

# [Glass-steagall act the sarbanes-oxley act dodd-frank act](https://assignbuster.com/glass-steagall-act-the-sarbanes-oxley-act-dodd-frank-act/)

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At the time after the stock market crash, during theGreat Depression, most of the people agreed that the main cause for the event was the “ improper banking activity” which was mainly seen as the bank involved in the stock market investment. Banks were taking high risks in the hope for rewards, they were “ accused of being too speculative in the pre-Depressionera”.

1. They were not only investing their assets, but they were also buying issues in order to resale them to the public. Nearly five thousand banks failed in the U. S. during the Great Depression. As a result of that, most people wouldn’t trust the U. S. financial structure anymore. In order to rebuild the economy and trust a dramatic change had to be made. Glass-Steagall Act of 1933 As a response to one of the biggest financial crisis at the time two members of the Congress, a former Treasury secretary named Carter Glass and Henry Steagall, who was a chairman of the House Banking and Currency Committee, joined forces in order to establish the Glass-Steagall Act. The act forced a separation of commercial and investment banks where commercial banks were not allowed to underwrite the sales of stocks and bonds, while investment banks could not take in deposits from customers. The GSA also established the Federal Deposit Insurance Corporation (FDIC), which insured “ bank deposits up to a given amount”.
2. The act establishes the FDIC as a temporary government corporation giving it the authority to regulate and supervise state non-member banks. The critics and the Gramm-Leach-Bliley Act of 1999 There were a lot of critics about the Glass-Steagall Act, experts stated that too many restrictions were not good for the industry. Some argued that the act was never necessary or it had become too outdated. Congress responded to the criticisms establishing the Gramm-Leach-Bliley (GLB) Act of 1999, also known as the Financial Modernization Act of 1999, which “ includes provisions to protect consumers’ personal financial information held by financial institutions”.
3. Financial institutions, which are “ not only banks, securities firms, and insurance companies, but also companies providing many other types of financial products and services to consumers”, are allowed to expand their services and offer financial services such as investments and insurance-related. Sarbanes-Oxley Act  Financial scandals Two of the biggest financial scandals in the U. S. in the last decade are considered to be Enron and WorldCom. Enron, which was a 15-year-old company at the time, “ grew from nowhere to be America's seventh-largest company, employing 21, 000 staff in more than 40 countries”. In 2002 it was discovered that the company’s success was involved in a scam, the company was lying about its profit, and debts were not being added in the financial statements. Most of the investors and creditors didn’t want to be involved with the company anymore, which is a few months later that resulted in a forced bankruptcy and a criminal inquiry.
4. WorldCom, the number 2 long-distance telephone and data-services telecom company provider at the time, announced that they would have to revise their financial statements to the tune of $3. 85 billion. The issue was that “ the statement explained that in 2001 as well as the first quarter of 2002, WorldCom had taken line costs--mostly fees associated with its use of third-party network services and facilities--and wrongly booked them as capital expenditures”. The Sarbanes-Oxley ActThe Sarbanes-Oxley Act, also known as SOX, was mainly created to “ protect shareholders and the general public from accounting errors and fraudulent practices in the enterprise”.
5. By introducing major changes to the regulation of financial practice and corporate governance. The act is administered by the Securities and Exchange Commission (SEC), which settles deadlines for compliance and publishes rules on requirements that define what records need to be stored and for how long. Interestingly, SOX does not affect only the financial side of corporations but also the IT department which are entitled to store the corporation’s electronic records. The act states that electronic messages and records must be stored for a minimum of five years. According to Cosgrove, some other main provisions are the establishment of the Public Company Accounting Oversight Board (PCAOB) to set auditing standards; a stricter definition of auditor independence that restricts the types of consulting services an auditing firm may provide their clients; and stricter criminal penalties for corporate fraud.
6. Stephens and Schwartz say that the area that got more attention from the press was the implementation and documentation of internal control systems which help ensure the integrity of financial information being reported to the public. This, out of the other areas, is going to be the most expensive for public companies to implement. Impacts and results According to Koehn and Vecchio the SOX Act was the most significant change to security laws since 1934. The popular and financial press has identified certain intended and unforeseen consequences, such as contraction of the audit market, decreased competitiveness of the audit market, an increase in accounting costs, and audit fees. Costs are high and for that reason, some companies that have been or are considering going public may trade to go private. Sometimes companies decide to merge in order to suffer less from the costs, it relieves some of the capital needs of start-ups and early-stage companies. Dodd-Frank Act Financial Crisis In 2008, a series of bank and insurance company failures triggered a financial crisis that effectively halted global credit markets and required unprecedented government intervention”. These failures made banks hesitate to lendmoneyamongst themselves and to anyone in the market. The U. S. federal government had to jump in and insert a lot of capital into the market.
7. The crisis initiated in the real estate and the subprime lending crisis was in the 1990s there was an increase of value on commercial and residential properties. This increase coincided with a deregulation period of the government that allowed unqualified buyers to take out mortgages and take out traditional investment banks and mortgage lenders at the same time. That’s why this crisis is also known as the credit crisis, and many agree it ended up to be the biggest global crisis since World War II, in the Great Depression. The main effects of the crisis were the crash of stock markets with declines ranging from 35-40%, a severe recession in most advanced countries and slower growth in emerging markets, and a series of job losses. Dodd-Frank ActAs a response to the crisis President Obama signed the Dodd-Frank Act, in July of 2010. The maingoalsof the Act are to restore public confidence in the financial system, prevent another financial crisis, and allow “ any future asset bubble to be detected and deflated before another financial crisis ensues”. It basically gives the U. S. government authorities more information, power, and funds. This is going to be achieved by giving regulators new resolution authority, creating a new council to monitor and address systemic risk, and changing the mandate of the Federal Reserve.

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