

**REPORT TO CONGRESS AND THE GENERAL ACCOUNTING OFFICE
PURSUANT TO 5 U.S.C. §801**

January 23, 2003

1. Amendments Adopted by the Securities and Exchange Commission, and Copy of the Amendments.

Today, the Securities and Exchange Commission (the "Commission") adopted new rules and amendments to existing rules under the Securities Act of 1933 and the Securities Exchange Act of 1934 to implement the requirements in Sections 406 and 407 of the Sarbanes-Oxley Act of 2002. These amendments are hereby submitted to each House of Congress and to the Comptroller General pursuant to 5 U.S.C. § 801. A copy of Commission Release No. 33-8177, which contains the amendments, is attached at Tab A.

2. Concise General Statement of the Amendments.

The rules require a company to disclose whether it has at least one "audit committee financial expert" serving on its audit committee, and if so, the name of the expert and whether the expert is independent of management. A company that does not have an audit committee financial expert must disclose this fact and explain why it has no such expert.

The rules also require a company to disclose whether it has adopted a code of ethics that applies to the company's principal executive officer and senior financial officers. A company that has not adopted such a code must disclose this fact and explain why it has not done so. A company will also be required to promptly disclose amendments to, and waivers from, the code of ethics relating to any of those officers.

3. The Amendments Are Not a Major Rule.

Based upon the following analysis, the Office of Management and Budget ("OMB") has determined that the amendments are not major for purposes of 5 U.S.C. §804(2).

Annual Effect on the Economy. The amendments will not have a \$100 million or more annual effect on the economy. The amendments are disclosure based and the information that the amendments require is readily available to management and the board of directors of a company. We expect the cost of compiling and reporting this information to be minimal. The economic impact of the new exemptions therefore will be significantly less than \$100 million.

Major Increase in Costs or Prices. The amendments will not result in a major cost increase. To assist the Commission in its evaluation of the costs that may result from the amendments, commenters were asked to provide analysis and data, if possible, regarding

any additional costs associated with the proposed rule. The final rules do reflect certain revisions to the proposal. However, these revisions generally lessen the burdens that would have been imposed by the proposed rules by broadening the definition of audit committee financial experts to enable more persons to qualify. As a result, we believe that the amendments will not result in a major increase in costs or prices for investors, the exchanges or issuers.

Significant Adverse Effects on Competition or Investment. The final rules should not have any significant adverse effects on competition, investment or innovation. The intent of the amendments is to increase transparency regarding audit committee expertise and the application of ethics codes to certain executive officers. We anticipate that the rules will enhance the proper functioning of the capital markets by giving investors greater insight into certain corporate governance aspects of public companies. This may increase the competitiveness of companies participating in the U.S. capital markets but should also improve investors' ability to make informed investment and voting decisions, thereby promoting market efficiency and investment. While some commenters thought that aspects of the proposed definition of the term "financial expert" could have anti-competitive effects, we have clarified and modified the definition to greatly ameliorate these concerns. We do not believe that the amendments will impose a burden on competition.

4. Proposed Effective Date.

The amendments will become effective 30 days after date of publication in the Federal Register. Companies will be required to provide the new disclosures in annual reports for fiscal years ending on or after July 15, 2003. Small business issuers will be required to provide the new audit committee financial expert disclosure in annual reports for fiscal years ending on or after December 15, 2003.

5. Cost-Benefit Analysis.

The Commission considers generally the costs and benefits of its Rules. Section 2(b) of the Securities Act and 3(f) of the Exchange Act expressly requires the Commission to consider whether an action will promote efficiency, competition, and capital formation. The new disclosure required by the amendments is readily available to a reporting company and we therefore expect the cost of compiling and reporting this information to be minimal. In addition, pursuant to Section 23(a) of the Exchange Act, the Commission is directed to consider, among other matters, the impact any rule would have on competition. The Commission may not adopt a rule that would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. As discussed in Section 3, above, the Commission does not believe that the amendments will have any adverse effect on competition.

A copy of the cost-benefit analysis for the rule is in Section IV of Release 33-8177, which is attached at Tab A.

6. Regulatory Flexibility Act.

The Commission also prepared an Initial Regulatory Flexibility Analysis (IRFA) and a Final Regulatory Flexibility Analysis (FRFA) in connection with the proposing and adopting releases, respectively. The IRFA was included in the proposing release, Securities Act No. 33-8138. The FRFA is included in Section VI of Release 33-8177, which is attached at Tab A. We solicited comments in the IRFA on whether the proposed amendments, if adopted, would have a significant economic impact on a substantial number of small entities. We received several comments that the proposed rules would have an impact on small businesses. In response to those comments, we have made several revisions to the final rules in the adopting release. These revisions include broadening the definition of "audit committee financial expert" to enable more persons to qualify under the definition, while ensuring that such persons have the requisite knowledge and experience to properly perform their duties as audit committee financial experts. The final rules also provide for a longer transition period for small business issuers, including small entities, because such issuers may have greater difficulty in recruiting qualified persons. Also, the final rules provide for alternate means for a company to make a copy of its code of ethics publicly available, allowing a company to select the least burdensome alternative for itself.

7. Unfunded Mandates Reform Act.

The Unfunded Mandates Reform Act of 1995 is inapplicable to the Commission. See Public Law 104-4, Section 421(1), 109 Stat. 50.

8. Other Relevant Information.

The relevant sections of the Administrative Procedure Act and the Paperwork Reduction Act have been satisfied. The Commission is unaware of any other relevant information or applicable requirements under any other Act or Executive Order applicable to it that should be brought to the attention of the Congress or the Comptroller General in connection with this rulemaking.

ATTACHMENT

Tab A: Release No. 33-8177