

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

April 9, 2003

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

On April 1, 2003, the Securities and Exchange Commission adopted new rules and amendments to implement Section 10A(m) of the Securities Exchange Act of 1934 (the "Exchange Act"), as required by Section 301 of the Sarbanes-Oxley Act of 2002. Exchange Act Section 10A(m) requires the Commission to direct, by rule, the national securities exchanges and national securities associations (or "SROs") to prohibit the listing of any security of an issuer that is not in compliance with several enumerated standards regarding audit committees. The new rule must become effective by April 26, 2003, 270 days after the enactment of the Sarbanes-Oxley Act. These new rules and amendments are hereby submitted to each House of Congress and to the Comptroller General pursuant to 5 U.S.C. §801. A copy of Securities and Exchange Commission Release No. 34-47654, which contains the new rules and amendments, is attached at Tab A (the "Release").

2. Concise General Statement of the New Rules and Amendments.

The new rules and amendments implement Section 301 of the Sarbanes-Oxley Act of 2002. The release also updates SEC disclosure requirements regarding audit committees to reflect changes made by the proposals and the Sarbanes-Oxley Act. Under the final rule, SROs are required to adopt standards that would prohibit from listing any security of an issuer that is not in compliance with the following:

- Each member of the audit committee of the issuer must be independent according to the specified criteria in Section 10A(m);
- The audit committee of each issuer must be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the issuer, and the registered public accounting firm must report directly to the audit committee;
- The audit committee must establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential,

anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

- The audit committee must have the authority to engage independent counsel and other advisors, as it determines necessary to carry out its duties; and
 - The issuer must provide appropriate funding for the audit committee.
3. The New Rules and Amendments Are Not a Major Rule.

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

Annual Effect on the Economy. The new rules and amendments will not have a \$100 million annual effect. The final rules represent the implementation of a Congressional mandate in the Sarbanes-Oxley Act of 2002. While the implementation of the Sarbanes-Oxley Act will likely create costs and benefits to the economy (discussed in Section IV of the attached release), the Commission’s implementation of Section 10A(m) does not materially increase the impact of these requirements. In fact, the Commission adopted several exemptions to the requirements of Section 10A(m), such as special accommodations for small business issuers and foreign private issuers, that should reduce the impact of the requirements. The Commission’s most significant additions to Section 10A(m)’s requirements are disclosure-based. The Commission has estimated that these minimal disclosure changes will result in a total paperwork cost of \$112,525 for all affected companies.

Major Increase in Costs or Prices. The new rules and amendments are not expected to cause an increase in costs or prices for consumers or individual industries. Registrants are not expected to incur, as a result of the new rules and amendments, significant additional costs that would be passed on to consumers. 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. As a result, we believe that the amendments will not result in a major increase in costs or prices for consumers or individual industries.

Significant Adverse Effects on Competition and Investment. We anticipate that the new rules will have no significant adverse effects on competition, investment or innovation. The intent of Section 10A(m) is to promote strong, effective audit committees to perform their oversight role. By increasing the competence and transparency of audit committees, Section 10A(m) is designed to further greater accountability and quality of financial disclosure and oversight of the process by qualified and independent audit committees. Improvements to the quality of financial reporting

increases investor confidence, transparency, and the ability to make informed investment decisions—all crucial elements to the efficient operation of a listed market. Section 10A(m) relates only to companies listed on a national securities exchange or national securities association. While it is possible a few companies may elect to migrate to less developed markets as a result of the final rules, competitors and markets not subject to the standards also may suffer from decreased investor confidence compared to those that do comply with the new standards.

4. Proposed Effective Date.

The new rules and amendments will become effective on April 25, 2003. The final rule contains compliance dates to require the national securities exchanges and national securities associations to have final implementing rules in place by December 1, 2003. Companies must comply with the new requirements by the earlier of their first annual shareholders meeting after January 15, 2004, or October 31, 2004. Foreign private issuers and small business issuers will have until July 31, 2005 to comply.

5. Cost-Benefit Analysis.

The Commission considers generally the costs and benefits of its rules. Section 2(b) of the Securities Act of 1933 and Section 3(f) of the Exchange Act expressly requires the Commission to consider whether an action will promote efficiency, competition and capital formation. 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. The Release contains an analysis of the costs and benefits of the new regulation and amendments in Section IV of the Release. In addition, a discussion of the impact of the new regulation and amendments on competition, efficiency and capital formation is included in Section V of the Release.

6. Regulatory Flexibility Act.

The Commission prepared an Initial Regulatory Flexibility Analysis (“IRFA”) when the new regulation and amendments were proposed. The IRFA was included in the Commission’s proposing release that was published in the Federal Register on January 17, 2003.¹ No comments were submitted on the IRFA. The Commission also prepared a Final Regulatory Flexibility Analysis (“FRFA”), which is set forth in Section VI of the Release. Because Section 10A(m)’s requirements apply only to listed issuers, the quantitative listing standards applicable to listed securities, such as minimum revenue, market capitalization and shareholder equity requirements, will limit the size of issuers that will be affected by the requirements.

¹ Release No. 33-8173 (Jan. 8, 2003) [68 FR 2638].

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. 34-47654