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Financial Reform Could Cost Accountants Business

FINANCE: Smaller firms could lose customers exempt from SOX

By MICHAEL VOLPE

The latest reform bill ain't no Sarbanes-Oxley.

When the sweeping reforms of the Sarbanes-Oxley Act came down in 2002, there was a windfall of business for accounting firms, spurring job growth and adding revenue.

The latest financial reform effort isn't expected to provide new business for big firms. In fact, it may cost some smaller accounting companies existing work.


U.S. Capitol: Senate passed financial reform bill late last week

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which was passed by the Senate late last week, plans to target the U.S. financial system with regulations for banks and other financial institutions, hedge funds and private equity companies.

"The lion's share of this bill is going to affect the banking industry," said Wayne Pinnell, managing partner at Irvine-based Haskell & White LLP.

In the past, accounting firms benefited from new business generated by the additional rules and regulations imposed on companies by Congress.

"Anytime there is legislation on a broader scale it impacts our business," said Dean Samsvick, managing partner of the Irvine office of KPMG LLP.

While the latest reform bill aims to make sweeping changes to how banks operate and numerous other areas of the financial system, accounting firms don't see any new business within the bill.

"The financial overhaul might put more regulation on financial corporations, but not necessarily for us doing audit and tax work," said John Belli, office managing partner of the Irvine office of Ernst & Young LLP.

The 2,300-page bill looks to target everything from executive pay to how much power federal regulators can wield against failing banks.

The House of Representatives passed the bill in June and political pundits expect the president to sign it into law this week.

The bill, named for Senate Banking Committee Chairman Christopher Dodd and House Financial Services Committee Chairman Barney Frank, began as a series of proposals by the Obama administration after the 2008 collapse of New York-based Lehman Brothers Holdings Inc.

Much of the bill is designed to create new regulations for Wall Street to prevent another Lehman fiasco and will not affect any of the rules that are already in place used by accounting firms, according to Samsvick.

"It won't impact us as much as say Sarbanes-Oxley did about six years ago," he said.

Relaxing Sarbanes-Oxley

Part of this bill aims to relax some of the Sarbanes-Oxley regulations, which could take business away from local accounting offices.

Sarbanes-Oxley, which was passed to head off accounting scandals, long has been a matter of contention with smaller public companies.

The most expensive provision for companies is Section 404(b), a requirement that public companies must evaluate internal controls and then in a separate procedure have external auditors sign off on them.

The Dodd-Frank bill looks to include a provision to exempt small public companies—those with a market capitalization of less than $75 million—from Section 404(b).

"The Sarbanes-Oxley exemptions are a nice piece they are throwing into what is a 2,300-page bill," Haskell & White's Pinnell said.

But it might just be validating what already is happening, as only a small percentage of smaller companies comply with that regulation, according to a study conducted by Massachusetts-based researcher Audit Analytics LLC.

The Securities and Exchange Commission launched a study of the compliance costs of Sarbanes-Oxley for small public companies with market values of $75 million or less in 2008.

Congress looks to launch a similar study as part of the reform bill on how to reduce the costs of 404(b), but has expanded its scope to include companies with market values of $75 million up to $250 million. There is hope among market watchers that more companies will look to file initial public offerings if the burden of Sarbanes-Oxley reporting isn't in place.

"The government is getting smart and realizing we can't subject everyone to this thing,"

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said Roger Weninger, managing partner of the Irvine office Moss Adams LLP.

The exemptions for smaller public companies will impact small to midsize accounting firms.

"Unfortunately what the exemptions mean for firms like ours is the expected additional revenue that we have been waiting for since 2002 now again is not going to happen," Pinnell said. "It's possible we'll never see it now."

The Big Four accounting firms—Ernst & Young, KPMG, Deloitte LLP and PricewaterhouseCoopers LLP—stand to lose some business from the changes, but not much, according to KPMG's Samsvick.

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—Dean Samsvick, KPMG

"The changes at the low end of Sarbanes-Oxley are going to have a material effect on our business, but it's not going to be a major impact," he said.

If financial regulation passes, it will change how accounting firms deal with banks and other financial institutions.

"We may need to do things differently with the banks in the future with additional paperwork and additional oversights," Pinnell said.

The financial reform bill isn't the only congressional moves that are changing business for accountants.

Healthcare reform, spurred by the Obama administration, has many companies throwing more work to accountants to deal with their changing financial responsibilities.

"Healthcare reform is something we continue to talk to our clients about and planning for the impact on their businesses," Ernst & Young's Belli said. "Over the last several months since it was signed, clients are looking at possibly having greater financial obligations than they may have thought."

With the sweeping changes brought by the healthcare reform legislation, accounting firms are anticipating additional work in helping companies make changes to their processes, systems and how they operate their businesses.

"There are probably opportunities for business to help them with that," KPMG's Samsvick said. ■