

# Nasdaq regulatory requirement



Regulatory authorities play significant role in enforcing accounting rules in their jurisdiction. Some of the most important regulatory authorities are U. S. Securities and Exchange Commission (SEC), International Organisation of Securities Commission (IOSCO), Public Company Accounting Oversight Board (PCAOB) and Committee of Sponsoring Organizations of the Treadway Commission (COSO), U. S. Chamber of Commerce and the Office of the Comptroller of Currency in US, which regulates the banking industry. Even the stock exchanges like NYSE and NASDAQ on which companies are listed have accounting regulations.

These organisations not only enforce the financial reporting requirements but also control the entities that participate in capital markets. The Financial Accounting standard Board (FASB) issues financial reporting standards called US Generally Accepted Accounting Principles (GAAP). US GAAP is officially recognised as authoritative by the SEC (Financial Reporting Release No1, section 101 and reaffirmed in the April2003 Policy statement). However the SEC retains authority to establish standards by issuing Staff Accounting Bulletins which are accounting relating disclosure practices.

U. S Securities and Exchange Commission (SEC) was formed after the stock market crash of 1929 with objectives such as protecting investors, ensuring markets are fair, efficient and transparent, and lastly facilitating capital formation. Several rules and regulations were enforced through acts, from accounting perspective; the most important acts are the Securities Act of 1933, Securities Exchange Act of 1934 and Sarbanes-Oxley Act of 2002. Under the Sarbanes-Oxley Act 2002, the chief executive officer and chief

financial officer are required to certify that the company's financial reports fairly present the companies conditions.

Under section 404, companies' management need to report on the effectiveness of the company's internal control over financial reporting and to obtain a report from it external auditors attesting to management's assertion about the effectiveness of company's internal control over financial reporting. The act created the Public Company Accounting Oversight Board (PCAOB) to oversee auditors. The SEC is responsible for carrying out the requirements of the act and PCAOB.

As per Section 102 of the Sarbanes-Oxley Act of 2002 ' it shall be unlawful for any person that is not a registered public accounting firm to prepare or issue, or to participate in the preparation or issuance of, any audit report with respect to any issuer.' The act prohibits auditors from providing certain non audit services to the companies they audit. Committee of Sponsoring Organizations of the Tread way Commission (COSO) was formed in 1985 with objective to identify factors contributing to fraudulent financial reporting. COSO has issued several guidelines on internal control and enterprise risk management.

Organisations satisfy compliance with the above acts by filing standardized forms issued by SEC. Currently as per SEC, a non US company which doesn't prepare financial statements in accordance with US GAAP need to submit a reconciliation of the financial statements. There are more than 50 different types of SEC forms that are used to comply with the reporting requirements. For US companies, some of the most important of them are:

i) Form 10-K is filed annually. These forms require comprehensive overview, including information concerning a company's business, financial disclosure i. e. historical summary of financial data, legal proceedings and information relating to management i. e. management discussion and analysis (MD&A) and audited financial statements.

ii) Form 10-Q is submitted quarterly. These forms require financial information like non audited financial statement and an MD&A for the period, any non recurring item like change in accounting policy, commencement of any legal proceedings.

iii) Form 8-K is filled on current basis reporting any major events like acquisition of assets, change in governance and management, accountants etc.

The financial statements of the companies are audited by independent auditors registered with PCAOB. As per the Guidance on Monitoring Internal Control Systems issued by COSO, companies have to confirm that they have assigned monitoring role to appropriate and capable people, designed monitoring procedure, and are assessing and reporting results to appropriate authority.

CEO conducts an evaluation of the effectiveness of internal control over financial reporting. This evaluation includes review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation.

NASDAQ listed companies' files with NASDAQ stock Exchange three copies of all reports filed with SEC.

The common objective of the above regulations is to ensure that accounts of the companies are prepared fairly, accurately, efficiently and are transparent, thereby protecting the interest of the investors and reducing any risk arising out of fraudulent accounting.

#### References

1. Sarbanes-Oxley Act of 2002, Section 102
2. Securities and Exchange Commission [Release Nos. 33-8221; 34-47743; IC-26028; FR-70] Commission Statement of Policy Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter
3. NASDAQ Regulatory Requirement, March 2009