

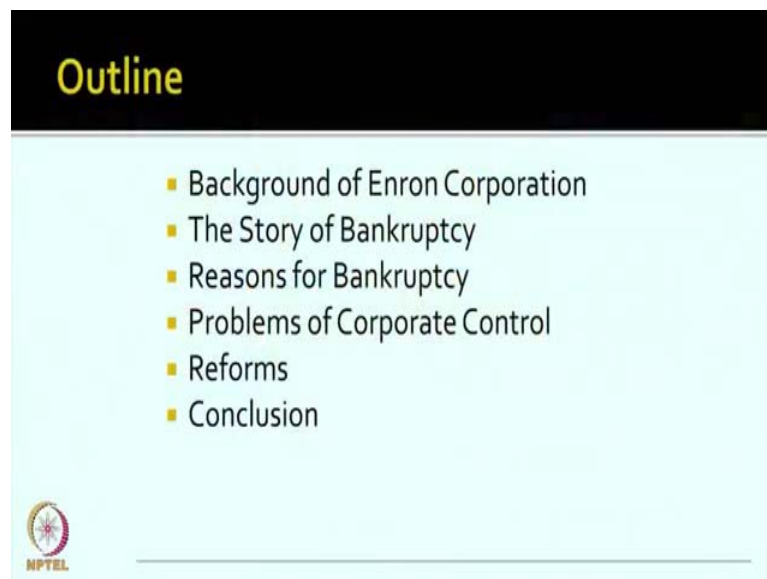
Financial Accounting
Prof. Varadraj Bapat
School of Management
Indian Institute of Technology, Bombay

Lecture – 21
Corporate Governance: Enron Case

Namaste. In our last two sessions, we have discussed on Corporate Governance. If you remember, first we discussed about what is governance; what are the major principles and what is a governance structure. In the last session, we had discussed on various global models of governance. The dominant model is Anglo-US model, then we also have a German-Japanese model, Chinese model and we discussed the salient features of ancient Indian model.

Today, we will discuss about a very interesting case which is known as case of Enron. This happened in 2001, one of the biggest corporate frauds and one of the very striking case of failure of governance. A company, which was shown to be extraordinarily good company, highly successful, following all norms but, was completely a fraud. So, we will just see what it was. After this case major changes were made in the governance mechanism all over the world.

(Refer Slide Time: 01:54)



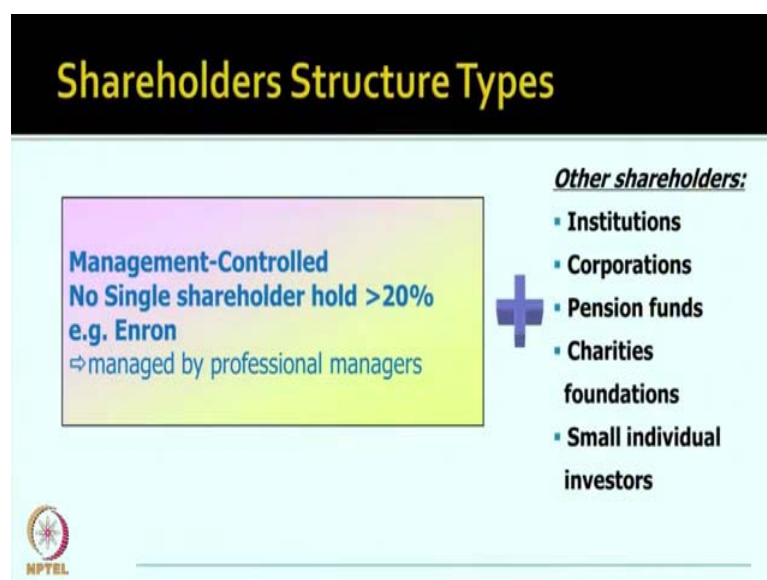
So, we will try to discuss both the things first on the Enron case. Now, we will just see what is a background and what was the story of the bankruptcy of Enron.

(Refer Slide Time: 02:02)



Now, Enron was a energy giant. It was mainly involved in the supply of power in USA, later on it went into manufacturing and it also started power plants all over the world or many of the plants were in progress when the company collapsed.

(Refer Slide Time: 02:33)



Now, this was a professionally managed company. So, no shareholder had more than 21 percent stake 20 percent stake and normally, it is argued that professionally managed companies are better than those which are under some group.

So, the major shareholders were various institutions, corporations, banks, charities, small investors and so on. It was an American company on paper a very good team of management was in charge of the company.

(Refer Slide Time: 03:04)

Background of Enron Corporation (1)

- Houston USA-based energy trading and distribution company
- Famous for advocacy of energy deregulation
- In just 15 years, climbed to be 7th largest company in US (Fortune 500, 2000), with 21,000 staff
- 16th largest in the world
- In 2000, stock has crested at \$90 a share
- Market capitalization: \$80 billion
- Revenue \$139 billion



It was based in Houston, mainly into energy trading and distribution and they had also started energy manufacturing. And, it was very famous for advocacy of energy deregulation. So, they wanted lot of freedom for distribution and they had spent a lot of energy on advocacy for their costs. In just 15 years of its existence, it became a very important company it became the seventh largest company with 21000 employees, seventh largest in US and sixteenth largest in the world that was the clout of Enron. And, in 2000, the stock price reached a level of 90 dollar.

So, within 8 to 9 months time stock price grows strong 40 dollar to 90 dollar and the market capitalization was 80 billion. Remember, it is a big amount especially in 2001 and the revenue was 139 billion. So, it was one of the large and very highly successful US companies.

(Refer Slide Time: 04:33)

Background of Enron Corporation (2)

- Arthur Andersen acts as accountant and consultant
- Board of directors
 - 14 members, only 2 insiders
 - Most of the directors owned stock
- Employee stock ownership and retirement planning
 - Incentive purpose
 - Enhance company profit



Their auditors were Arthur Andersen. They also used to be consultants. The board had 14 members of which only 2 were insiders which were also executive directors. All other board members were from different families and different groups, they were all professionals. Most of the directors also had some stock in the company and planning that at the time of retirement they were given lot of stock options.

So, that not only during their period of company's employment; in future also they will make a lot of money from the company stocks that is how the arrangement was. On paper it was a very strong on solid arrangement.

(Refer Slide Time: 05:25)



- Andrew Fastow (Chief Finance Officer) created the partnerships
- Condor and Raptor were two major partnerships


©studio oxmax

NPTTEL

But, in reality there were many bad practices happening. So, Andrew Fastow who was a CFO, Chief Financial Officer of the company had created certain partnerships which were condor and raptors. So, the major employees of the company have created some partnership firms and the main company Enron was allowed to invest in those firms. So, they were making private business wherein only they were the owners.

(Refer Slide Time: 06:00)

- In the year 2000, Kenneth Lay met three times with Dick Cheney to discuss energy policy review.
- When the review was published in May 2001, it was very favorable to the Enron and the energy sector.



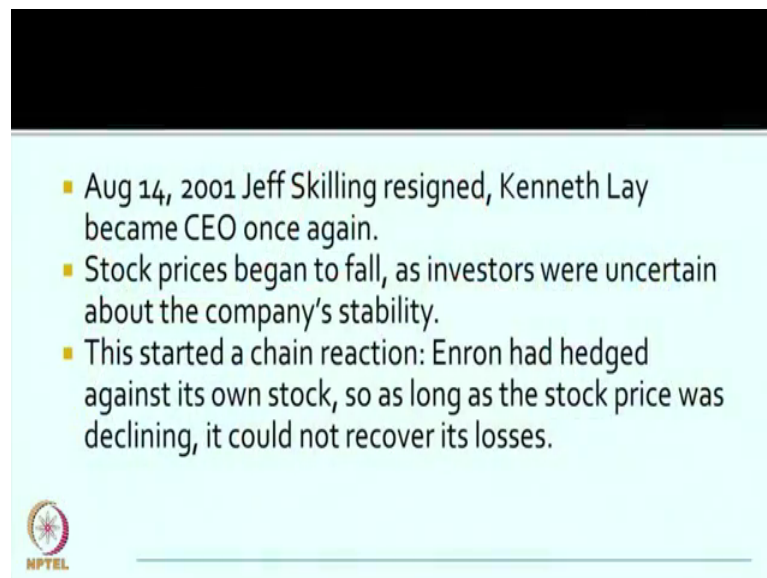
NPTTEL

Now, in year 2000, Kenneth Lay who was the chairman of the company three times met with Dick Cheney. Keep in mind, Dick Cheney was a very important politician. He was


the secretary of the state of US and the meetings were mainly for discussion on energy policy and the energy policy which was declared in may 2001, was very much in favor of energy sector particularly favoring Enron.

So, Enron had a huge political clout and they could manage the policies of US government for the benefit of their company.

(Refer Slide Time: 06:46)



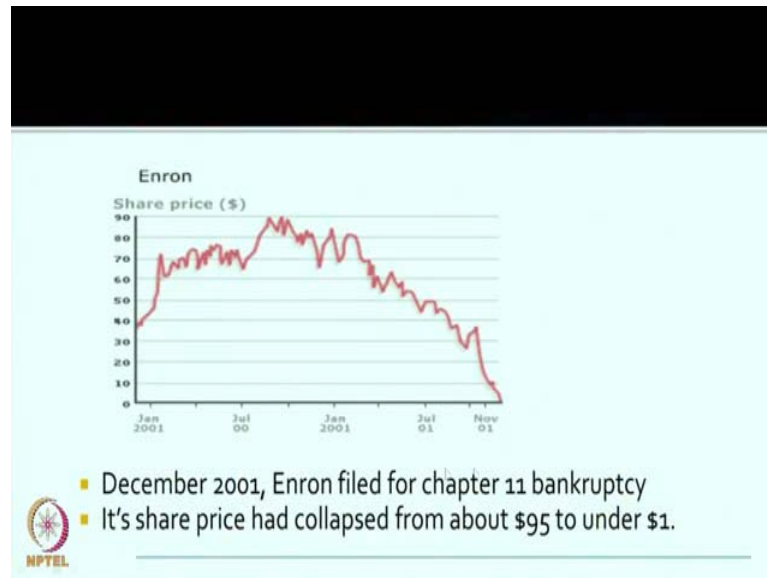
- Aug 14, 2001 Jeff Skilling resigned, Kenneth Lay became CEO once again.
- Stock prices began to fall, as investors were uncertain about the company's stability.
- This started a chain reaction: Enron had hedged against its own stock, so as long as the stock price was declining, it could not recover its losses.



On August 14, 2001 see within just 1 year this Jeff Skilling resigned as a CEO and Kenneth Lay again became the CEO. Now, here the stock market treated it as a wrong news because the CEO has resigned; that means, something is wrong with the company. The stock prices began to fall because now investors were worried about the stability of the company.

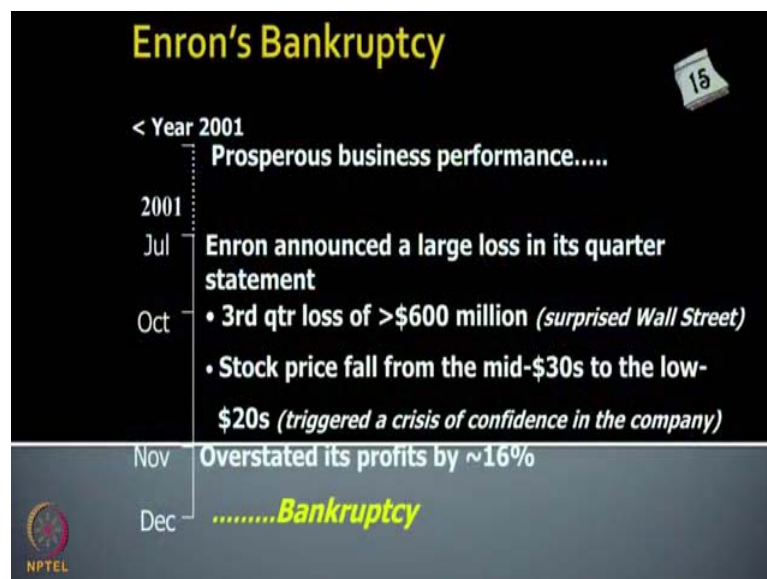
Immediately there was a chain reaction. There was a hedging done by Enron against its own stock and as the stock prices declined the hedging led to more and more lost to Enron. Already they were suffering losses in operations, further losses because of stocking prices that led to bankruptcy of company within a very short period of time.

(Refer Slide Time: 07:44)



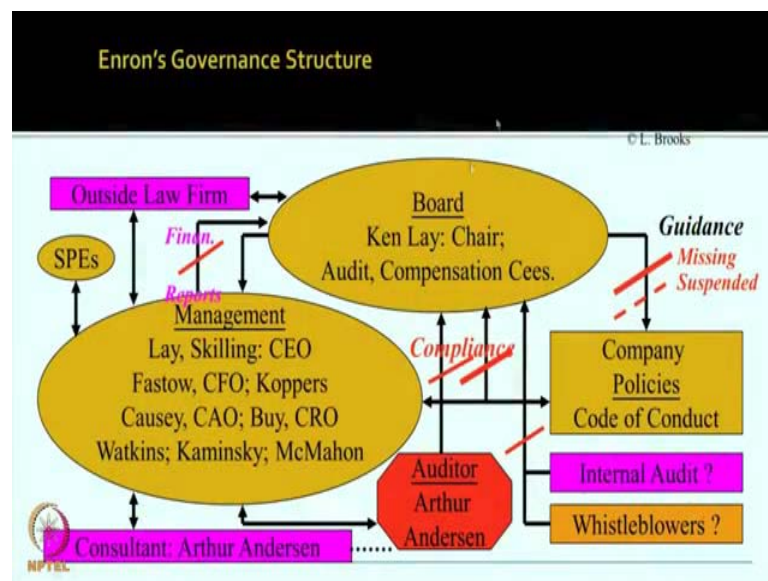
You can just see in December 2001 they became bankrupt. This is a movement of stock price. In Jan; this is 2000 actually, Jan 2000 the stock price was 40, it reached to 70 eventually by the end of 2000 it reached 90 and by the end of 2001, it just crashed to 1 dollar from 95 to 1 dollar and company became bankrupt and had to be closed. So, you can see such as a short period of time very large company can totally collapse because of failure of governance, because of corrupt people who were in charge they were duping the company, they were duping each other, but ultimately it lead to fall of the company.

(Refer Slide Time: 08:36)



Now, this is the process of their bankruptcy or how it happened. Now, it was a very much prosperous business as they were reporting till July. Now, till their earlier quarter it was a profit making but the July quarter was the first time they reported a huge loss third quarter October end there was a loss of more than 600 million which was extremely surprising the stock prices fell from 30 to 20 and it November it came to be known that they were overstating their profits for so many years and in just one month in December Enron became bankrupt.

(Refer Slide Time: 09:24)



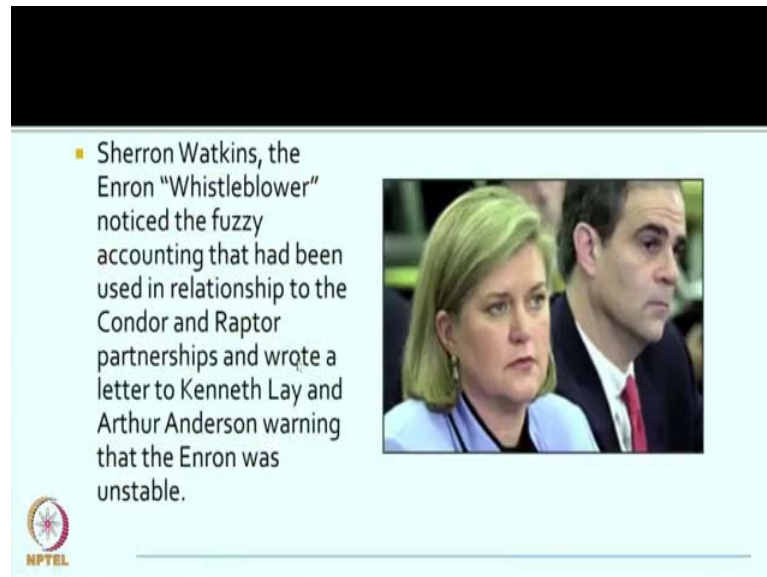
Now, this is their governance structure very complicated ah. Of course, there are shareholders and there is a board. So, board consists of Ken Lay was the chair. There were audit and compensation committees. Management had skilling lay was the CEO, Fastow was CFO, then Causey was CEO and there were other people in the team. Company's policies and code of conduct were in place which was supposed to regulate both the board and management, but proper guidance was not there.

The auditors who are supposed to be overlooking everything they had multiple relationships. Apart from being auditors they were also consultants and making huge amount of money and in a way allowing the company to manipulate their accounts. There were also outside law firms who were part of the consultants, they were getting lot of financial rewards from the company. So, they were also not doing a proper function as



an independent professionals. Other functional like internal auditors and whistleblowers also proved to be failures ok.

There were CPs, SPs that is partnerships made by the managing team who were making profit at the cost of company.

(Refer Slide Time: 10:53)




- Sherron Watkins, the Enron "Whistleblower" noticed the fuzzy accounting that had been used in relationship to the Condor and Raptor partnerships and wrote a letter to Kenneth Lay and Arthur Anderson warning that the Enron was unstable.




Now, Sherron Watkins she became very famous as a whistleblower. She noticed the fuzzy accounting of the company. She is an outsider, she found out that these partnership condor and raptor were being misused by the company. She rose to the rose and written to the both the chairman Kenneth Lay and auditors Arthur Andersen about the instability and within very short period market came to know about this and company collapsed.

(Refer Slide Time: 11:37)

Why wasn't Enron caught earlier?



- Throughout all of this, Enron and its key members were making political contributions to the white house and congress.
- Kenneth Lay donated \$100,000 to President Bush in 2000, and in 2001 Bush invited Lay to become an advisor to his transition team.



Now, he is the person in charge Kenneth Lay. Throughout this, he was in charge of the company in different capacities and was making lot of political contributions. He had donated more than 1 lakh dollars to President Bush and in 2001; Bush had invited him to become advisor of his transition team.


So, many people who might feel that there is a lot of corruption in India keep in mind there is much more political corruption in US and Enron is a very striking case because Enron was a very big donor to both the major parties in US and indirectly their malpractices were getting a cover up.

(Refer Slide Time: 12:34)

Major reason of bankruptcy

A substantial fraction of Enron's **reported** profits over a 4 year period (1996-2000) had been the result of accounting manipulations

Reported profit much higher than Actual profit




Now, what were the reasons? What was the accounting fraud? See, the actual profit was much less, but the reported profit was very high and this was not just in 2000, this was happening in last four years from 96 to 2000 continuous accounting manipulations were done and thus profits were overstated.

(Refer Slide Time: 12:51)

Reason For Bankruptcy

- Accounting gimmickry:
 - Overstatement of profits
 - Bad accounting practices
 - Global subsidiaries
 - Internal Income
 - Capital WIP
- Conflict of interest of auditors: **AA**
 - The multiple conflicting roles of auditor
 - Automatic renewal of auditing contracts

→ Affecting the independence of auditor



Now, these are some of the accounting malpractices. One is we have seen an overstatement of profit, bad accounting policies in the form of lower depreciation, not making provisions where it was necessary, not stating various possible risks which could

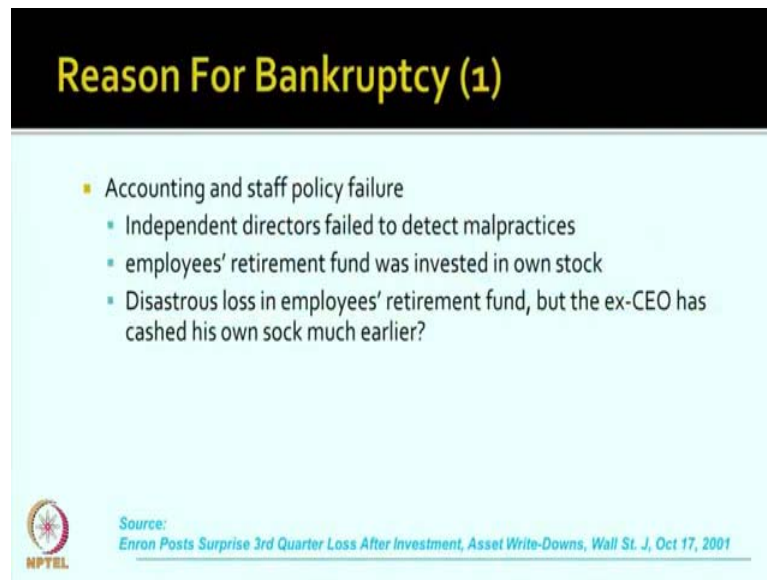
be contingent liabilities requiring provisions, then there were large number of global subsidiaries. So, at several places in the world they had started so called power manufacturing plants and lot of money was being invested there on paper and these plants were nothing much, but they were giving a lot of royalty to Enron. So, there was an internal income.

In the books of Enron, they would report it as a profit and in the books of subsidiaries; they will show it as a capital expenditure. When the company busted it came to be known that most of the plants had nothing in that, they were all going to be perpetually in loss. But, for 3 to 4 years they were showing these expenditures as capital work in progress because see power is the nature of industry is such that it takes a long time of a gestation before you invest and the power production starts that gestation period was used to play with the accounting there.

If you remember, the plant of Enron was has had also started in India at Dabhol near Ratnagiri and there was very big fraud both corporate fraud as well as political fraud done by Enron in India as well under one of it is subsidiaries such a practice was done by several of it is global subsidiaries. But, in US books it was reported as a profit mainly coming from internal income.


So, in short time trying to summarize there was conflict of interest with auditors the most reputed auditors in the world at that time were Arthur Andersen. The biggest audit firm today you might have heard of Big Four the major audit firms even bigger than that was Enron had a of very high respect, but they were into multiple conflicting roles. They were auditors, they were also consultants they were getting automatic renewals and they were party to the fraud. So, this relationship was affecting the independence of auditor.

(Refer Slide Time: 15:45)



Reason For Bankruptcy (1)

- Accounting and staff policy failure
 - Independent directors failed to detect malpractices
 - employees' retirement fund was invested in own stock
 - Disastrous loss in employees' retirement fund, but the ex-CEO has cashed his own stock much earlier?

 Source:
Enron Posts Surprise 3rd Quarter Loss After Investment, Asset Write-Downs, Wall St. J, Oct 17, 2001

Now, there were also accounting and staff policy failure. Independent directors failed to detect malpractices. We have just discussed that on the board you have got executive directors, non-executive directors and there are also independent directors. In Enron there is a professionally managed company. So, there was nothing like promoting group. Several respectable people like accountants, lawyers or corporate professionals were on the board, but they failed to detect the malpractices.

Company had a big retirement fund. It was invested in their own stock, that money was also used to play with the stock prices. It caused disastrous loss to employees retirement fund because when the company collapse the employees lost job, their retirement money was also affected, but the ex CEO was smart enough here already in cashed in his own stock before. So, people at the helm knew that there are malpractices and they had made money while the employees and small shareholders were losing substantially.

(Refer Slide Time: 17:07)

Reason For Bankruptcy (2)

- Political confusion:
 - Ironical relationship between governmental monitoring parties and political parties



Source: www.cnn.com / www.businessweek.com

There was a political confusion as well. There was a very strong relationship with Enron and political parties. So, government, US government failed in proper monitoring.

(Refer Slide Time: 17:24)

Reason For Bankruptcy (3)

- Managerialism
 - Managers tend to build up their own empires and scarify the profits/benefits of the organization
- Conflict of the board
 - Enron's board of directors fail to control and oversee the management
 - The board had been benefited in various relationship with the company

→ *Lack of independence of the board*



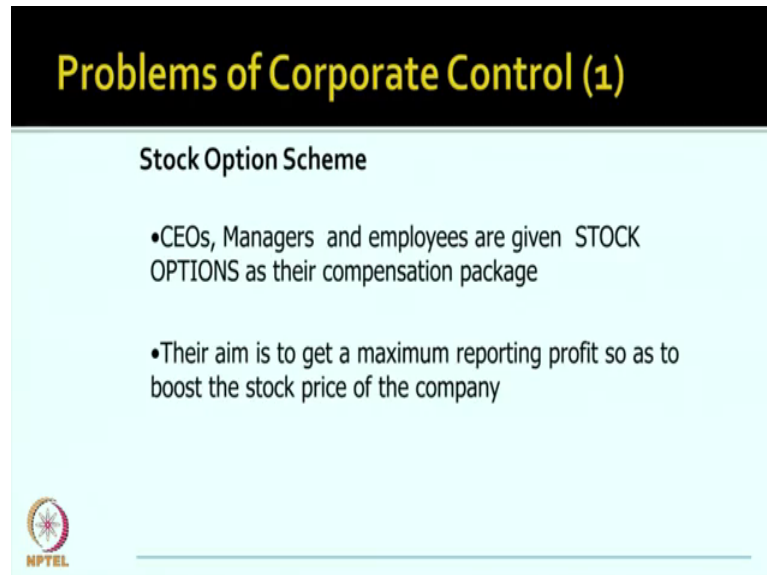
Source:
Professor of international business and strategic management at Suffolk University, Boston, US

There was what is known as managerialism. So, managers had built up their own empires. They were making lot of profit officially from the company as remuneration and also from their partnerships.

There was conflict in the board. So, Enron's board failed to control and oversee it. The board was also benefiting from various other relationships. Board members are supposed

to be independent, but they were taking money from Enron in the form of consultancy and other fees. So, there was lack of independence of board.


(Refer Slide Time: 18:02)



Problems of Corporate Control (1)

Stock Option Scheme

- CEOs, Managers and employees are given STOCK OPTIONS as their compensation package
- Their aim is to get a maximum reporting profit so as to boost the stock price of the company

 NPTEL

There were stock options schemes. So, CEOs, managers, employees they were very happy because they were making a lot of money from stock options. So, they had every on paper this is a good incentive that they should perform well for better profit, but it was being misused to manipulate profit, show higher book profit which will in turn book boost the stock price of company in the short term, but for a short period they used to get a lot of money.

(Refer Slide Time: 18:50)

Problems of Corporate Control (2)

Control and Management Overlapping

- Board members and corporate partnerships were not independent
- Allowing private partnerships (set up by employee) to be valid Enron investment




Control and management was overlapping. We have already seen that there were corporate partnerships. There so, there was no independence. Private firms partnership firms were valid investment for Enron. So, Enron was making investment in those firms and they were making profits from both the ways. We have already seen this.

(Refer Slide Time: 19:08)

Problems of Corporate Control (3)

Failure in Financial management

- CFO badly perform his role
- The financial report was very complicated to be understood
- A special team of reviewing the reports fails to perform their role



Now, there was also failure of financial management. CFO had done a very poor job. The financial reports, their balance sheet and P and L were extremely complicated. So, even experts in finance could not understand what they have written there, there were no


proper notes, there were no proper details. So, deliberately the accounts were made in a confused in a confusing manner. Now, special team of reviewing the reports also failed to perform their job.

(Refer Slide Time: 19:52)

Problems of Corporate Control (4)

Employee Retirement Schemes

- Over 50% of Enron's employee retirement schemes' asset are invested in Enron's share
- All employee have a common goal to boost the stock price of the company




We have also already seen this that more than 50 percent of their retirement money was invested in their own stock. So, the common goal have become to boost stock prices rather than really to boost the performance of the company.

(Refer Slide Time: 20:12)

Reform (1)

- Auditors should not be allowed to perform other services that may compromise their independence




Now, after this many reforms were suggested. One of it was auditors should not be allowed to perform other services because it compromises on their independence.

(Refer Slide Time: 20:17)

Reform (2)

Corporate governance regulation

- Government and Stock Exchanges should tighten regulations and rules to avoid any insider-trading
- Limitation of percentage of assets of retirement funds which can be invested in their own company.




Then government and stock exchanges need to be very cautious and they need to tighten their rules to avoid insider trading because people at the helm of Enron were also involved in insider trading in their stock prices. And, the percentage of assets of retirement funds what can be invested in their own stock also need to be checked.

(Refer Slide Time: 20:49)

Reform (3)

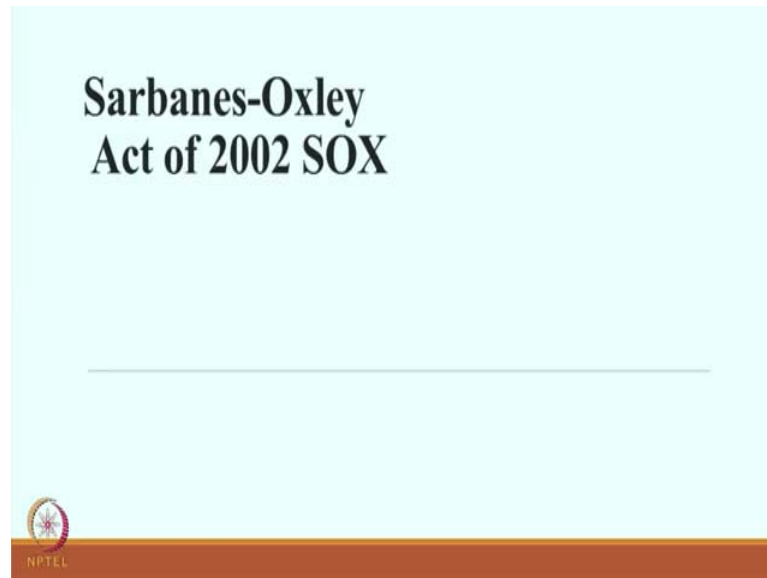
A good Financial reporting system

- The financial report should not be too complicated (like Enron)
- Reports should be made to a "easy-to-read" and easy to be understood by shareholders



Need for a better accounting reporting financial reporting system. I think we have discussed the formats of P and L and balance sheet. Indian formats are much better, much more transparent compared to US formats. Now, the US also has changed their format, but overall there is need to be less complicated reporting so that the balance sheet P and L cash flow are easy to read. So, these were the reforms which were suggested.

(Refer Slide Time: 21:44)



Now, we look at the laws which were changed and some new changes in the law some new changes in the law brought particularly because of Enron problem. But, also because there were several other companies in US facing such things that law popularly known as SOX or Sarbanes-Oxley Act. It is a very big act, it is an American law, but it has affected regulation in other countries also.

So, I have tried to just in summary tell it has significantly affected the way the audits are done, the way the corporate governance is done not only in US, but also in other countries.

(Refer Slide Time: 22:18)



Brief History

Created by US Senator Paul Sarbanes (D-Maryland) and
US Congressman Michael Oxley (R-Ohio)

Signed into law July 30, 2002

Most dynamic securities legislation since the New Deal.

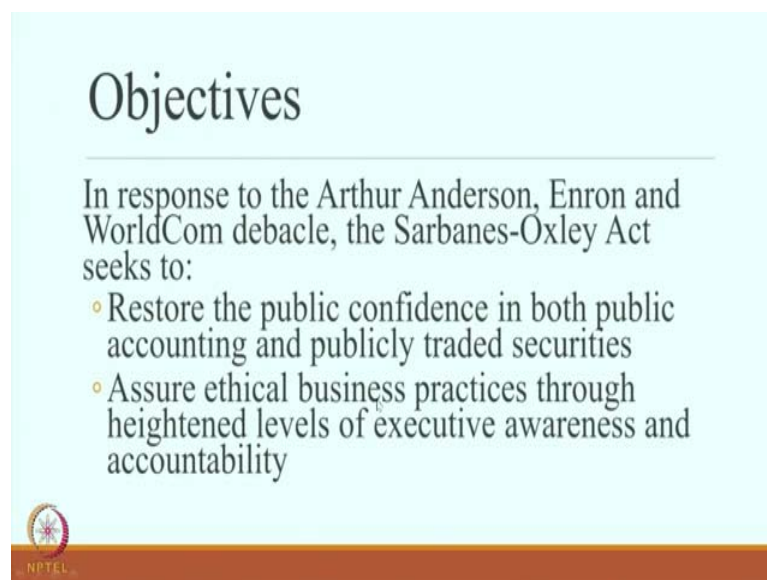
"Public Company Accounting Reform and Investor
Protection Act" (in the Senate)

and "Corporate and Auditing Accountability, Responsibility,
and Transparency Act" (in the House)



Now, this is a brief history. So, Sarbanes and Oxley are the names of the two congressmen who are brought in this law and this is about the public company accounting reform and investor protection act. The other name for it is Corporate and Auditing Accountability and Responsibility and Transparency Act. I just named the rate read the names because now, you will understand what is the content of the act.


(Refer Slide Time: 22:48)



Objectives

In response to the Arthur Anderson, Enron and
WorldCom debacle, the Sarbanes-Oxley Act
seeks to:

- Restore the public confidence in both public
accounting and publicly traded securities
- Assure ethical business practices through
heightened levels of executive awareness and
accountability



So, the major objective was to restore public confidence because after Enron the confidence was lost and assure ethical business practices because of too much of greed

the morals were forgotten so, they are somewhat emphasized. The major fraud of Enron we have also seen. There was also major fraud in world com one other big US chain.

(Refer Slide Time: 23:25)




Now, here are some of the major provisions of law are discussed, but we will just go through them. So, a new board known as Public Company Accounting Oversight Board was created. This is in a way regulator on auditors created as a nonprofit organization under the authority of SEC. So, the professional body like AICPA equivalent to Indians ICAI. They do not have much say now; it is a public accounting oversight board which is mainly to as an oversight on auditors.

(Refer Slide Time: 24:02)

TITLE II – AUDITOR INDEPENDENCE

Prohibits registered public accounting firms (RPAFs) who audit an issuer from performing specific non-audit services for that issuer. Audit Partner rotation – Lead partner on 5 years, off 5 years; other partners on 7 years, off 2




NPTEL

Now, the auditors independence. Now, it prohibits auditors from taking other services like consultancy and also necessitates rotation of audit partners.

(Refer Slide Time: 24:20)

TITLE II (cont.)

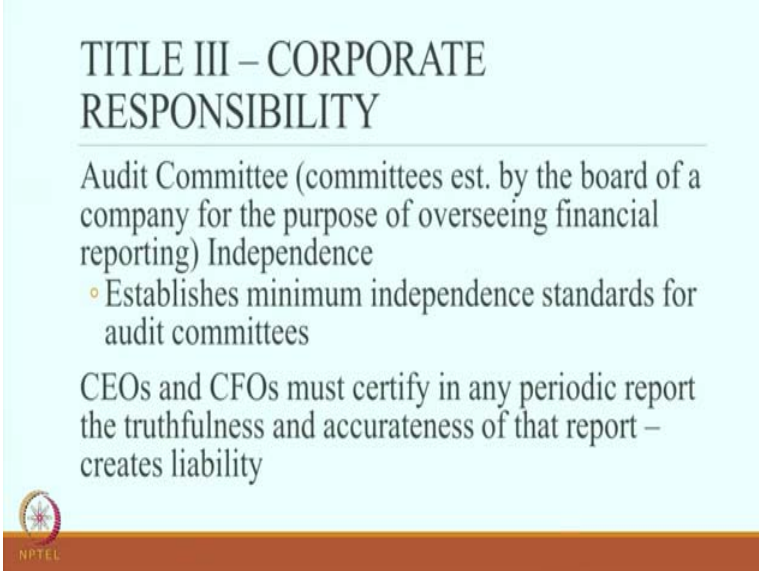
A conflict of interest arises and an RPAF may not perform audit services for any issuer employing – in the capacity of CEO, controller, CFO or any other equivalent title – a former audit engagement team member – there is a “cooling-off period” for one year



NPTEL

Any conflict of interest should be avoided. So, same person who has say resigned as CEO or CFO should not get audit engagements.

(Refer Slide Time: 24:34)




TITLE III – CORPORATE RESPONSIBILITY

Audit Committee (committees est. by the board of a company for the purpose of overseeing financial reporting) Independence

- Establishes minimum independence standards for audit committees

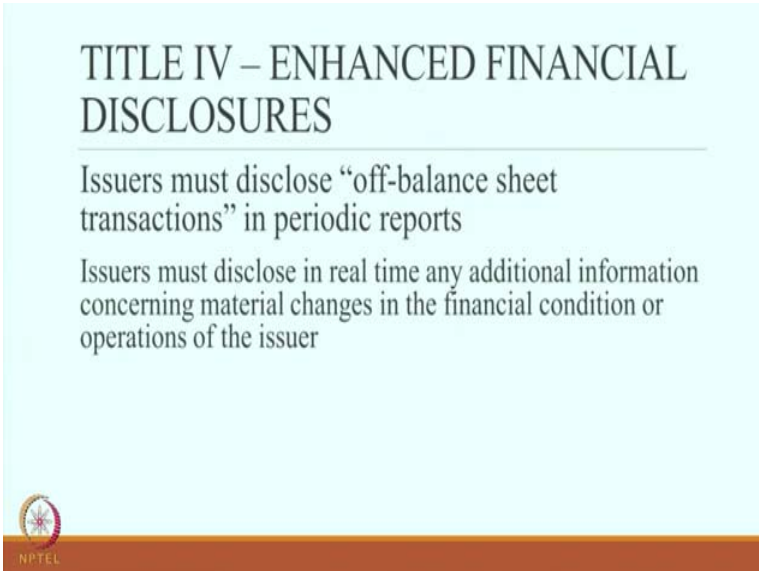
CEOs and CFOs must certify in any periodic report the truthfulness and accurateness of that report – creates liability



NPTEL

Then, the corporate responsibility; it establishes minimum independence standards for audit committees. Then CEOs and CFO must certify the periodic reports for truthfulness and accuracy.


(Refer Slide Time: 24:54)



TITLE IV – ENHANCED FINANCIAL DISCLOSURES

Issuers must disclose “off-balance sheet transactions” in periodic reports

Issuers must disclose in real time any additional information concerning material changes in the financial condition or operations of the issuer



NPTEL

Enhanced financial disclosure; so, new accounting standards were brought in for disclosure of off-balance sheet transactions and the real time disclosure became necessary.

(Refer Slide Time: 25:10)




TITLE V – ANALYST CONFLICTS OF INTEREST

National Securities Exchanges and registered securities associations must adopt rules designed to address conflicts of interest that can arise when securities analysts recommend securities in research reports

- To improve objectivity of research and provide investors with useful and reliable information

Now, analyst conflict of interest; analysts operate in stock market. They also have conflict of interest with the company. So, improvement of objectivity of research and providing investors with useful and reliable information was one of the objectives.

(Refer Slide Time: 25:32)



TITLE VI – COMMISSION RESOURCES AND AUTHORITY

Increase 2003 appropriations for the SEC to \$780 million, \$98 million to be used to hire an additional 200 employees for enhanced oversight of auditors and audit services


SEC will establish rules setting minimum standards for profession conduct for attorneys practicing before it

SEC to conduct investigations of any security professional who has violated a security law

- May censure, temporarily bar or deny right to practice

Commission resources and authority; so, SEC created a commission to properly oversee the functioning under the law.

(Refer Slide Time: 25:46)




TITLE VII – STUDIES AND REPORTS

The Comptroller General of the US shall conduct a study regarding the consolidation of public accounting firms (e.g. Coopers & Lybrand/Price Waterhouse combine to become PriceWaterhouseCoopers; ToucheRoss/DeloitteHaskins merge to become Deloitte & Touche) since 1989, analyze the past, present and future impact of the consolidations, and create solutions to problems discovered caused by such consolidations

NPTEL

Studies and reports; the Comptroller General of US which is a public body they conducted a study on consolidation of public accounting firms. So, lot of accounting firms like Price Waterhouse Coopers and they created a kind of monopoly. So, the studies were done on the impact of that.

(Refer Slide Time: 26:07)



TITLE VIII – CORPORATE AND CRIMINAL FRAUD ACCOUNTABILITY

To knowingly destroy, create, manipulate documents and/or impede or obstruct federal investigations is considered felony, and violators will be subject to fines or up to 20 years imprisonment, or both

All audit report or related workpapers must be kept by the auditor for at least 5 years

Whistleblower protection – employees of either public companies or public accounting firms are protected from employers taking actions against them, and are granted certain fees and awards (such as Attorney fees)

NPTEL

Corporate and criminal fraud accountability; now, generally the white crimes go unaccounted, they do not get much of penalty, but their penalties were increased.

(Refer Slide Time: 26:23)


TITLE IX – WHITE-COLLAR CRIME PENALTY ENHANCEMENTS

Financial statements filed with the SEC by any public company must be certified by CEOs and CFOs; all financials must fairly present the true condition of the issuer and comply with SEC regulations

- Violations will result in fines less than or equal to \$5 million and /or a maximum of 20 years imprisonment

Mail fraud/wire fraud convictions carry 20 year sentences (previously 5 year sentences)

Anyone convicted of securities fraud may be banned by SEC from holding officer/director positions in public companies




NPTEL

So, white collar crime penalty enhancement was done.

(Refer Slide Time: 26:29)

TITLE X – CORPORATE TAX RETURNS

Federal income tax returns must be signed by the CEO of an issuer



NPTEL

Corporate tax return must be filed by CEO to make the CEO more accountable.


(Refer Slide Time: 26:36)

TITLE XI – CORPORATE FRAUD ACCOUNTABILITY

Destroying or altering a document or record with the intent to impair the object's integrity for the intended use in a securities violation proceeding, or otherwise obstructing that proceeding, will be subject to a fine and/or up to 20 years imprisonment

The SEC has the authority to freeze payments to any individual involved in an investigation of a possible security violation

Any retaliatory act against whistleblowers or other informants is subject to fine and/or 10 year imprisonment



NPTEL

Corporate fraud accountability was also enhanced.

(Refer Slide Time: 26:42)

TITLE XI – CORPORATE FRAUD ACCOUNTABILITY

The 10th anniversary of SOX coincided with the passing of the [Jumpstart Our Business Startups \(JOBS\) Act](#), designed to give emerging companies an economic boost, and cutting back on a number of regulatory requirements



NPTEL

There was also an amendment later on known as JOBS Act to make SOX Act kind of diluted and kind of symbols for small companies.

(Refer Slide Time: 26:56)

Applicability

All companies in USA and international companies listed in USA. (Equity+debt)

Accounting firms which audit those companies



NPTEL

This is applicable to US and also to all international companies who have listed any equity or debt in US that is why it has become a kind of global act. It also is applicable to all audit firms.

(Refer Slide Time: 27:09)

Criticism

Congressman Ron Paul and others such as former Arkansas governor Mike Huckabee have contended that SOX was an unnecessary and costly government intrusion into corporate management that places U.S. corporations at a competitive disadvantage with foreign firms, driving businesses out of the United States.



NPTEL


There were also some criticisms that it is bringing in too much of control.

(Refer Slide Time: 27:19)

Praise

SOX has been praised by a cross-section of financial industry experts, citing improved **investor confidence and more accurate, reliable financial statements**.

The CEO and CFO are now required to unequivocally take ownership for their financial statements.




NPTEL

But, overall it is liked and it is praised for better investment confidence and also for more accurate and reliable statements.

(Refer Slide Time: 27:28)

Praise

The Sarbanes–Oxley Act has been praised for nurturing an **ethical culture** as it forces top management to be transparent and employees to be responsible for their acts whilst protecting whistle-blowers. Indeed, courts have held that top management may be in violation of its obligation to assess and disclose material weaknesses in its internal control over financial reporting when it ignores an employee's concerns that could impact the company's SEC filings



NPTEL

So, the whole purpose was to nurture ethical culture. We also already seen how in Indian system we emphasize on ethics and moral. Under the act in US also emphasize was on ethical culture.

(Refer Slide Time: 27:46)

Similar laws in other countries

- C-SOX - Canadian equivalent of Sarbanes–Oxley Act
- Minimum requirements for risk management for trading companies in Germany
- German Corporate Governance Code - 2002 German corporate governance code (German Wikipedia)
- King Report on Corporate Governance- 2002 South African corporate governance code
- Code Tabaksblat - 2003 Dutch governance code, based on 'comply or explain' (Dutch Wikipedia)



NPTEL

Now, the similar acts were introduced by many countries in the world for example, C-SOX. Then in Germany, in Japan, South Africa and several countries similar laws have been introduced.

(Refer Slide Time: 27:58)

Similar laws in other countries

- Financial Security Law of France ("Loi sur la Sécurité Financière") - 2003 French
- Corporate Law Economic Reform Program Act 2004- 2004
- Australian Clause 49 - 2005 Indian corporate governance clause
- Italian Law 262/2005 ("Disposizioni per la tutela del risparmio e la disciplina dei
- J-SOX - 2006 Japanese equivalent of Sarbanes–Oxley Act
- TC-SOX 11 Turkish equivalent of Sarbanes–Oxley Act[



NPTEL

Including some changes were also made in India and corporate governance laws and rules today have been made much more stricter.

So, with this we will stop our discussion on corporate governance we have discussed what the governance is, we have also seen the various global models, then we discussed

Enron case as a striking example of governance failure and we have seen the reforms mainly through SOX and such other loss.

So, with this we will stop. Namaste.