanes-Oxley Act, Financial Accounting Standards Board, Accounting Regulation, Accounting Standard Setting.

INTRODUCTION

The Sarbanes-Oxley Act (SOX) was signed into law on July 30, 2002, at the time it was labelled “the most far reaching reform of American business since the time of Franklin D. Roosevelt (Bumiller, 2002). SOX were enacted following a period of high-profile corporate scandals that exposed the corrupt accounting practices of some of the largest companies in the United States. These scandals and related regulatory failures contributed to a loss of public faith in the accounting profession and the agencies responsible for regulating it.

The passage of SOX was intended to restore investor confidence and trust in the accounting profession and to improve previously flawed areas of the regulatory process. Some of the major changes included the creation of the Public Company Accounting Oversight Board (PCAOB), Section 404 increases to internal controls, whistle-blower preventions, increases in personal liability for CEOs and CFOs and revisions for the accounting treatment of certain complicated financial entities (Special Purpose Entities) and accounting methods (Mark-to-Market) (SOX, 2002). Previous literature has assessed the economic consequences of the legislation and documented how SOX influenced the behaviors of publicly traded companies, CEOs, Boards of Directors, public accounting firms, users and other constituent groups (Li, Pincus and Rego 2006, Zhang 2005, Berger, Li and Wong 2005, Coates and Srinivasan 2014, etc.) To date, no study has examined the impact of SOX on the accounting regulators or the regulatory process itself. This paper contributes to the literature on the changes that have been

realized via SOX by focusing on the Financial Accounting Standards Board (hereafter FASB or the “Board”) and the accounting standard setting process.

Given the extent of the legislative overhaul, it is important to understand how SOX affected all parts of the regulatory process, including the work of the accounting regulators and the regulatory process itself. Improving the accounting and financial regulatory systems continues to be an on-going topic in the US, as evidenced by more current legislation, including the Dodd-Frank Act and the Financial Choice Act (currently in-process). The Dodd-Frank Act, passed in 2010, focuses on financial services and banking, but also includes requirements to improve transparency in financial reporting. Most recently, the Choice Act, passed in the House of Representatives in June 2017, proposes changes to the existing regulatory structure of the financial system, aiming to improve accountability and transparency. In addition to the creation of new regulatory agencies, changes to existing accounting regulators are proposed, including the Securities and Exchange Commission and the Public Company Accounting Oversight Board. Although it is still in the legislative process (and unlikely to be passed in its current state) the Choice Act underscores the desire for more regulatory reform in the areas of accounting, financial reporting and corporate governance.

By analysing the effects of SOX from a previously unexamined perspective, this paper serves to augment the existing regulatory literature as well as enhance our understanding of some of the lesser-studied aspects of the legislation. The analysis provides guidelines and raises additional questions for future research in this area.

OVERVIEW OF SOX AND FASB

Sarbanes-Oxley Act

SOX were devised to rehabilitate investor confidence after the highly publicized financial frauds of the early 2000s. These scandals exposed weaknesses in the existing corporate governance systems and self-regulatory mechanisms of the accounting profession and created doubts about the ability of these systems to communicate reliable financial information to the market. As a result of these shortcomings, a number of major objectives were included in the SOX legislation to create and enforce a system of checks and balances, including strengthening the independence of auditors, improving the quality and transparency of financial statements and corporate disclosures, enhancing corporate governance, improving the objectivity of research and strengthening the enforcement of the federal securities laws (SOX, 2002).

In response to these objectives, major changes occurred in the accounting profession. Some of these include creating new accountability standards for auditors, establishing the Public Company Accounting Oversight Board, increases in governance, oversight and compliance procedures, as well as increases in penalties for noncompliance and more prominent roles for CPAs on corporate boards and audit committees.

Financial Accounting Standards Board

In addition to the changes applied to accounting practitioners, the SOX legislation initiated changes in the accounting regulatory process, particularly for the standard setting body, the FASB. The FASB is tasked with establishing accounting standards through “...a comprehensive and independent process that encourages broad participation, objectively

considers all stakeholder views and is subject to oversight by the Foundation's Board of Trustees" (FASB, 2017).

These standards are crucial to the overall economy; they serve as a reference point for organizations generating financial statements and provide guidance on consistency and transparency in their application to various economic events. Better accounting standards lead to enhanced financial reporting. Ultimately, the FASB affects investor confidence and public trust through its various reporting requirements for the capital market.

As the independent, private-sector, non-profit organization tasked with setting accounting standards, the FASB is not obligated to include the public, but the Board encourages constituent participation with invitations to comment, discussion memoranda, public hearings, open meetings and other open operating procedures. For example, the Board recently issued an invitation to comment on in order to solicit feedback for potential financial accounting and reporting topics to add to the FASB agenda (FASB, 2016).

After the large and public embarrassments of the early 2000s (particularly Enron and Worldcom), the former Chairman of the FASB testified before Congress to defend the FASB and review its action following these economic failures. Herz testified that the Board had undertaken a number of changes to increase transparency in the financial reporting process and restore investor confidence. Some of these changes included operational modifications to improve the efficiency and timeliness of standard setting, the creation of the User Advisory Council to improve communication with the investment community and addressing the financial reporting issues previously abused (Subcommittee, 2003).

HYPOTHESES

In the years preceding SOX, there were considerable macroeconomic changes occurring in the US, including a downturn in the stock market, increases in corporate frauds and advances in shareholder activism (Lahart, 2002; Labaton, 2002; and Hershey 2002). The passage of SOX was part of a comprehensive change in corporate governance, financial reporting and the accounting profession. As a crucial part of the accounting regulatory process, the FASB was not exempt from the effects of this change. Therefore, I predict that various attributes of the FASB and the standard setting process were likely to be impacted by SOX. I summarize my predictions in Table 1 and include a brief discussion below.

FASB Workload

SOX charges public companies with greater financial reporting responsibilities, particularly in the areas of internal control and corporate governance. Additionally, management is tasked with exercising a greater amount of judgment (and incurring a greater amount of personal risk) in determining the appropriate methods and procedures addressing the likelihood and magnitude of financial misstatements. The increased reporting responsibilities likely increased the demand for accounting regulatory guidance following the passage of SOX, effectively increasing the workload for the FASB.

On the other hand, SOX was a fairly unpopular and controversial piece of corporate legislation with expensive implications. The accounting profession has a long history of self-regulation and SOX is in direct conflict of that. It's possible that FASB constituents were feeling a sense of regulatory "fatigue" from the initial outlays associated with compliance of the many provisions. Preparers and auditors, in particular, faced significant changes and increased

responsibilities from the legislation. In this case, it's possible that constituents would want to limit or reduce any additional accounting guidance in the years following SOX, decreasing the workload for the FASB. Overall, I anticipate an increase in the workload of the FASB in the post-SOX period.

Attribute	Predicted Effect of SOX:	Empirical Proxies	Predicted Empirical Observations
FASB workload	Increase	Total amount of guidance issued	Increase
FASB speed	Increase	Amount of time from the issuance of an Exposure Draft to a final Standard issuance	Decrease
		Length of guidance	Decrease
Constituent participation	Increase	Amount of public hearings held	Increase
		Amount of comment letters received	Increase
Cost of regulation	?	FASB operating revenue and expenses	?
		Salaries and wages	?
		Cost per document issued	?

FASB Speed

The FASB has long been criticized for being too slow to act on current accounting issues or too slow to issue guidance on controversial topics (SEC, 2002; Mundstock, 2003). If changes from SOX increased the demand for accounting guidance, then the FASB would face pressure to issue GAAP and other associated documents more quickly.

However, the accounting profession suffered a considerable reputational hit after the financial scandals leading up to the passage of SOX. It's possible that in response to the public criticism and bad press, the FASB was more cautious and deliberate in issuing GAAP (for example, increasing the time spent on research, increasing discussions and negotiations, increasing requests for feedback from constituents, etc.), leading to a decrease in the pace of standard setting. Additionally, there is an ample amount of constituent feedback requesting the FASB slow the pace of standard setting, particularly when large amounts of guidance are issued, so that constituents can absorb the changes and allocate their resources effectively. If the Board is responsive to these requests, than a shift in the speed of the FASB would be expected after the initial (mandatory) changes from SOX are implemented. Overall, I predict the speed of the FASB increased in response to the new legislation.

Constituent Participation

The rigorous due process of the FASB during standard setting provides constituents with numerous opportunities for participation, including public Board meetings, the issuance of exposure drafts for proposed standards, solicitations of constituent comments and roundtable discussions (FASB, 2017). Timely participation from knowledgeable and experienced constituents is considered a vital part of the FASB's efforts to create standards that are useful, meaningful and present the best solutions for current accounting and reporting issues. Despite the importance of constituent participation to the FASB, actual participation levels are usually

very low. Tandy and Wilburn (2004) estimate that for the first 100 standards issued by the FASB, only 0.002% of US corporations and 0.06% of public accounting firms submitted a comment letter to the FASB. Recent empirical evidence confirms this lacklustre level of participation has continued in more recent years and even suggests on a relative basis it has declined (Lysak, 2017).

After the demise of Enron, many placed blame on accounting regulators, for creating standards that were limited in scope and full of loopholes, allowing companies to take advantage of Special Purpose Entities (SPEs) and Mark-to-Market accounting. “When the tool to defraud is handed down by a regulator...companies will not only abuse their privileges to the fullest extent, but will feel they are doing so lawfully” (Prashad, 2006). Others were quick to blame public accounting, accusing Arthur Andersen of, among other things “...being in cahoots with company crooks” (Press, 2002). SOX authorized new and increased amounts of oversight for the accounting profession and permanently altered the peer review environment that had previously existed. This was not popular among a profession that has always been well respected and self-regulated.

The idea that oversight and enforcement mechanisms are tied to levels of constituent participation in accounting standard setting is supported by empirical evidence on an international level. Jorissen et al. (2013) find that non-preparers originating from countries with strong ex ante enforcement mechanisms are significantly more present in the public consultation stage of standard setting for the International Accounting Standards Board and that preparers from countries with strong ex post enforcement mechanisms are significantly more present in the public consultation stage. In light of the increased public scrutiny of financial reporting, subpar accounting standards blamed for Enron, defamation to the accounting profession, as well as the more onerous regulatory oversight and enforcement, I anticipate a greater number of constituents were motivated to participate in the standard setting process in the years following the passage of SOX. One caveat to this prediction is the simultaneous implementation of various technologies (the FASB website, email and online comment letter submission, etc.) around the same time SOX was passed. These technological advances enable constituents to more easily stay informed and participate in the standard setting process and likely augment the level of constituent participation, but it is difficult to tease out the effects of technology from my observations.

Cost of Regulation

The FASB is funded primarily by accounting support fees levied on publicly traded companies in the US (based on market capitalization) under Section 109 of SOX. These support fees are used to cover the annual recoverable expenses (roughly equivalent to operating expenses) of the Board and are reviewed by the SEC each year (FAF, 2017). The collection of accounting support fees allowed the FASB to nearly double its operating revenue in the pre- and post-SOX periods. It's possible that with additional resources, economies of scale could be reached and the cost of regulation (on a per document basis) may decrease.

However, it's also likely the seven-man board is limited in its capacity to generate and issue accounting guidance, particularly on complicated and controversial financial reporting issues and faces diminishing returns regardless of the size of the budget or support staff. For these reasons, I make no directional prediction for the effect of SOX on the cost of accounting regulation.

DATA DESCRIPTION

I utilize an extensive hand collected data sample to explore the impact of SOX on the FASB, sourcing Statements of Financial Accounting Standards (SFAS) and Exposure Drafts of standards (available on line in the FASB Reference Library), Financial Accounting Foundation Annual Reports (requested for each year from the FASB) and other resources available on the FASB website. The sample period extends from 1973, the inception of the FASB, to 2008, the final year before the new FASB Accounting Standards Codification began, which overhauled the standard and pronouncement classification system. This period includes 166 SFAS. Since SOX was passed in 2002 and my sample period ends in 2008, I focus on a subsample of six years pre-SOX (1996-2001) and six years post-SOX (2003-2008) to improve comparability. This subsample period includes 38 SFAS.

Table 2 summarizes this sample of standards. Panel A shows the number and percentage of SFAS issued each year over the total sample period, with the pre-SOX and post-SOX subsample in bold. To help illustrate content, the standards are classified by theme in Panel B, using the theme classifications as defined by Wallace (2001) and extended to include more recent years.

VARIABLE MEASUREMENT AND SUMMARY STATISTICS

Since the attributes of the FASB and the standard setting process I am examining can be difficult to identify and/or quantify, I employ the following empirical proxies:

Year		SFAS	Year		SFAS
	n	Percent		n	Percent
1973	1	0.6	1991	2	1.2
1974	2	1.2	1992	5	3.01
1975	9	5.42	1993	4	2.41
1976	2	1.2	1994	2	1.2
1977	6	3.61	1995	5	3.01
1978	5	3.01	1996	3	1.81
1979	9	5.42	1997	4	2.41
1980	10	6.02	1998	3	1.81
1981	9	5.42	1999	3	1.81
1982	18	10.84	2000	3	1.81
1983	7	4.22	2001	4	2.41
1984	4	2.41	2002	4	2.41
1985	6	3.61	2003	3	1.81
1986	3	1.81	2004	4	2.41
1987	6	3.61	2005	1	0.6
1988	4	2.41	2006	5	3.01
1989	3	1.81	2007	2	1.2
1990	2	1.2	2008	3	1.81
		Total		166	100

FASB Speed

To measure the speed of the FASB in standard setting, I inspect the number of days from when the Exposure Draft of a standard is issued to the final standard issuance for the 166 SFAS issued from 1973-2008. Many of the projects tackled by the FASB extend over several years and vary in their level of complexity, so a great deal of time and effort is spent from the time an item is added to the Agenda and extending to the day an Exposure Draft is issued. This period would usually cover when the majority of research, writing and debating around a standard occur. By examining only the period between when an Exposure Draft is issued and a standard is finalized, I'm isolating a unique portion of the standard setting process that is applicable to all standards, which would allow for a comparison of the speed in which the FASB is able to finalize guidance once an agreed-upon draft has already been established. This data is presented for the pre-SOX post-SOX subsample in Table 3 and for all 166 standards in Appendix A.

Theme	Standard	# of SFAS in Theme Category
Revenue Recognition	45, 48, 66, 97	4
Research and Development	2, 7, 44, 68, 86, 142	6
Income Taxes	9, 31, 37, 96, 109	5
EPS and Comprehensive Income	55, 85, 128, 130	4
Cash Flow	95, 104	2
Marketable Securities, Derivatives and Hedging	12, 20, 80, 107, 115, 119, 133, 138, 149, 150, 155, 157, 159, 161	14
Impairment of Long-lived Assets	121, 144	2
Capitalization of Interest	34, 42, 58, 62	4
Leases	13, 17, 22, 23, 26, 27, 28, 29, 91, 98	10
Debt and Securitizations	4, 6, 15, 47, 49, 64, 76, 77, 78, 84, 105, 114, 118, 125, 129, 134, 140, 156	18
Contingencies	5, 11, 38	3
Pensions and Other Compensation	35, 36, 43, 74, 81, 87, 88, 106, 110, 112, 123, 132, 123R, 132R, 148, 158	16
Accounting Changes/Prior Period Adjustments	3,16,56,83, 154	5
Business Combinations	10, 72, 94, 141, 141R, 147, 160	7
Segments and Major	14, 18, 24, 30, 131	5
Customers Foreign Currency	1, 8, 52	3
Changing Prices	33, 39, 40, 41, 46, 54, 70, 82, 89	9
Specialized Practices/Industry Guidance	19, 32, 50, 51, 53, 60, 61, 63, 65, 67, 69, 71, 73, 90, 92, 101, 113, 120, 122, 143, 146, 151, 152, 153, 162, 163	26
Related Party Disclosures	57	1
Not-for-Profits	93, 116, 117, 124, 136	5
Exclusion of Certain Groups from Reporting	21, 25, 79, 102, 126	5
Deferrals	59, 75, 99, 100, 103, 108, 127, 137	8
Rescission/Elimination	111, 135, 139, 145	4
		166

Standard	Days from ED to Issue	Word Count	Paragraphs	Public Hearing	Comment Letters	Issue Date Classification
SFAS 125	245	1,538	19	No	86	Pre-SOX
SFAS 126	244	2,882	21	Yes	112	Pre-SOX
SFAS 127	86	516	6	No	76	Pre-SOX
SFAS 128	30	502	6	No	29	Pre-SOX
SFAS 129	397	4,823	43	No	104	Pre-SOX
SFAS 130	397	697	11	No	104	Pre-SOX
SFAS 131	365	2,793	34	Yes	281	Pre-SOX
SFAS 132	517	4,507	40	No	221	Pre-SOX
SFAS 133	245	2,371	15	No	90	Pre-SOX
SFAS 134	94	4,282	20	No	97	Pre-SOX
SFAS 135	730	14,007	56	Yes	300	Pre-SOX
SFAS 136	183	491	6	No	25	Pre-SOX
SFAS 137	125	3,712	6	No	9	Pre-SOX
SFAS 138	335	2,430	22	No	450	Pre-SOX
SFAS 139	26	408	4	No	77	Pre-SOX
SFAS 140	92	7,441	6	No	82	Pre-SOX
SFAS 141	608	643	8	No	28	Pre-SOX
SFAS 142	458	4,211	25	Yes	40	Pre-SOX
SFAS 143	120	7,572	62	Yes	211	Pre-SOX
SFAS 144	913	9,029	77	Yes	280	Pre-SOX
SFAS 145	120	8,308	61	Yes	211	2002
SFAS 146	486	3,547	28	No	50	2002
SFAS 147	426	6,222	51	Yes	53	2002
SFAS 148	59	2,891	12	No	10	2002
SFAS 132R	730	2,609	21	Yes	53	Post-SOX
SFAS 149	153	1,403	17	No	24	Post-SOX
SFAS 150	61	1,609	5	No	70	Post-SOX
SFAS 123R	335	7,929	40	No	40	Post-SOX
SFAS 151	930	3,383	31	Yes	71	Post-SOX
SFAS 152	336	976	5	No	26	Post-SOX
SFAS 153	669	716	5	No	233	Post-SOX
SFAS 154	366	2,604	7	No	30	Post-SOX
SFAS 155	517	4,161	27	No	66	Post-SOX
SFAS 156	184	2,210	7	No	24	Post-SOX
SFAS 157	212	11,225	12	No	26	Post-SOX
SFAS 158	822	5,686	39	Yes	100	Post-SOX
SFAS 159	184	4,334	22	No	245	Post-SOX
SFAS 141R	396	4,994	30	No	80	Post-SOX
SFAS 160	898	529	6	Yes	49	Post-SOX
SFAS 161	456	4,307	8	No	63	Post-SOX
SFAS 162	1,126	965	8	No	32	Post-SOX
SFAS 163	396	4,067	35	Yes	87	Post-SOX

Summary statistics for FASB speed in standard setting are shown in Table 5. The average number of days from Exposure Draft to final standard issuance for the entire sample period is 257.13 days. For the pre-SOX period 1996-2001, this average is 299.50 days and in the post-

SOX period 2003-2008, this average is much higher, at 505.17 days. The longest period from Exposure Draft to issuance is for SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles”, at 1,126 days and the shortest is for SFAS 137, “Accounting for Derivative Instruments and Hedging Activities” at 26 days.

FASB Workload

To measure the FASB workload, I examine both the total amount and length of guidance issued. “Guidance” includes SFAS, Statements of Financial Accounting Concepts (SFAC), Interpretations of existing literature (FIN), Exposure Drafts (ED), Discussion Memorandums (DM) and Other Documents. To capture the length of guidance, I collect both word and paragraph counts for each SFAS. This data is presented for the pre-SOX post-SOX subsample in Table 3 and for all 166 standards in Appendix A. The length and amount of content being generated by the FASB is only one measure of FASB output. Setting financial reporting standards is a complicated process and these proxies do not capture all of the work completed by the Board, however they do provide some insight about the content and amount of detail included in standards.

Summary statistics in Table 5 show that the FASB has issued as many as 40 pieces of guidance in a single year (in 2008) and as few as 2 (in 1973), with the average around 21. For the entire sample period, the average length of a standard is about 20 paragraphs and contains 2700 words. For the pre-SOX subsample, the average standard is longer, about 26 paragraphs and 3,904 words and for the post-SOX subsample, the standards appear to be similar in the number of paragraphs (26) but a bit wordier (4,669 words).

Constituent Participation

To measure the level of constituent participation, I include the number of public hearings held and number of comment letters received for each SFAS during the standard setting process (Table 3 and Appendix A). Public hearings are held for about one third of the standards issued (57 out of 166). The number of comment letters varies greatly, depending on the content of the standard. One caveat to note when using comment letters to proxy for constituent participation is the use of “form letters”, where participants simply add their name and organization name to a pre-written template and submit letters of identical content. While these constituents may not have participated in the FASB due process exactly as intended, they are still taking the time to complete and submit a letter, therefore their participation is counted.’

Summary statistics in Table 5 show that the average number of letters received for a SFAS over the entire sample period is 233, with some standards receiving ten or less (SFAS 59, SFAS 75, SFAS 135 and SFAS 145). The standard generating the largest number of comment letters is SFAS 123R, which provided guidance on share-based payment to employees.

In the pre-SOX period, it appears that constituent participation may have been dwindling, as the average number of comment letters received per standard during that time was 128, far lower than the overall average of the entire sample period (Table 5). The number of public hearings was consistent with the past years, at about 30% (7 out of 20). Data on how many or which constituents attend FASB public hearings, roundtables and other meetings is not publicly available, so I am unable to determine if the attendance in these meetings varies in the pre- and post-SOX periods.

Table 4
FASB REVENUES, EXPENSES AND COST PER DOCUMENT

Year	Operating Revenue		FASB Salaries and Wages		FASB Total Expenses		Expenses /Revenue	#Docs	Cost per Document
		% Change		% Change		% Change			
1973	3,880,627		1,381,945	-	2,047,112		0.53	2	1,940,314
1974	4,374,844	0.13	1,952,714	0.41	3,095,659	0.51	0.71	18	243,047
1975	5,255,011	0.20	2,165,956	0.11	3,415,437	0.10	0.65	23	228,479
1976	5,464,533	0.04	2,398,037	0.11	3,970,703	0.16	0.73	18	303,585
1977	6,384,448	0.17	2,604,533	0.09	4,218,230	0.06	0.66	25	255,378
1978	6,535,339	0.02	3,438,904	0.32	5,642,380	0.34	0.86	32	204,229
1979	7,036,289	0.08	3,800,757	0.11	6,262,685	0.11	0.89	26	270,627
1980	7,803,431	0.11	4,244,215	0.12	7,210,417	0.15	0.92	34	229,513
1981	8,224,333	0.05	4,612,372	0.09	7,417,163	0.03	0.90	32	257,010
1982	9,519,000	0.16	5,092,000	0.10	8,048,000	0.09	0.85	29	328,241
1983	9,558,000	0.00	5,310,000	0.04	8,448,000	0.05	0.88	23	415,565
1984	9,675,000	0.01	5,543,000	0.04	8,898,000	0.05	0.92	18	537,500
1985	9,845,000	0.02	5,581,000	0.01	8,890,000	0.00	0.90	15	656,333
1986	10,445,000	0.06	6,112,000	0.10	9,845,000	0.11	0.94	13	803,462
1987	11,139,000	0.07	6,804,000	0.11	11,049,000	0.12	0.99	14	795,643
1988	11,788,000	0.06	7,845,000	0.15	13,637,000	0.23	1.16	5	2,357,600
1989	12,111,000	0.03	8,179,000	0.04	13,754,000	0.01	1.14	8	1,513,875
1990	11,953,000	-0.01	8,950,000	0.09	14,325,000	0.04	1.20	8	1,494,125
1991	12,992,000	0.09	8,612,000	-0.04	13,709,000	-0.04	1.06	11	1,181,091
1992	15,105,000	0.16	9,174,000	0.07	14,368,000	0.05	0.95	12	1,258,750
1993	15,536,000	0.03	8,106,000	-0.12	14,701,000	0.02	0.95	8	1,942,000
1994	15,876,000	0.02	8,264,000	0.02	15,255,000	0.04	0.96	13	1,221,231
1995	15,701,000	-0.01	8,454,000	0.02	15,734,000	0.03	1.00	15	1,046,733
1996	15,969,000	0.02	8,267,000	-0.02	15,817,000	0.01	0.99	14	1,140,643
1997	16,042,000	0.00	8,661,000	0.05	16,318,000	0.03	1.02	10	1,604,200
1998	16,932,000	0.06	9,464,000	0.09	17,253,000	0.06	1.02	10	1,693,200
1999	16,786,000	-0.01	8,583,000	-0.09	17,711,000	0.03	1.06	17	987,412
2000	17,113,000	0.02	9,225,000	0.07	18,435,000	0.04	1.08	14	1,222,357
2001	18,345,000	0.07	9,296,000	0.01	19,386,000	0.05	1.06	8	2,293,125
2002	15,815,000	-0.14	9,327,000	0.00	20,015,000	0.03	1.27	8	1,976,875
2003	31,307,000	0.98	10,284,000	0.10	20,528,000	0.03	0.66	19	1,647,737
2004	36,895,000	0.18	12,379,000	0.20	23,680,000	0.15	0.64	19	1,941,842
2005	31,459,000	-0.15	12,942,000	0.05	24,695,000	0.04	0.78	34	925,265
2006	33,086,000	0.05	13,546,000	0.05	25,929,000	0.05	0.78	38	870,684
2007	31,969,000	-0.03	14,264,000	0.05	25,939,000	0.00	0.81	30	1,065,633
2008	34,315,000	0.07	14,299,000	0.00	27,514,000	0.06	0.80	40	857,875

Cost of Regulation

To proxy for the cost of regulation, I examine the FASB operating revenue and expenses per year, as well as the salaries and wages of Board members and compute the total cost per

document as issued by the FASB (Operating revenue/total number of documents issued). Many standards take more than one year to issue, so this measure is imperfect, but it gives some idea of the “bang for the buck” of the FASB. This information is presented in Table 4 (additional financial details are available in Appendix B) and summary statistics are presented in Table 5.

TABLE 5						
SUMMARY STATISTICS						
Panel A: Entire Sample Period, 1973-2008						
Variable	Obs.	Mean	Median	Std. Dev.	Min	Max
daysedissue	166	257.60	201.00	206.69	26.00	1,126.00
totalnumdocs	166	21.10	23.00	9.52	2.00	40.00
numpars	166	20.23	13.50	18.39	3.00	115.00
wrdcnt	166	2,689	1,782	2,730	179	14,034
PubHear	166	0.53	0.00	0.65	0.00	3.00
numedcmtltr	166	232.50	78.50	1,117.21	0.00	14,239.00
oprev	166	13,100,000	9,845,000	8,085,084	3,880,627	36,900,000
fasbsalwage	166	6,629,844	5,581,000	3,156,642	1,381,945	14,300,000
totexpenses	166	11,800,000	8,890,000	7,034,896	2,047,112	31,500,000
costperdoc	166	1,047,533	1,017,073	650,518	204,229	2,357,600
Panel B: Pre-SOX, 1996-2001						
Variable	Obs.	Mean	Median	Std. Dev.	Min	Max
daysedissue	20	299.50	290.00	202.47	26.00	730.00
totalnumdocs	20	11.85	10.00	3.17	8.00	17.00
numpars	20	25.55	21.50	20.25	4.00	62.00
wrdcnt	20	3,904	3,215	3,471	408	14,007
PubHear	20	1.25	1.00	0.97	0.00	3.00
numedcmtltr	20	127.65	86.00	115.48	9.00	450.00
oprev	20	16,900,000	16,900,000	860,693	16,000,000	18,300,000
fasbsalwage	20	8,922,250	8,943,000	436,526	8,267,000	9,464,000
totexpenses	20	17,500,000	17,500,000	1,282,318	15,800,000	19,400,000
costperdoc	20	1,536,007	1,604,200	461,837	987,412	2,293,125
Panel C: Post-SOX, 2003-2008						
Variable	Obs.	Mean	Median	Std. Dev.	Min	Max
daysedissue	18	505.17	396.00	310.50	94.00	1,126.00
totalnumdocs	18	29.83	32.00	9.34	19.00	40.00
numpars	18	25.78	21.00	23.60	5.00	85.00
wrdcnt	18	4,669	4,222	3,518	529	12,638
PubHear	18	1.06	1.00	0.42	0.00	2.00
numedcmtltr	18	877.11	68.50	3,335.62	24.00	14,239.00
oprev	18	33,600,000	33,100,000	2,057,241	31,300,000	36,900,000
fasbsalwage	18	12,900,000	13,500,000	1,399,436	10,300,000	14,300,000
totexpenses	18	27,200,000	28,100,000	3,209,519	22,100,000	31,500,000
costperdoc	18	1,260,786	995,449	469,117	857,875	1,941,842

RESULTS AND DISCUSSION

In this section, I present the result of univariate tests of the means for the variables of interest to determine if and how the FASB and the accounting regulatory process changed after the passage of SOX. Table 6 Panel A presents results for the pre-SOX and post-SOX subsample

and Panel B present results for the entire sample period. FASB speed, workload, constituent participation and the overall cost of regulation are analysed.

FASB speed

I find a significant increase in the average number of days from Exposure Draft to final standard issuance in both the pre-SOX post-SOX subsample and the entire sample period. It appears that the FASB is taking longer to generate standards over time, even as constituents demand more responsive and timely guidance.

These findings are inconsistent with my prediction that the speed of the FASB in standard setting would increase after the passage of SOX. This decrease may be caused by one or more of the following factors: 1) The FASB is tackling more complex financial reporting issues which require a greater amount of time to generate, 2) the FASB is Increasing the number of projects undertaken simultaneously in response to an increase in demand or 3) the Board is increasing the amount of research, preparation and diligence applied in standard setting as a result of the negative publicity from previous corporate frauds.

FASB Workload

I find that the total amount of guidance provided by the FASB has significantly increased over both the sub-sample and entire sample period. Interesting, while the number of paragraphs in FASB standards has remained about the same over time, the length and wordiness of those paragraphs has gradually increased, leading to longer standards, especially in the subsample period. Consistent with my prediction, more guidance is being issued after the passage of SOX, but it appears the length and content of the guidance has remained constant.

Constituent Participation

I find an increase in constituent participation as measured by comment letters in the subsample period, from 128 per standard pre-SOX to 877 per standard post-SOX as well as the number of public hearings per standard. In the subsample these increases are directionally as predicted, but not significant. This is inconsistent with my prediction – the data shows that constituents simply failed to alter their behavior and voluntarily participate in the FASB's due process after SOX was passed. I find this particularly surprising since the FASB has accepted comment letters online in more recent years, which simplifies and streamlines the submission process. When the entire sample period is taken into consideration, the pre-SOX/post-SOX means are significant. Overall, it appears that constituent participation has increased over time, but not significantly in the post-SOX period.

Cost of Regulation

I find significant results in the subsample period for all of the financial metrics relating to the cost of regulation. Operating revenue, salaries and wages and total expenses all increased significantly in the post-SOX period. The change in operating revenue is expected, since a provision of SOX provided financing for the FASB. The increase in salaries and wages may have been in response to the increased workload, stress and public scrutiny faced by the Board during the regulatory process. Alternatively, FASB members may have been underpaid before this time and the bump in salary served to re-align the FASB more closely with the market.

I find the cost per document issued decreased significantly, from \$1,536,007 to \$1,260,786 in the post-SOX period. Cost per document includes many different types of FASB guidance, so this effect may be due to a number of different factors. For example, the increased operating revenue of the Board may have allowed more qualified staff to be hired, who was able to improve productivity, thus reducing the cost per document issued. Alternatively, the Board could be issuing shorter, directed guidance in the form of Staff Positions or Other Documents, the catchall for FASB direction that doesn't fall into a pre-existing category.

Variable	Pre-SOX Mean	Post-SOX Mean	Difference	T-stat	Two-tailed p-value
daysedissue	299.50	505.17	205.67	2.44	0.02
totalnumdocs	11.85	29.83	17.98	8.12	0.00
numpars	25.55	25.78	0.23	0.03	0.97
wrdcnt	3,904	4,669	764	0.67	0.50
PubHear	1.25	1.06	-0.19	-0.79	0.44
numedcmtltr	127.65	877.11	749.46	1.01	0.32
oprev	16,900,000	33,600,000	16,700,000	33.31	0.00
fasbsalwage	8,922,250	12,900,000	3,977,750	12.14	0.00
totexpenses	17,500,000	27,200,000	9,700,000	12.43	0.00
costperdoc	1,536,007	1,260,786	-275,221	-1.82	0.08
Panel B: Entire period, 1973-2008 (excluding 2002)					
Variable	Pre-SOX Mean	Post-SOX Mean	Difference	T-stat	Two-tailed p-value
daysedissue	226.66	505.17	278.51	5.94	0.00
totalnumdocs	20.37	29.83	9.47	4.23	0.00
numpars	19.72	25.78	6.06	1.31	0.19
wrdcnt	2,457	4,669	2,211.55	3.30	0.00
PubHear	0.47	1.06	0.58	3.72	0.00
numedcmtltr	157.29	877.11	719.82	2.59	0.01
oprev	10,500,000	33,600,000	23,100,000	25.00	0.00
fasbsalwage	5,769,313	12,900,000	7,130,687	12.80	0.00
totexpenses	9,906,874	27,200,000	17,293,126	15.50	0.00
costperdoc	753,869	1,260,786	506,917	3.30	0.00

CONCLUSION

Overall, it appears that, analogous to the rest of the accounting profession, SOX left indelible marks on the FASB and the accounting standard setting process. I find evidence of a post-SOX increase in the workload of the FASB, along with a concurrent decrease in the speed of standard setting. Counter to the public outcry against the profession, I do not find evidence of an increase in constituent interest or participation in the period after SOX. Finally, I find mixed results on the impact of SOX and the cost of standard setting. The cost of running and operating the FASB increased in the post-SOX period, but the cost per document issued by the Board decreased, suggesting that some previously untapped efficiencies or economies of scale are now being utilized.

Although SOX was passed 15 years ago, more research is necessary to fully comprehend the impact of the legislation on all areas of the accounting profession. Evidence from this study enhances our understanding of how the legislation influenced the FASB and the accounting

standard setting process and provides some guidelines for future research. For example, have the mandates of SOX so significantly altered the FASB's workload/speed that changes to the nature of the Board are necessary to maintain consistency in standard setting? If the FASB is operating with an increasingly large budget and issuing increasing amounts of guidance, should its oversight also be increased? As new legislation looks to reduce some of the mandates of SOX should we also expect to see changes in the standard setting process? These questions are raised for future research.

Appendix A											
1. ADDITIONAL SFAS DETAILS											
Standard	# Days ED to Issue	Word Count	Paragraphs	Public Hearing	Comment Letters	Standard	# Days ED to Issue	Word Count	Paragraphs	Public Hearing	Comment Letters
SFAS 1	57	848	7	No	74	SFAS 39	177	1,998	16	Yes	124
SFAS 2	132	1,622	16	Yes	168	SFAS 40	208	786	8	Yes	124
SFAS 3	34	2,130	16	No	55	SFAS 41	208	867	8	Yes	124
SFAS 4	43	1,231	12	No	120	SFAS 42	207	454	5	No	63
SFAS 5	145	2,252	20	Yes	212	SFAS 43	334	778	9	No	217
SFAS 6	185	1,913	17	No	92	SFAS 44	52	666	8	No	41
SFAS 7	331	1,667	16	Yes	138	SFAS 45	104	2,661	25	No	25
SFAS 8	288	3,673	37	Yes	190	SFAS 46	34	646	9	No	18
SFAS 9	173	1,914	18	Yes	98	SFAS 47	349	1,173	11	No	102
SFAS 10	37	616	8	No	22	SFAS 48	34	1,100	12	No	36
SFAS 11	45	2,024	11	No	45	SFAS 49	126	1,266	11	No	34
SFAS 12	39	3,204	23	Yes	272	SFAS 50	156	1,316	17	No	12
SFAS 13	116	12,208	51	Yes	282	SFAS 51	156	1,217	16	No	23
SFAS 14	442	5,833	41	Yes	233	SFAS 52	168	4,129	38	Yes	260
SFAS 15	167	5,582	45	Yes	96	SFAS 53	186	2,171	25	No	23
SFAS 16	321	2,353	17	Yes	162	SFAS 54	60	304	4	No	27
SFAS 17	99	1,102	9	No	42	SFAS 55	101	825	8	No	68
SFAS 18	56	711	9	No	65	SFAS 56	101	998	12	No	25
SFAS 19	153	9,441	64	Yes	195	SFAS 57	129	579	5	No	66
SFAS 20	38	1,834	15	No	30	SFAS 58	197	871	9	No	72
SFAS 21	47	1,860	16	No	126	SFAS 59	52	235	4	No	0
SFAS 22	178	2,364	16	No	26	SFAS 60	209	6,559	65	No	56
SFAS 23	239	1,286	11	No	30	SFAS 61	209	926	11	No	14
SFAS 24	149	1,023	6	No	35	SFAS 62	175	820	9	No	94
SFAS 25	100	964	10	No	27	SFAS 63	368	1,159	13	No	45
SFAS 26	114	1,200	8	No	33	SFAS 64	204	593	5	No	90
SFAS 27	91	1,017	9	No	25	SFAS 65	224	3,197	33	No	42
SFAS 28	145	1,147	4	No	37	SFAS 66	304	5,928	52	No	47
SFAS 29	176	1,223	14	No	37	SFAS 67	304	2,291	27	No	37
SFAS 30	139	735	7	No	36	SFAS 68	171	1,576	15	No	37
SFAS 31	47	881	9	No	49	SFAS 69	214	3,977	39	Yes	113
SFAS 32	106	1,260	12	No	53	SFAS 70	358	2,342	21	No	69
SFAS 33	261	7,548	69	Yes	450	SFAS 71	286	2,430	24	Yes	172
SFAS 34	304	2,358	23	Yes	269	SFAS 72	131	1,729	15	Yes	80
SFAS 35	1,066	3,810	30	Yes	700	SFAS 73	125	181	3	No	28
SFAS 36	308	1,200	11	No	228	SFAS 74	230	418	5	No	160
SFAS 37	123	505	5	No	67	SFAS 75	161	221	4	No	10
SFAS 38	264	1,320	10	No	59	SFAS 76	124	1,221	12	No	75

Appendix A
2. CONT. ADDITIONAL SFAS DETAILS

Standard	# Days ED to Issue	Word Count	Paragraphs	Public Hearing	Comment Letters	Standard	# Days ED to Issue	Word Count	Paragraphs	Public Hearing	Comment Letters
SFAS 77	471	1,021	11	No	72	SFAS 122	334	1,961	6	No	89
SFAS 78	503	985	6	No	85	SFAS 123	852	7,095	54	Yes	1786
SFAS 79	134	411	7	No	46	SFAS 124	259	12,638	85	Yes	14239
SFAS 80	398	2,316	14	No	153	SFAS 125	245	1,538	19	No	86
SFAS 81	135	594	9	Yes	162	SFAS 126	244	2,882	21	Yes	112
SFAS 82	36	323	5	No	120	SFAS 127	86	516	6	No	76
SFAS 83	99	637	9	No	24	SFAS 128	30	502	6	No	29
SFAS 84	99	720	6	No	59	SFAS 129	397	4,823	43	No	104
SFAS 85	99	797	5	No	53	SFAS 130	397	697	11	No	104
SFAS 86	349	1,507	17	Yes	210	SFAS 131	365	2,793	34	Yes	281
SFAS 87	275	8,030	77	Yes	400	SFAS 132	517	4,507	40	No	221
SFAS 88	184	2,139	21	Yes	110	SFAS 133	245	2,371	15	No	90
SFAS 89	76	338	4	No	200	SFAS 134	94	4,282	20	No	97
SFAS 90	365	2,026	13	Yes	1400	SFAS 135	730	14,007	56	Yes	300
SFAS 91	365	4,073	28	Yes	822	SFAS 136	183	491	6	No	25
SFAS 92	608	2,007	18	Yes	1400	SFAS 137	125	3,712	6	No	9
SFAS 93	235	737	8	Yes	193	SFAS 138	335	2,430	22	No	450
SFAS 94	303	2,021	17	Yes	232	SFAS 139	26	408	4	No	77
SFAS 95	488	3,123	34	Yes	450	SFAS 140	92	7,441	6	No	82
SFAS 96	456	5,716	36	Yes	400	SFAS 141	608	643	8	No	28
SFAS 97	365	3,077	33	Yes	111	SFAS 142	458	4,211	25	Yes	40
SFAS 98	258	4,957	25	No	72	SFAS 143	120	7,572	62	Yes	211
SFAS 99	101	359	3	No	132	SFAS 144	913	9,029	77	Yes	280
SFAS 100	63	179	4	No	270	SFAS 145	120	8,308	61	Yes	211
SFAS 101	160	1,274	12	No	81	SFAS 146	486	3,547	28	No	50
SFAS 102	77	1,265	11	No	69	SFAS 147	426	6,222	51	Yes	53
SFAS 103	57	258	6	No	120	SFAS 148	59	2,891	12	No	10
SFAS 104	143	1,021	8	No	112	132R	730	2,609	21	Yes	53
SFAS 105	237	2,478	22	No	188	SFAS 149	153	1,403	17	No	24
SFAS 106	668	14,034	115	Yes	475	SFAS 150	61	1,609	5	No	70
SFAS 107	349	1,666	17	Yes	204	123R	335	7,929	40	No	40
SFAS 108	181	385	7	No	50	SFAS 151	930	3,383	31	Yes	71
SFAS 109	245	8,883	59	Yes	250	SFAS 152	336	976	5	No	26
SFAS 110	148	1,143	9	No	48	SFAS 153	669	716	5	No	233
SFAS 111	138	3,960	11	No	21	SFAS 154	366	2,604	7	No	30
SFAS 112	187	1,524	12	No	59	SFAS 155	517	4,161	27	No	66
SFAS 113	275	3,250	33	Yes	53	SFAS 156	184	2,210	7	No	24
SFAS 114	334	3,169	27	Yes	160	SFAS 157	212	11,225	12	No	26
SFAS 115	242	3,025	25	Yes	600	SFAS 158	822	5,686	39	Yes	100
SFAS 116	212	2,777	30	Yes	280	SFAS 159	184	4,334	22	No	245
SFAS 117	243	3,661	31	Yes	280	141R	396	4,994	30	No	80
SFAS 118	198	1,470	7	No	57	SFAS 160	898	529	6	Yes	49
SFAS 119	183	2,344	17	No	144	SFAS 161	456	4,307	8	No	63
SFAS 120	297	956	11	No	31	SFAS 162	1,126	965	8	No	32
SFAS 121	485	4,037	35	Yes	147	SFAS 163	396	4,067	35	Yes	87

APPENDIX B

1. FASB OPERATING REVENUE

PANEL A: PRE-SOX AND POST-SOX SUBSAMPLE PERIOD

Year	Net Contributions	+	Accounting Support Fees	+	Sales & Royalties	-	Direct Cost of Sales	=	Operating Revenue	
		% Change		% Change		% Change		% Change		% Change
1996	51,09,000		0	-	1,32,15,000		23,55,000		1,59,69,000	
1997	51,83,000	0.01	0	-	1,26,82,000	-0.04	18,23,000	-0.23	1,60,42,000	0
1998	49,62,000	-0.04	0	-	1,37,24,000	0.08	17,54,000	-0.04	1,69,32,000	0.06
1999	48,31,000	-0.03	0	-	1,37,19,000	-0.13	17,64,000	0.01	1,67,86,000	-0.01
2000	48,03,000	-0.01	0	-	1,40,13,000	0.17	17,03,000	-0.03	1,71,13,000	0.02
2001	51,13,000	0.06	0	-	1,48,18,000	0.06	15,86,000	-0.07	1,83,45,000	0.07
2002	38,95,000	-0.24	0	-	1,33,48,000	-0.1	14,28,000	-0.1	1,58,15,000	-0.14
2003	2,63,000	-0.93	1,96,97,000	-	1,26,02,000	-0.06	12,55,000	-0.12	3,13,07,000	0.98
2004	1,23,000	-0.53	2,53,55,000	0.29	1,26,57,000	0	12,40,000	-0.01	3,68,95,000	0.18
2005	48,000	-0.61	2,02,25,000	-0.2	1,40,70,000	0.11	28,84,000	1.33	3,14,59,000	-0.15
2006	56,000	0.17	2,24,36,000	0.11	1,48,65,000	0.06	42,71,000	0.48	3,30,86,000	0.05
2007	1,01,000	0.8	2,25,14,000	0	1,45,57,000	-0.02	52,03,000	0.22	3,19,69,000	-0.03
2008	1,10,000	0.09	2,37,10,000	0.05	1,41,02,000	-0.03	36,07,000	-0.31	3,43,15,000	0.07

APPENDIX B

2. FASB OPERATING REVENUE

PANEL B: FASB TOTAL EXPENSES IN PRE-SOX AND POST-SOX PERIOD

Year	Salaries & Wages	+	Employee Benefits	+	Occupancy & Equipment	+	Other Operating Expenses	=	FASB Program Expenses	+	Support Expenses	=	Total Expenses
1996	82,67,000		14,78,000		9,04,000		11,87,000		1,18,36,000		39,81,000		1,58,17,000
1997	86,61,000		13,99,000		8,00,000		11,08,000		1,19,68,000		43,50,000		1,63,18,000
1998	94,64,000		14,48,000		7,94,000		11,42,000		1,28,48,000		44,05,000		1,72,53,000
1999	85,83,000		19,72,000		10,34,000		15,21,000		1,31,10,000		46,01,000		1,77,11,000
2000	92,25,000		17,50,000		10,18,000		16,42,000		1,36,35,000		48,00,000		1,84,35,000
2001	92,96,000		22,60,000		10,31,000		19,16,000		1,45,03,000		48,83,000		1,93,86,000
2002	93,27,000		25,97,000		10,72,000		17,80,000		1,47,76,000		52,39,000		2,00,15,000
2003	1,02,84,000		32,58,000		10,77,000		16,58,000		1,62,77,000		58,53,000		2,21,30,000
2004	1,23,79,000		36,12,000		11,44,000		19,39,000		1,90,74,000		60,95,000		2,51,69,000
2005	1,29,42,000		39,11,000		10,55,000		13,84,000		1,92,92,000		70,53,000		2,63,45,000
2006	1,35,46,000		41,29,000		9,33,000		14,13,000		2,00,21,000		81,20,000		2,81,41,000
2007	1,42,64,000		39,21,000		10,47,000		17,11,000		2,09,43,000		95,72,000		3,05,15,000
2008	1,42,99,000		40,10,000		10,82,000		21,21,000		2,15,12,000		99,45,000		3,14,57,000

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