

110TH CONGRESS  
1ST SESSION

# H. R. 1780

To improve the implementation of section 404 of the Sarbanes-Oxley Act of 2002.

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## IN THE HOUSE OF REPRESENTATIVES

MARCH 29, 2007

Mr. KIRK (for himself, Mr. ISRAEL, Mr. SENSENBRENNER, and Mr. REGULA) introduced the following bill; which was referred to the Committee on Financial Services

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## A BILL

To improve the implementation of section 404 of the Sarbanes-Oxley Act of 2002.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Small Business Securi-  
5 ties Protection Act”.

6 **SEC. 2. ADDITIONAL IMPLEMENTATION REQUIREMENTS.**

7 Section 404 of Sarbanes-Oxley Act of 2002 (15  
8 U.S.C. 7262) is amended by adding at the end the fol-  
9 lowing new subsections:

1       “(c) IMPLEMENTATION.—Within 90 days after the  
2 date of enactment of the Small Business Securities Protec-  
3 tion Act, the Commission shall prescribe rules, or amend  
4 existing rules, and the Board shall amend standards, in  
5 each case as applicable to issuers under subsections (a)  
6 and (b) of this section, that incorporate the following:

7               “(1) risk-based concepts in evaluating and as-  
8 sassing internal control over financial reporting for  
9 issuers, including—

10                       “(A) the establishment of priority stand-  
11 ards and identification of higher risk internal  
12 control areas that are to be assessed;

13                       “(B) the frequency of testing of internal  
14 control areas;

15                       “(C) time periods for implementing con-  
16 trols following operational changes or additions;  
17 and

18                       “(D) standards for auditors to rely on  
19 management workpapers in internal control as-  
20 sements;

21               “(2) specific guidelines for measuring the terms  
22 ‘material’, ‘reasonable’, ‘significant’, and ‘sufficient’  
23 in the context of internal control over financial re-  
24 porting for issuers, including—

1           “(A) reference to specific examples of the  
2           appropriate application of those terms; and

3           “(B) establishment of a means for timely  
4           response by the Commission or Board, as appli-  
5           cable, to requests by issuers and registered pub-  
6           lic accounting firms for guidance as to the ap-  
7           propriate application of those terms;

8           “(3) a requirement that the Board consider the  
9           efficiency of audit practices in its inspections con-  
10          ducted under section 104;

11          “(4) specific alternative requirements for small-  
12          er issuers that reflect—

13                 “(A) the relative size and complexity of  
14                 smaller issuers; and

15                 “(B) the relative financial and manpower  
16                 burdens placed on smaller issuers in testing and  
17                 documenting internal controls, taking into ac-  
18                 count the interests of investors and other stake-  
19                 holders in smaller issuers; and

20          “(5) revised standards for independence by  
21          auditors to permit the rendering of internal control  
22          advice for resolution of internal control issues and  
23          related liability safe harbors for auditors providing  
24          such advice to smaller issuers.

1       “(d) DEFINITION OF SMALLER ISSUER.—For pur-  
2 poses of subsection (c), the term ‘smaller issuer’ means  
3 an issuer that meets any of the following conditions as  
4 of the end of its fiscal year:

5           “(1) the total market capitalization of the  
6 issuer is less than \$700,000,000;

7           “(2) the issuer has fewer than 300 record and  
8 beneficial holders of voting and non-voting common  
9 equity;

10          “(3) the issuer has been subject to the require-  
11 ments of sections 13(a) or 15(d) of the Securities  
12 Exchange Act of 1934 for a period of less than  
13 twelve calendar months; or

14          “(4) the issuer has not filed, and was not re-  
15 quired to file, an annual report pursuant to section  
16 13(a) or 15(d) of the Securities Exchange Act of  
17 1934.”.

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