The Implementation and the Effects of SOX on Swedish Companies

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International Accounting
Master Thesis No 2005:22
Supervisor: Gunnar Rimmel
Abstract

University of Gothenburg
School of Business, Economics and Law
Graduate Business School
Masters Degree in International Accounting
Fall term 2005

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Title: The Implementation and the Effects of SOX on Swedish Companies.
Keywords: Sarbanes-Oxley Act, SOX, Cross-listing, Corporate governance.

There are twelve Swedish companies that must comply with the Sarbanes-Oxley Act (SOX), this requires a great effort that will cost a substantial amount of money and time. The aim of this thesis is to enlighten the reader of the effects of the Sarbanes-Oxley Act on Swedish companies. This study concentrates only on Swedish companies which are registered with the Securities and Exchange Commission (SEC), and are thereby required to comply with SOX.

A qualitative study with semi-structured interviews was conducted to analyse the different companies. The research showed that SOX has had a great impact on Swedish companies. The process of implementing SOX into Swedish companies has been an extensive project. There is a great difference between the approaches used for the implementation. External consultants have been used to a large extent by all companies. The attitude towards SOX in Swedish companies is mainly positive in top management but more negative in lower levels. SOX has caused several companies to consider if it is really still feasible to be present on the US capital market.
The Implementation and the Effects of SOX on Swedish Companies

Acknowledgements

The idea for the topic was born when we had a lecture from Johan Rippe of Örhrlings PricewaterhouseCoopers. We want to thank him for the time and the interview he gave to us.

With us already being friends before the writing process it was easy to decide to write this thesis together. It could not have felt more natural to form a group with friends and to write a thesis that we all could be proud of.

With over 6 months of work closing to an end it is fulfilling to see all our hard work come together. It makes it much easier when we are good friends and what could be better than to work with people you have great respect for and share a similar academic way of thinking. We can honestly say that we have not even once had a falling out or had any difficulties agreeing. It has been a pleasure to work with each other.

We want to give our warmest and sincerest thanks to all interviewees for taking the time to meet us and we hope that our study can be to some help to get an understanding of the various challenges Swedish companies face with the implementation of the Sarbanes-Oxley Act. This thesis would not have been what it is without our tutor Gunnar Rimmel. His comments, both positive and negative, have been an enormous help for us throughout the thesis process.

This process could not have been as smooth to complete without the understanding and love from our girlfriends and family members who have given their support throughout this intensive period.
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADR</td>
<td>American Depository Receipt</td>
</tr>
<tr>
<td>CAO</td>
<td>Chief Accounting Officer</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>COSO</td>
<td>Committee of Sponsoring Organizations of the Treadway Commission</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>E&amp;Y</td>
<td>Ernst &amp; Young</td>
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<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<tr>
<td>IS</td>
<td>Information Systems</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>KPMG</td>
<td>Klynveld, Peat, Marwick and Goerdeler</td>
</tr>
<tr>
<td>NASDAQ</td>
<td>National Association of Securities Dealers Automated Quotations</td>
</tr>
<tr>
<td>NYSE</td>
<td>New York Stock Exchange</td>
</tr>
<tr>
<td>OCM</td>
<td>Over the Counter Market</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation of Economic Co-operation and Development</td>
</tr>
<tr>
<td>OTC-BB</td>
<td>Over the Counter Bulletin Board</td>
</tr>
<tr>
<td>PCAOB</td>
<td>Public Company Accounting Oversight Board</td>
</tr>
<tr>
<td>PWC</td>
<td>PricewaterhouseCoopers</td>
</tr>
<tr>
<td>QIB</td>
<td>Qualified Institutional Buyer</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission</td>
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<tr>
<td>SEK</td>
<td>Swedish Krona</td>
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<tr>
<td>SOX</td>
<td>Sarbanes-Oxley Act of 2002</td>
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<tr>
<td>SPE</td>
<td>Special Purpose Entity</td>
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<tr>
<td>US</td>
<td>United States</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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<tr>
<td>US GAAP</td>
<td>US Generally Accepted Accounting Principles</td>
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1 Introduction

This chapter provides a background for the research. The main problem and the purpose of the research are discussed. The purpose of this chapter is to provide a foundation for the research and clarify the structure of the thesis.

1.1 Background

Today, there are approximately 150 securities exchanges trading stocks and other securities around the world. Throughout the previous century, globalisation and technology has reformed the business world in several aspects. Globalisation has lowered the barriers to cross-border capital flows, including traditional restrictions on foreign investments in domestic stocks. In addition, technology has made immediate information flows possible, securities markets now compete on a global basis that never previously was possible. As a result, companies issuing stocks or bonds have a choice of markets on which to list their securities and raise capital. The past ten years have also witnessed an increasingly large number of foreign firms, including Swedish, listing on the US markets in addition to their own home markets. Today, foreign private issuers represent nearly 17% of New York Stock Exchanges (NYSE) listings (Perino, 2005).

Securities exchanges and capital markets compete against each other with liquidity, trading costs and technology. During the past years the competition has moved to also cover corporate governance rules. This “regulatory competition” has promoted a system under which all issuers can choose the regulatory establishment under which their securities will be traded (Coffee, 2002).

The Sarbanes-Oxley Act (SOX or the Act) was issued in 2002 as a result of the financial scandals and frauds of Enron and other major corporations in the United States (US). The goal of SOX is to protect the investors and give them a better insight into firms, increase the reliability of information given by them and restore the confidence of investors. A way to achieve this is to make the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) sign off on financial statements that they
are true and accurate (Lobo & Zhou, 2005). President Bush described the Act as “one the most far reaching reforms of American business practises.” This statement was an understatement on many levels, as the Act does a great deal more than just reform the laws applicable to the US based issuers, a considerable number of the Act’s requirements reach abroad to have an effect on foreign private issuers whose securities are traded in the US, including Swedish companies (Coffee, 2002).

The Securities and Exchange Commission (SEC) is the agency responsible for administrating federal securities laws in the US. In the case of SOX, the SEC is responsible for setting rules to implement the Act’s provisions. Those rules include, for instance, guidance for reporting by the CEO and CFO on the company’s internal control over financial reporting and disclosure controls. However, the SEC does not supply any guidance or set the standards for the independent auditors. The Public Company Accounting Oversight Board (PCAOB) sets the auditing standards, which will have direct affects on auditors and how they plan and perform their engagements (Ramos, 2004).

SOX reflects a potential change in the core philosophy of the US securities law and moves the focus from disclosure to extensive regulation of corporate governance. This change could prevent foreign firms from listing in the US; raise the costs of a US cross-listing, or on other way becoming subject to US law. The essential effect that the Act will have on foreign private issuers eagerness to cross list in the US depends on how expensive SOX is for foreign firms, the benefits that accumulate to firms that cross-list, and on how reactive the demand for cross-listings in the US is to changes in these costs and benefits. For some European companies the costs seem to be too high, as they have already taken the decision to terminate their listing. The future will show if others will follow (Perino, 2005).

1.2 Problem

Companies that are registered with the US stock exchanges or have more than 300 US residents holding their securities, stocks or bonds, issued in the US need to report according to the rules of the SEC. These companies are also forced to comply with the
Act. This means that the law also affects foreign companies that are raising capital from the US market. There are twelve Swedish companies that are registered with the SEC and thereby have to comply with SOX (Balans, 2005). The Act has a great impact on the companies that has to comply with it. The process of implementing SOX into the company requires a great effort that will cost a substantial amount of money and time. (Perino, 2005)

The last ten years have witnessed an increasing number of Swedish companies listing on the US markets; will this trend be affected by the Act? Will the companies consider raising capital on other capital markets now? The regulations that the Act considers are still being implemented in the Swedish companies, but the process of implementation has come rather far in all companies. The aim of this thesis is to enlighten the reader of the effects of the Sarbanes-Oxley Act on the Swedish companies required to comply with SOX. The main problem of the research is formulated as follows:

*Which Effects does the Sarbanes-Oxley Act have on Swedish companies that are required to comply with the Act?*

In order to understand the problem of this thesis a number of sub questions that needs to be answered have been formulated. There are several reasons for foreign companies to cross-list on the US market. It is important to be aware of the different reasons that Swedish companies chose to cross-list in order to understand which effects SOX will have on them. This leads to the first sub question:

*Why have the Swedish companies registered with the SEC chosen to cross-list on the US capital market?*

It is important to understand how the process of implementing SOX is proceeding in these companies and the attitudes toward SOX to be able to answer the main research question. The second and third sub questions have therefore been formulated as follows:

*How is the process of implementing SOX proceeding in these companies?*
What is the general attitude towards SOX in these companies?

To realise how SOX will affect the attractiveness of the US capital market is an important issue for this thesis which will contribute to the answer of the main research question. It is interesting to hear what the companies believe that the future holds for them regarding the US capital market. This leads to the last sub-questions:

How will SOX affect the attractiveness of the American capital market for Swedish companies?

How does the future regarding the American capital market look for the Swedish companies registered with the SEC?

1.3 Purpose

The purpose of the thesis is to give an overview of the effects that the Sarbanes-Oxley Act has had on the Swedish companies that need to comply with the Act. There are several articles and studies discussing the consequences of the Act, but only few of them study the subject from the companies’ point of view. The few studies that look from the companies’ view are mainly case studies focusing on one company. By looking at several companies it is possible to give a more general picture about the effects of SOX. It will also be interesting to see the similarities and differences between the companies and this will hopefully contribute to the general understanding of the effects of SOX on Swedish companies.

1.4 Delimitations

In order to restrict the area of the subject this study concentrates only on Swedish companies which are registered with the SEC, and are thereby required to comply with the Act. Some of these companies are listed on the NYSE or the NASDAQ and have as well issued bonds on the American market, while others only have issued bonds. Swedish Companies that are complying with SOX on voluntary bases are
disregarded in this thesis. According to an article in Balans (2005), there are twelve Swedish companies registered with the SEC and these are thereby obligated to comply with the Act. For this thesis, interviews with seven of those companies were conducted.

The study will concentrate on the changes that the Sarbanes-Oxley Act has brought to the applicable Swedish private issuers, from their point of view. This study does not try to measure in exact numbers how costly it is for the companies to comply with the Act, but focuses on the general effects that SOX has on them.

1.5 Disposition

The disposition of the thesis is as follows:

The Introduction chapter provides a short background for the research. The reader will also be introduced to the problem and the purpose of the study. In addition, the chapter clarifies the delimitations and gives an explanation of the disposition of the thesis.

The Methodology chapter describes the methods that the research is based on, gives grounds for the chosen methods and reviews how the interviews have been carried out during the research. After a brief description of the more general character of the methodology used, the interviews that are conducted during the research are discussed. The chapter is concluded with a research evaluation. The purpose of this chapter is to present how the research has been conducted, which is important for the understanding of the following chapters.

The Theoretical Framework chapter presents theories on corporate governance and cross-listing. Additionally this chapter presents the demands that SOX sets for Swedish cross-listed companies. The chapter starts with a short presentation of the reasons for cross listing and theories on competition between capital markets. In addition, Sarbanes-Oxley Act and the history of US corporate governance regulations
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are introduced. This theoretical framework will be used when analysing the empirical material.

In the Empirical Research chapter the results of the interviews with the representatives of the cross-listed Swedish companies are presented. In order to analyse the questions in a more rational technique, the questions have been divided into five different areas that are identified in the “Problem” section on chapter 1.

In the Analysis chapter, the results of the empirical research are combined with the theoretical framework presented in chapter three. The data is then analysed in order to find what effects does the Sarbanes-Oxley Act have on Swedish companies that are required to comply with the Act.

The Concluding Discussion chapter presents the conclusions drawn from the analysis. The conclusions will provide an answer to the research problem. In addition, this chapter provides suggestions for further research in the subject.
2 Methodology

The Methodology chapter describes the methods that the research is based on, gives
grounds for the chosen methods and reviews how the interviews have been carried out
during the research. After a brief description of the more general character of the
methodology used, the interviews that are conducted during the research are
discussed. The chapter is concluded with a research evaluation.

The purpose of this chapter is to present how the research has been conducted, which is important for the understanding of the following chapters.

2.1 Scientific Approach

There are two major scientific approaches to use when conducting research, the
deductive and inductive approaches as described below in Figure 1.

Figure1: The Wheel of Science (Wallace, 1971)

The deductive approach has its point of departure in existing theory. From the theory,
a hypothesis or several ones are then developed and tested. The deductive method is
referred to as moving from the general to the particular situation.
The inductive approach, on the other hand, has its starting point in some observed phenomenon or phenomena. The observations of the phenomenon are translated into generalisations that serve as theoretical models (Babbie, 1989).

In this thesis the deductive approach is the approach that is mainly followed. Existing theory is used to generate interesting questions for our research. Then the empirical results regarding the influence of SOX on Swedish companies are analysed. These results are then related to the theoretical structure presented in chapter three, which serves as a filter for the analysis and generates the final conclusions and the answer to the research question.

### 2.2 Research Purpose

Three of the most common purposes of research are exploration, description and explanation. A study normally has more than one of these purposes but it is still useful to examine these purposes separately because each of them have different implications for other aspects of the research design. Scientific research is often conducted to explore a topic, to provide basic knowledge within that topic. When a researcher is examining a new topic or the subject itself is rather new and unstudied this purpose is typical. Exploratory studies are typically made for three purposes, to satisfy the reader’s curiosity for better understanding, to test the feasibility of conducting a more in depth study and to develop methods that could be used in a profound study. Another purpose with scientific research is to describe situations and events. The researcher observes and then describes what was observed. This method is normally used when a certain amount of knowledge and models already exist. Descriptive research is limited to investigating certain aspect of a phenomenon. The third general purpose of scientific research is to explain things. Explanatory research attempts to investigate the causes of particular phenomena, not simply to describe them.

In this thesis, elements of all three types of research can be found, but mainly the descriptive and explorative approach. The theoretical part of this thesis is of more
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descriptive nature, the theories that are already have been investigated by other researchers and was considered to be of use for our research are discussed. This was necessary to be able to create a deeper understanding of the topic and to find the most interesting areas to be approached in the empirical research. The empirical part of the study has mainly followed the exploratory concept, trying to explore how SOX has affected Swedish companies. The objective of this thesis is to produce generalisations about how SOX has affected Swedish companies. According to Scapens et al. (2002), exploratory research is frequently used as a tool for ideas and hypothesis and is often subject to empirical testing in large scale studies at a later state.

2.3 Methods of Research

Qualitative or quantitative researches are two different approaches that can be used in an empirical research. Qualitative research mainly generates soft data which often deals with explanatory concepts (Eriksson & Wiedersheim-Paul, 1999). The data collected consists of descriptions of situations, events, people, interactions and observed behaviours. The qualitative approach is less focused on quantifiable methods and is often looking for a deeper comprehensive understanding of a problem (Patton, 2004).

Quantitative research is more focused on the quantity of the results. When using the quantitative method the findings are often statistically analysed and presented in the shape of numeric values. The strength with the quantitative method is that the data collected is more efficiently gathered, measured and compared than in the qualitative method (Patton, 2004).

In this thesis, qualitative research is the main approach used. Some of the questions that are discussed in this thesis are very complex. According to May (2002), research regarding certain complex subjects can only be done by using qualitative research. For this thesis, it would be very difficult to get answers to the research question by conducting a multiple choice survey with the interviewees, which is a typical quantitative method. Therefore, a qualitative approach was chosen for this thesis. The main issue with qualitative research is whether it is possible to generalise from the
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results or not (Babbie, 1989). According to May (2002) generalisations from a qualitative research can be approvable, but should be treated with certain carefulness.

2.4 Collection of data

There are normally two approaches to use when collecting information. Firstly, it is possible to use data already existing in for example books, databases and the Internet. This kind of data is called secondary data. In the second alternative, primary data, data is collected by conducting field research (Eriksson & Wiedersheim-Paul, 1999). In this thesis both kinds of data have been used. For the theoretical part, mainly secondary data was used but to be able to answer the research question it was necessary to collect primary data.

The main sources of written information, such as articles, books and reports, have been collected from the University of Gothenburg’s library, from the Internet, and from literature used during previous studies. There was no lack of information regarding the topic; the challenge was to find the information that was truly relevant for this thesis. To make sure that the information is of quality, mainly peer reviewed journals and conference paper have been used. Other articles have also been used but only if the quality was considered to be high.

When one wants to collect data that is not already documented, it is necessary to turn to people to get answers. In the collection of primary data, questionnaires and interviews are the two common methods used. They can be used either separately or together and can both be simple or complex. (Eriksson & Wiedersheim-Paul, 1999). In our thesis we have chosen to use interviews and the reasons for this will be explained in the following section.

Questionnaires are often used when the researcher wants to reach a large population. They are generally cheaper, as they have a lower cost per interviewee. It is also possible to guarantee anonymity with a survey which at times could produce more honest answers. It is also positive that the researcher can not affect the interviewee. The using of surveys has negative sides as well. The collection of information can
take very long, the interviewers are not guaranteed that the right person is answering the questionnaire and it is difficult to follow up questions. The response rate is also a problem with sending questionnaires by mail since it can be very low (Babbie, 1989).

Kahn and Cannel (1957) define an interview as “to refer to a specialised pattern of verbal interaction – initiated for a specific content area, with consequent elimination of extraneous material. Moreover, the interview is a pattern of interaction in which the role relationship of interviewer and respondent is highly specialised, its specific characteristics depending somewhat on the purpose and character of the interview.” While Schuman and Presser (1981) identify interviewing as “the ancient but extremely efficient method of obtaining information from people by asking questions.”

Interviews have many advantages. In an interview you have a controlled interview situation and you can make sure that the interviewee is not skipping any questions. It is also possible to follow up questions that have not been completely answered or that are of special interest. Interviews are also very good to use when the questions are complex, especially if the questions are sent out in advance. It is also possible for the interviewer to create a feeling of trust with the interviewee, which can lead to deeper and more honest answers. There are also some negative aspects with interviews. The costs can be very high in connection with travelling to the interviews. Additionally it can be difficult to book an interview with busy people. In an interview situation it can also be difficult to ask sensitive question since there is no anonymity (Eriksson & Wiedersheim-Paul, 1999).

In the empirical research of the study, questions that are rather complex were asked and these would be difficult to answer in a questionnaire. It was also important for the study that it was possible to follow up the questions and to discuss the most interesting answers deeper. There were only few companies that were applicable for the research which meant that sending out questionnaires would probably not have generated enough answers. Because of these facts it was rather obvious for the study, that interviews would be the best method to use in the research.
2.4.1 Selection of Interviews

This thesis investigates the effect of SOX on Swedish companies. There are only 12 Swedish companies that are registered with the SEC and therefore are required to comply with SOX. These companies were found through an article in Balans (2005). The database of the SEC (Edgar) was also used to find out if this information was still accurate. It turned out that the information was not totally accurate since some companies were de-registered from the SEC after the article was written and these companies were excluded from our research. There are probably more Swedish companies that are complying with SOX on voluntary bases but these companies were not included in this research since they would be very difficult to track down. These companies would also distort the validity of research since they are not required to comply with SOX and therefore they have a different relation to it.

The companies were contacted by telephone and most companies were very helpful and it was easy to find the right person. In some companies the authors had already contacts, which helped to get an interview and this was definitely an advantage. The goal of the research was to interview the persons in the company that had the most knowledge about SOX in the organisation. In the companies that were contacted there was either one person or a project group that was responsible for the implementation of SOX. These persons were selected as the most suitable for the interviews. Most companies were willing to offer us an interview, however there were five companies that were not available for interviews. We conducted eight interviews in total with seven companies. In one company we had two interviews and the reason for this was that we thought that it would be interesting to hear if two employees within the same company would have the same point of view.

2.4.2 Interview Guide

To make it less complicated for the respondents and to make them familiar with the questions, the interview guide was mailed to them on forehand. According to Eriksson and Wiedersheim-Paul (1999) it is an advantage to send the questions in advance to the interviewee if they are complex. In the interviews mainly open-ended questions
were used since the goal of the interviews was that the respondents to provide his or hers own answers to the question. Open-ended questions requires that the researcher interpret the meaning of the responses, which opens the possibility of misunderstanding and researcher bias (Babbie, 1989). To avoid both of these issues, the scripts from the interviews were sent back to the interviewee for approval.

The procedure of the interviews started with a construction of an interview guide. The interview guide was developed from the theoretical framework and the parts that were most applicable for our research were used as a base for the questions. An unstructured interview with Johan Rippe from PWC, who has worked much with the implementation of SOX in Swedish companies, was also conducted. This interview was to a large help in finding out which issues would be of most interest for this research.

The interviews with the companies were semi-structured, this means that there is interaction between the interviewers and the respondents. There was a general plan of inquiry but not a specific order of questions that were to be asked in particular words. (Babbie, 1989). The questions were divided into five different categories to follow the structure of the sub questions. This was also a good method to keep the interviewee from discussing all the questions of the interview at the same time.

In the first section (Background) the background of the interviewee and their current position in the company were discussed. These questions were meant to make sure that the interviewee was really competent to answer the questions and to make the interviewee feel comfortable with the interview situation.

The second section of questions (Cross-listing) covers the issues of cross-listing for the companies. We wanted to know the main reasons why the companies listed on US capital market. According to existing theory there are several reasons why companies choose to raise capital from the US capital markets. A number of the companies in this research have recently de-listed from NYSE or NASDAQ and there are also questions concerning the reasons for this. For the companies that are listed, the study wants to know if there has been a discussion within the company whether it is still feasible to be listed in the US or not. It should be mentioned that one of the companies
that was interviewed has never been listed on the NYSE or NASDAQ, but has instead issued bonds in the US market. Therefore, questions regarding NYSE and NASDAQ were not applicable for this company.

In the third section of questions (Implementation of SOX), the process of implementing SOX in the companies is discussed. The questions cover when the implementation started and how far it has come. The amount of employees involved in the implementation of SOX is also discussed in this section. The companies were also asked to make an estimation of the costs of the implementation of SOX.

The fourth section (Attitude towards SOX) covers the attitude of the employees towards SOX and how the companies have communicated SOX through the organisations. The positive and the negative sides of SOX for the companies are discussed. Questions regarding the level of knowledge of management and non-management are also covered in this section.

In the fifth section of questions (SOX and the US market), the effects of SOX on the attitude of Swedish companies towards the American capital market are discussed. The questions are more general about why the US capital market has been attractive for Swedish companies and how SOX will affect this. In this section it is also discussed if SOX will improve the protection of the investors.

In the last section of questions, the future of companies regarding the US capital markets is discussed. Questions about a similar law in Europe and the companies’ future regarding the American capital market are discussed.

At the end of each interview we left the tape recorder running and had a general discussion about SOX. The interviewee can feel more relaxed when they believe that the interview is over and several interesting discussions took place in this time. These discussions will also be part of the empirical results in chapter 4 since we believe that it can contribute to the research.

The full interview guide that was used for the interviews is presented in the figure 2.
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**Figure 2: Interview Guide**

<table>
<thead>
<tr>
<th>Background</th>
</tr>
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<tbody>
<tr>
<td>1. What is your professional background?</td>
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<td>2. What is your position within the company?</td>
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<table>
<thead>
<tr>
<th>Questions regarding Cross-listing</th>
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<tbody>
<tr>
<td>3. In which year did your company list on NYSE or NASDAQ?</td>
</tr>
<tr>
<td>4. What were the reasons for listing in the US?</td>
</tr>
</tbody>
</table>

For the companies that are listed on the NYSE or NASDAQ.

| 5. Has there been a discussion in your company if it is still feasible to be listed in the US? If no, why not? |

For the companies that have de-listed from the NYSE and NASDAQ.

| 6. In which year did you de-list from the NYSE or NASDAQ? |
| 7. What were the reasons behind de-listing? |

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<thead>
<tr>
<th>Questions regarding the Attitude towards SOX</th>
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<tbody>
<tr>
<td>8. What do you see as the positive vs. Negative sides of the Sarbanes Oxley act for your company?</td>
</tr>
<tr>
<td>9. How has the implementation of SOX been communicated out through your company?</td>
</tr>
<tr>
<td>10. How much knowledge is there about SOX in your management/non management?</td>
</tr>
<tr>
<td>11. How is the attitude towards SOX in management/ non management?</td>
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</table>

<table>
<thead>
<tr>
<th>Questions regarding SOX and the US capital market</th>
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<tbody>
<tr>
<td>12. Why do you think that the US capital market has been attractive for Swedish companies?</td>
</tr>
<tr>
<td>13. Do you think that SOX will improve the protection of the Investors? How?</td>
</tr>
<tr>
<td>14. How do you think that SOX will affect the attractiveness of the US capital market for Swedish companies?</td>
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<tr>
<th>Questions Regarding the Future</th>
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<tr>
<td>15. Do you think a law similar to SOX will come soon within Europe? When?</td>
</tr>
<tr>
<td>16. How does the future regarding the US capital market look for your company?</td>
</tr>
</tbody>
</table>
2.5 Processing the Interviews

After the interviews were conducted and the empirical data has been collected, the process of filing and organising the results started. The first step was to write interview scripts from the recorded interviews. The interviews were not scripted exactly word by word but the answers were interpreted by the authors. Only when citations are used, it means that it is exact words from the interview. To assure that there was no misunderstandings, the scripts were sent back to the interviewees for approval. Some interviews had minor objections and these were of course corrected.

The total scripts from the interviews will not be presented in the empirical part. Only general description and few of the answers to each question will be put forward, rather than to include each answer. This will make the answers easier for the reader to comprehend. The method used in presenting the answers is justified, as the general view of the subject of the study is more relevant for this thesis rather than each individual answer.

Some interviewee’s have required that the answers are to be presented anonymously. In total eight interviews were conducted, where of two within the same company. The two interviews from the same company where put together as one since the answers from these interviews did not differ from each other. The respondents (R) are numbered from one to seven and each citation is marked with the applicable respondent number in order to recognise the respondents from each other. For instance, respondent five is R5.

2.6 Quality of Research

Determining the quality of qualitative research is not as straight forward as for quantitative data, but nevertheless, scientific research should always be trustworthy, relevant and unbiased. The logical set of statements which the research design represents can be judged by means of certain logical tests in order to give an indication of the quality of research. The logical set of statements can be measured by validity and reliability.
The validity of a research study addresses the accuracy of the measure. It is the extent to which a measuring instrument actually measures the underlying purpose it is supposed to measure (Babbie, 1989). Firstly, one can ensure the quality of data collection. The most obvious way to ensure this is to follow approaches described in theory. Additionally, the work group meetings with fellow students carrying out the same kind of research and the feedback received from the thesis advisor contributes to the level of validity. The comparison of different sources gives an indication about the validity in case of congruence. We have used several researchers, sources of information and methods to confirm the findings. This means that we consider the level of validity of our research to be high.

The reliability of the study concerns the ability to demonstrate that the operations of a study, such as data collection procedures, can be repeated with the same results. The objective is to be sure that, if the same study were to be repeated, findings and conclusions would be the same. The goal of reliability is to minimise the errors and biases in a study (Babbie, 1989). With reference to this research, it is difficult to know whether or not other researchers would have reached the same results and identified the same practices within the companies. The respondents may interpret questions differently and different interpretations of the respondents’ answers might be the result depending on the pre-knowledge and attitude of the interviewees. During the interviews it is important to be as objective as possible and document the answers as they were told in order to avoid the values and beliefs of the interviewers will be reflected in the research. The recording of the interviews ensured that we were able to verify the wording, answers and practices. The scripts from the interviews were sent back to interviewees for approval and this contributes to the reliability. Also, since there were three individuals involved in interpreting and analysing the material the reliability increases.
3 Theoretical Framework

The Theoretical Framework chapter presents theories on corporate governance and cross-listing. Additionally this chapter presents the demands that SOX sets for Swedish cross-listed companies. The chapter starts with a short presentation of the reasons for cross listing and theories on competition between capital markets. In addition, Sarbanes-Oxley Act and the history of US corporate governance regulations are introduced. This theoretical framework will be used when analysing the empirical material.

3.1 Regulatory Competition and Issuer Choice

Globalisation and technology are reshaping the competition between securities exchanges. At the present time there are about 150 securities exchanges trading shares around the globe. Due to globalisation and technological development, the number of exchanges is expected to drastically decrease in the future. Globalisation has lowered the barriers for cross-border capital flows and for restrictions on foreign investments on domestic stock in particular. At the same time technology has made direct information flows both possible and feasible. As a result of these developments securities markets can compete now on global basis. This also means that private issuers can now choose on which market they want to list their securities and raise equity capital (Coffee, 2002).

The technological development has reduced costs for physical market access and for information lowering the dependency on physical locations of securities markets. This has exposed the local stock markets to a crowingly competitive pressure from rival securities exchanges. These reasons have created a growing trend of mergers in the security exchange industry (Hasan & Malkamaki, 2001).

The global competition has already caused a wave of mergers and consolidations. Coffee (2002) believes that the winners of the consolidations are those who can offer the greatest liquidity, the lowest trading costs or the most advanced technology. Di Noia (2001) claims that the competition will leave only few large pools of liquidity in
Di Noia (2001) bases his argument on liquidity attracts liquidity principle, where larger markets drain order flow and liquidity from smaller markets. The cross border competition between securities exchanges involves also corporate governance, as the markets are operating under different regulatory regimes.

There are some studies concentrating on the impacts of the cross market competition on corporate governance. Coffee (2002) argues that as the cross border competition in general contains markets functioning under different regulatory frameworks, a natural regulatory competition underlies the competition between exchanges. In his opinion, this regulatory competition will eventually lead to better corporate governance. A study by Huddart et al. (1999) argues that over regulated securities markets promote a system of issuer choice. In a system of issuer choice an issuer can choose the regulatory framework under which its securities would be traded. Therefore, issuers operating in a Swedish jurisdiction and trading on Stockholm Stock Exchange could choose to be governed as to their disclosure principles by the laws of Singapore, Malaysia or Lichtenstein. In their viewpoint issuer choice allows corporations to follow a regulatory regime that is outdated or ineffective. This would leave only that extent of regulation that the companies could design for themselves (Huddart et al., 1999). Coffee (2002) however states, that regulatory competition does not involve issuers choosing a regulatory framework. Instead, private issuers’ cross-list on the international markets which principally leads into higher disclosure and tighter corporate governance standards. He also finds that strong legal standards attract rather than repel cross-listing private issuers. The study goes even further by arguing that liquid and deep securities markets can only develop under legal regimes that guard the rights and expectations of the minority shareholders (Coffee, 2002).

### 3.2 Cross-Listing

The benefits and the expenses of a foreign listing are prone to depend on the features of the chosen exchange and on the institutional characters of the domicile of the exchange. The European companies that cross-list in the US differ from those European companies that cross-list within Europe. Paganao et al. (2001), found
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evidence that the European companies cross-listed in US are fairly high-growth, technologically advanced, R&D-concentrated and export oriented. European securities markets, on the other hand, have been chosen by companies with stronger record of past profitability. However, this reflects also the tighter listing requirements on European stock exchanges when compared with NASDAQ (Pagana et al., 2001).

European corporations appear also to be prone to cross-list in larger markets with more liquidity, and in markets where other companies of their industry are already listed. European companies are also more likely to cross list in countries with better investor protection, and more efficient courts and bureaucracy. However, the cross listing decisions of European companies seem to be negatively correlated with stricter accounting standards. This is possibly an indicator that the expenditure of adapting to more strict accounting standards surpasses the benefits mounting from the additional transparency with reference to share owners (Pagano, Randl, Roell, & Zechner, 2001).

3.2.1 Cross-listing on the US Capital Markets

A growing number of foreign private issuers are voluntarily submitting to application of the US securities regulations by cross-listing their securities on the American capital markets, despite that the US securities laws are principally more demanding. This is usually done through American Depository Receipts (ADRs). In an ADR, the foreign private issuer places its equity or debt with a US holder, typically a US based bank. The US bank subsequently issues depository receipts to US investors. The receipts are securities within the meaning of the US securities regulations and give investors various benefits over trading the securities, like the capability to trade on US stock exchanges in US dollars (Perino, 2005).

The regulatory and reporting demands for foreign private issuers depends on the method the company selects to enter the US markets. The selection of the method is especially critical to the application of Sarbanes-Oxley Act. For instance, the issuer can register ADRs on four different levels (I, II, III and IV), while the SOX only applies to foreign private issuers with level II or III ADR programs (Perino, 2005).
Level I ADRs are traded in the over the counter market (OCM). Foreign private issuers gain less liquidity through level I, as they cannot be listed on NYSE, NASDAQ or the Over the Counter Bulletin Board (OTC-BB). However, the costs are also lower, as the US securities regulations do not require these companies to file in reports. Instead, these companies must follow US disclosure requirements and reconcile their financial statements from their home country to US Generally Accepted Accounting Principles (US GAAP). In other words, these issuers must simply provide the SEC the same information they file in their home country or with their home stock exchange (Perino, 2005).

Level II ADRs are traded on NYSE, NASDAQ or OTC-BB. Level II issuers gain larger liquidity, but they also must register their securities with the SEC. This means that the company is a reporting company under US securities laws and is required to make annual disclosures on Form 20-F and reconcile home country financials to US GAAP. This naturally raises the costs (Perino, 2005).

Level I and II issuers use existing shares to create ADRs, but a foreign private issuer may also present a US securities offering as well. Level III ADRs involve registered public offerings of NYSE, NASDAQ or OTC-BB traded securities, used either in gathering capital or in stock for stock acquisitions. Once offered, issuers with level III ADRs are reporting companies required to follow the same disclosure regulations as issuers with level II ADRs (Perino, 2005).

Foreign private issuers do not need to carry out registered offering to facilitate capital raise in the US with the help of level IV ADRs. These securities are placed privately with Qualified Institutional Buyers (QIBs) and are exempted from registration. The liquidity of these securities is fairly low, as they may only be traded among QIBs. The issuers of level IV ADRs are required to provide the same amount of information as issuers with level I ADRs (Perino, 2005).

Coffee (2002) argues that American laws covering the US listed foreign companies can potentially deter insiders from engaging in extraction of private benefits. Using the agency theory he predicts that US laws protect minority shareholders.
3.2.2 Benefits of Cross-listing in the US

Why list on foreign securities markets? Surveys have shown that companies in general recognize several benefits from cross-listing in the US (Bancel & Mittoo, 2004; Korczak & Bohl, 2005). However, the benefits do not materialise without costs. The benefits of cross-listing to the US can be divided to four key groups; liquidity, transparency and corporate governance, visibility and peer markets.

3.2.2.1 Liquidity and the Size of the Market

The liquidity production service is commonly considered as the primary purpose of a capital market. Greater liquidity offers generally a lower cost of capital. One would therefore anticipate cross-listing decisions to be motivated by the search for better liquidity. Thus, companies listed in illiquid exchanges should be especially likely to cross-list to more liquid exchanges. Pagano et al. (2001) found evidence for significant improvement of liquidity in destination exchanges. The average trading costs are 40 percent lower in destination exchanges than they are in originating exchanges. The findings of Biddle and Saudagar (1991) support also these arguments. Also they state that reduced cost of capital is the primary financial benefit of cross-listing. They continue by stating that countries with small or segmented securities markets may have a rather inelastic local demand for additional shares. As a result, the issuance of further shares will have a bigger negative impact on share values, in point of fact raising the cost of capital. This outcome is especially important to those companies whose capital demands are outsized to domestic capital supplies (Biddle & Saudagar, 1991). Thereby, companies are also attracted by larger capital markets. Larger markets provide access to a larger pool of prospective investors. In addition, the presence of a company in larger exchange can provide better visibility and reputation. Companies’ cross-list in markets that are considerably bigger than their home markets. According to a study by Pagano et al. (2001), the destination capital market is on average 4.47 times larger than the home market is.
3.2.2.2 Transparency and Corporate Governance

Regulatory systems in most nations demand foreign companies to prepare financial disclosures consistent with local reporting requirements. Cross-listing to a country with advanced accounting regulation forces the corporation to deeper disclosure and transparency. Greater transparency leads to reduced monitoring costs of company’s investors and decreases the required rate of return. However, the costs are often considerable when a company adapts new accounting regulations. These costs arise from dissimilarities between countries in auditing and accounting practices, financial reporting, registration obligations, along with regulatory and legal restrictions. The study of Bancel and Mittoo (2001) found, that companies place accounting standard related costs among the key disadvantages for a cross-listing. The study of Saudaragan and Biddle (1992) goes even further by arguing that strict accounting standards can deter the listing of foreign companies.

The extent of investor protection against the misconducts of companies’ managers is principally determined by the law of the country of stock exchange and how the country’s courts and officials interpret and enforce it. Cross-listing to a country with strong shareholder protection generally affects various characteristics of corporate governance. These changes may provide a way to overcome some agency problems between the management of the corporation and the investors. A change to better corporate governance should mean better prominence on the capital market, more profuse external equity finance and lower cost of capital. In addition, a corporation is prone to favour a cross-listing country where agreements are more easily enforced and the bureaucracy is proficient. These arguments are consistent with the findings of Pagano et al. (2001). Based on the results of their study, companies have a tendency to cross-list in countries with better shareholder protection, enforceability of agreements and quicker bureaucracy, than the home, or an average country has (Pagano et al., 2001).

Under the bonding hypothesis, companies can use a cross-listing in the US to bond themselves with the intention of assuring minority shareholders that they are less prone to be exploited (Doidge, 2004). The empirical evidence of a study arranged by Doidge et al. (2004) is consistent with the argument. Their study finds also that
corporations cross-listed in the US have higher share value than those companies that are not cross-listed. In addition, the difference in value is negatively related to the level of investor protection in the company’s domicile (Doidge et al., 2004).

### 3.2.2.3 Analysts’ Exposure

The attention of financial analysts’ on the destination market is one potential benefit of cross-listing. Additional interest on the company from analysts can create more interest and thus wider investor base. Biddle and Saudagar (1991) argue that foreign investors generate a local demand for information regarding a company’s products and performance. The result of this demand is coverage by the local press and media which provides free publicity that is especially appealing to manufacturers of industrial and consumer products, who would normally invest great amount of money to gain the visibility. However, Pagano et al. (2001) did not find any supporting evidence for this argument in their study. Based on their study, the number of earnings forecasts per firm is in fact lower in the destination market than it is on the home market. Bancel and Mittoo (2001) conveyed a survey on over 300 European companies listed on foreign exchanges. Almost 60 percent of the respondents state that the most important benefit of a foreign listing is the increased visibility and prestige.

### 3.2.2.4 Peer Markets

Cross-listing behaviour can be affected by informational cascades. If several competitors of a company are listed on a particular stock exchange the company may have a reason to list in the same market. Failing to do so might give a competitive advantage to the competitors. Pagano et al. (2001) found evidence consistent with this argument. According to their study, on average there are 2.4 more cross-listed companies on the destination market from the same industry, than there is on the home market. The share of cross-listed companies in overall quantity of cross-listings belonging to the same industry is nearly eight percentages points higher in the destination exchange than they are at home market.
3.3 Corporate Governance in the US

Corporate governance is a vital part of a successful company. The never ending quest for higher returns during the past decades has created a demand for continuously improved corporate governance. It is quite difficult to define corporate governance. Organisation of Economic Co-operation and Development (OECD) defines corporate governance as “Corporate Governance looks at the institutional and policy framework for corporations – from their very beginnings, in entrepreneurship, through their governance structures, company law, privatisation, to market exit and insolvency. The integrity of corporations, financial institutions and markets is particularly central to the health of our economies and their stability” (OECD, 2005).

The role of the corporate governance is to supply a construction which a company can use to set its objectives and to monitor its performance in alignment with the welfare of the company and its shareowners. A successful corporate governance structure helps to develop the confidence level which is essential for the function of a financial system. A well working governance system lowers the costs of capital by developing the usage of assets and leads to economic growth (Bavly, 1999). Corporate governance problems relate to the separation between outside shareholders and executives. Dispersed ownership enlarges these problems by giving rise to conflicts between claimholders and by generating a group action problem amongst the share holders. Group action problem is also known as the free rider problem (Berger et al., 2004).

The corporate governance model of the US can be described as a market-based model, where the shareholders are widely dispersed and the corporate control is fairly strong. In this so called market-based model, supervision is mainly conducted through unfriendly take-overs. Because of a possible take-over, the management of the company has incentives to control the company in a successful way. If the company is managed unsuccessfully, it is more likely to be bought by another company. The new management of the company could benefit from the investments made during the previous management. Therefore, hostile-takeovers are a useful technique to govern that the management controls the company appropriately (Chew, 1997).
Corporate governance from the US securities laws standpoint has its roots in the Watergate scandal. The scandal lead to the issuance of the Foreign and Corrupt Practises Act of 1977, which had detailed demands concerning the organisation, upholding and review of the systems of internal controls. The 1977 Act was followed by SEC’s demand for mandatory reporting on internal financial controls in 1979. After a series of high-status business failures, like the Savings and Loan collapse, the US government set up the Treadway Commission. In the report issued by the Commission in 1987, needs for an appropriate control environment, independent audit committees and an objective internal audit function were highlighted. Hence, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) was founded with the task of employing internal controls to the corporate environment (Bavly, 1999). The function of the US securities laws is primarily investor oriented. As long as there is a significant group of US investors, US securities laws will apply in order to protect those investors and to ensure adequate disclosure of material information (Perino, 2005). The US securities laws have mainly concentrated on protecting the investing public by focusing mainly on the reporting of the results. To provide the public with fair, transparent financial results and to disclose the information necessary to understand those results was enough. However, this structure was changed in 2002 with the issuance of Sarbanes-Oxley Act (Ramos, 2004).

### 3.4 Sarbanes-Oxley Act

The Sarbanes-Oxley Act has been described as the single most important securities act in the history of the United States. SOX has extensive effects and influence on both European and Swedish companies (Coffee, 2002). The Sarbanes-Oxley Act of 2002 came as an answer to the accounting and corporate scandals that took place in the US during 2001 and 2002. Enron was the first and largest scandal, but companies like WorldCom and Xerox followed soon after. All of the companies involved with the scandals portrayed a solid financial position. Yet, this position was built on exaggerated results by losses that had been recorded as earnings, overstated turnovers, illicit loans and insider trading. The Enron scandal did not only lead to the fall of Enron, but also their accounting firm Arthur Andersen, which was one of the largest accounting firms in the world. These accounting scandals inspired Congressman
Michael Oxley and Senator Paul Sarbanes to write an act, which later carried their names. The Act was signed by President George W. Bush on the 30th of July, 2002 (Perino, 2005).

The Sarbanes-Oxley Act was a reaction to the problem that faced the American corporate governance system in the US. The main reason behind the introduction of SOX has been investors’ lack of confidence after the accounting scandals. The goal of the introduction of SOX was to protect the investors and give them better insight into firms and increase the reliability of information given and restore the confidence of investors. A way of achieving this was to make the CEO and CFO sign off on financial statements that they are true and accurate (Lobo & Zhou, 2005). The Act has not only had an affect on the US firms, the SOX has as well had an enormous impact on European firms and in this case, the Swedish companies that are forced to follow SOX (Ernstberger et al., 2005).

Figure 3: Relationship of the Rules, Regulations, and Standards (Ramos, 2004).
Figure 3 illustrates the relationships between the various rulemaking organisations, corporations and their auditors. The SEC is the agency responsible for administrating federal securities laws in the US. In the case of SOX, the SEC is responsible for setting rules to implement the Act’s provisions. Those rules include, for instance, guidance for reporting by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) on the company’s internal control over financial reporting and disclosure controls. However, the SEC does not supply any guidance or set the standards for the independent auditors. The Public Company Accounting Oversight Board (PCAOB) sets the auditing standards, which will have direct affects on auditors and how they plan and perform their engagements (Ramos, 2004).

The auditing standards have also an indirect effect on the companies. For instance, when a company is preparing for the audit of their internal control report, the company must be able to support its conclusions about internal control and supply documentation which is adequate for the auditor to carry out an audit. Thereby, when preparing for the audit of a company’s internal control report, it is extremely important for the management and to those who assist them to have an excellent understanding of what the independent auditors will require and demand. The circumstances are similar also when a company is preparing for a financial statement audit (Ramos, 2004).

PCAOB is an independent, non-governmental board to supervise the audits of registered companies. The aim of the Board is to protect the interests of shareowners and to further public confidence in independent audit reports (Ramos, 2004). The main powers of the Board are:

- To register and to discipline accounting firms that audit registered companies
- To institute accounting and audit standards
- To investigate financial irregularities (Greene, 2003).
3.4.1 Overview of SOX

Sarbanes-Oxley Act sets up new laws or amends the existing laws in numerous ways. Several of the Act’s requirements have been improved by SEC rulemaking and by securities market listing standards. SOX has changed corporate governance, including the duties of officers and directors, the policies of accounting companies that provide auditing services to public companies, corporate reporting and enforcement. The following chapters present the these key elements of the Act (Lander, 2004).

Figure 4: The Key Elements of Sarbanes-Oxley Act (Banks, 2004).

3.4.1.1 Corporate Responsibility

Since the Act was ratified, there has been improved auditing committee responsibility and auditor supervision. These responsibilities include a preceding approval for non-audit services by the auditor and the disclosure of all non-audit services of the auditor approved by the auditing committee. CEO’s and CFO’s are now obliged to certify that their companies’ annual and quarterly financial reports are accurate and not...
misleading, and that they have met their responsibility to evaluate the internal control (Karmel, 2004).

The Act requires every organisation to construct an auditing committee that will be providing the firm with the contact with the public auditors. Prior to the Act the auditors needed to find a manager with the knowledge to answer the questions that were raised by the auditors. This created an opportunity for mangers to fabricate numbers to get the required results. This is now quite difficult because the Act requires the people involved in the committee to be independent (Lansing & Grgunch, 2004).

SOX declare that a financial expert is to be part of the auditing committee. The financial expert is there to make sure that there is at lest one person in the committee that has knowledge and know-how to work with auditors to minimise any misunderstandings that can arise between management and the auditors. The description of a financial expert is one that has working knowledge of Generally Accepted Accounting Principles (GAAP) and how to prepare financial statements. Even if the firm does not have the possibility to fulfil the task to find a financial expert it does not forbid the firm to continue and work with the public auditors (Lobo & Zhou, 2005).

Since the implementation of the Act the SEC has noticed that several foreign private issuers have already in place similar committee as the one required by the Act. With that in mind they created exemption for those firms to comply with the Act in this matter if they fulfil five requirements. Firstly, the firm must have a board of auditors in position to follow the home country legal and listing requirements. Secondly, the board must be separated from the board of directors or to be composed of people from the board of directors and non members. Thirdly, the board of auditors is not chosen by the board of directors and none of them are allowed to sit on the board of auditors. Fourthly, the legal requirements of the listing country provide the board of auditors’ independency from the management and the firm. Fifth, the board of auditors is solely responsible for the appointment of accounting firm and supervision of the company that is chosen to perform audit reports (Lansing & Grgunch, 2004).
3.4.1.2 Disclosure Requirements

In general, both American and non-American companies are obliged to follow the disclosure requirements of the SOX. The Act enhances the quality and timelines of company information with following provisions:

1. Management and auditors must assess their corporation’s internal controls and associated disclosures on yearly bases.
2. Supplementary disclosures of off-balance sheet financing and financial contingencies are now mandatory.
3. The disclosure of pro forma information is now mandatory.
4. Disclosure under the Exchange Act’s Section 16 of insider share transactions has been accelerated to two business days.
5. Disclosure of certain information will now be required in real time (Greene, 2003).

The Act also has put a lot of more pressure regarding misleading information being used in financial reports. If any statement has to be restated then the CEO or CFO can be forced to repay any bonuses or other earnings that were received the preceding 12 months and as well any sales done by the CEO or CFO of the firms shares. This is not carved in stone the SEC has the authority to exempt officers on a case by case basis (Lansing & Grgurich, 2004).

3.4.1.3 Other Requirements

Other requirements present protection for the independence of security analysts and improved admission of their possible conflicts of interest. In addition, the Act stretched out SEC’s review of company reports, improved SEC enforcement authorities, and enhanced punishments for violations of securities law (Lander, 2004).

One of the other key requirements of SOX is that firms must provide a proper platform for employees to be able to report any concerns in regard to accounting or auditing matters. These are also known as “whistleblowers”. It is important that all
wrongdoing reaches management, especially when the Act puts a lot of responsibility on top-level management (Gagne et al., 2005)

3.4.2 Certifications

SOX has two provisions that demand senior management of a company to certify periodic reports filed to the SEC. Section 302 of the Act mandates a set of internal procedures designed to ensure accurate financial disclosure. It requires the CEO and the CFO to certify every periodic report filed to the SEC. Section 906 amended the US Criminal Code to require every periodic report to include a certification of the CEO and the CFO (Karmel, 2004).

3.4.2.1 Section 302

Under Section 302 of the Act requires that reporting companies are obliged to include certifications by both the CEO and CFO in every quarterly or annual report submitted to the SEC. This means that the CEO and CFO must sign the certification personally. Signature of another executive is not acceptable. Section 302 entails the certification to cover the review of the report, the material accuracy of the report, sound presentation of financial information, disclosure controls and internal accounting controls. Section 302 is divided to five key provisions in five paragraphs (Hollister, 2005).

Paragraph 1 obliges the certifying officer to state that the filed report has been reviewed by her or him. Paragraph 2 deals with the material correctness and fullness of the information in the report. The signing officer must declare, based on his or hers understanding, that the report does not hold any false account or misleading omission of material for the period covered by the report. Reports are also required to declare whether supplementary information outside that in particular required by the forms and rules is required to avoid the report from being deceptive. Paragraph 3 deals with the fair presentation of financial statements and other financial information. The signing officer must state that, based on his or hers understanding, during the periods presented in the report the financial statements and other financial information included in the statement fairly present in every material aspects the financial state,
results of business, and cash flows of the corporation. This report is intended to provide assurances that the fiscal records in a report are in general materially correct and comprehensive. This statement is viewed as in its entirety. Paragraph 4 deals with disclosure controls and procedures. In addition, internal control over financial reporting is addressed. The certifying officer must state with the other certifying officers that they:

- Liable for setting up and maintaining disclosure controls and procedures in addition with internal controls over financial reporting for the corporation.
- Have planned the internal control for financial reporting, to provide reasonable assurance that the financial statements match to GAAP.
- Have planned the disclosure controls and measures, to guarantee that material information about their corporation is made known to them by others within the entities, especially for the period that the statement covers.
- Have assessed the effectiveness of the company’s disclosure controls and measures and presented in the report their conclusions about effectiveness of these controls and measures.
- Have disclosed in the report any change in the company’s internal controls over financial reporting that took place during the period covered by the annual report that has materially affected, or is likely to affect, the company’s internal controls over financial reporting (Lander, 2004).

Paragraph 5 deals with disclosure regarding internal control over financial reporting. Based on their most recent evaluation of internal control the signing officer must state with the other signing officer that, they have reported all significant deficiencies and material weaknesses in the design or operation of the internal control over financial control to company’s auditors and the audit committee of the board of directors (Lander, 2004).

### 3.4.2.2 Section 906

Section 906 of the Act adjusts the United States Federal Criminal Code and requires a criminal certification to certain periodic reports for reporting companies CEO’s and
CFO’s. The Section 906 certification entails the CEO and the CFO to certify that the financial statement report fulfills the requirements of the Exchange Act. In addition, the section 906 demands the officers to certify that information enclosed by the report reasonably presents, in all material aspects, the financial condition and the operational results of the company (Hollister, 2005).

3.4.3 Internal Control over Financial Reporting and Section 404

All of the companies that are obliged to report to the SEC must disclose a report of supervision on the company’s internal controls over financial reporting in their annual reports. The auditor must confirm and report on management’s assessment of the effectiveness of the internal control over financial reporting. The auditor also requires the company to document and to maintain evidence to support management’s assessment. Internal control over financial reporting can be defined as a process planned by, or under the control of the company’s CEO and CFO. The implementation is done by the board of the company, the management and other personnel to present reasonable guarantee for the reliability of financial reporting and the preparation of financial statement for external purposes (Greene, 2003).

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) created a model of internal control in 1992. COSO’s definition of internal control and related concepts used in the report are consistent with Sarbanes-Oxley Act’s requirements on internal controls over financial reporting. To simplify a company’s organisational plan to all activities that are included in an efficient internal control construction, the COSO model brakes internal control down to five interrelated components.

- Control environment
- Risk Assessment
- Control Activities
- Information and communication
- Monitoring
COSO defines internal control as “a process, affected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of the objectives” in the following categories:

- Effectiveness and efficiencies of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations (Quall, 2004).

Under the Section 404 of the Act, the firm’s auditors are demanded by the SEC to demonstrate and report management’s assessment of the effectiveness of the firm’s internal control over financial reporting. The auditors report must declare the auditor’s judgment as to whether management’s evaluation of the effectiveness of the firm’s internal control of financial reporting is fairly stated in all material aspects or include a judgment to the consequence that a general estimation can not be expressed. If a general opinion can not be expressed, the auditor is obliged to explain why. The company must also file the attestation report of the auditor as a part of their annual report. The evaluation must be based on procedures that are sufficient to evaluate its design and to test its operative effectiveness. The rules do not establish standards for the attestation report. The Public Company Accounting Oversight Board (PCAOB) has been charged with adopting the standards for the attestation engagements. Management and the auditors must coordinate their processes for documenting and testing the internal controls over financial reporting. Although the SEC rules on auditor independence prohibit an auditor from providing certain non-audit services to a client, auditors may assist management in documenting the controls. However, when the auditor is engaged to assist management in documenting internal controls, management must be actively involved in the process. While coordination between management and the auditor is necessary, management cannot delegate to the auditor its responsibilities to assess its internal controls over financial reporting (Ramos, 2004).

SOX 404 Compliance has had serious effects on those found to have material weaknesses in internal control. In this section companies are entitled to provide evidence of internal control assessment. This presents new challenges to businesses,
especially documentation of control procedures related to information technology (Levinsohn, 2005).

As entities test and document the internal controls of the company, deficiencies in the organisation are bound to be recognised. When the deficiencies come to light, auditors must be informed of them as soon as possible so that they can measure the scale of the deficiencies and take suitable corrective action. When evaluating the internal control deficiencies, two significant issues are most likely to surface.

- Does the deficiency, or the deficiencies, accumulate to the level of a material weakness that are required to be disclosed and which will prevent the company from issuing a spotless internal control report.
- What the company should report if it has recognised and corrected a material deficiency before the year end (Quall, 2004).

Figure five presents the different levels of internal control deficiencies

**Figure 5: Internal Control Deficiencies**

![Diagram of internal control deficiencies]


The financial reporting process of a company must make possible for it to include record, process, and sum up and report financial data. An internal control deficiency is a fault in either the function or plan of a control guidelines or a practice that has a negative consequences on the process. It is fairly easy to achieve an agreement on deficiencies that stretch out towards inconsequential or material. However, it is in the middle of the range where borderline problems arise. It is extremely difficult to agree at what point a deficiency crosses the line from inconsequential to significant and from there to material weakness (Quall, 2004).
3.4.4 Audit Committee

The Act requires a company to create a corporate auditing committee. The function of the committees’ role is to act as the solitary link between management and external public auditors. The auditing committee is directly responsible for employing, compensating and retaining the company’s independent auditor. The committee is also responsible for supervision of the work of the auditor in preparing or issuing any audit report. In addition the committee is accountable to resolve any disagreement about financial reporting between the management and the auditor (Lander, 2004).

All of the members of the committee must be independent. This means that the members may only accept payment for his or hers services as a director. Members may not take any other direct or indirect compensation from the company or its subsidiaries. Once the persons have been selected to sit in the committee, the Act recommends, but does not demand, that at least on of the members is a financial expert. With this requirement, the Act wants to assure that at least one of the members in the committee has the necessary accounting and financial background to communicate with the public firm auditors. SOX requires, that the financial expert has a working knowledge of the GAAP and financial statements as well as experience of preparing financial and accounting statements for comparable companies (Karmel, 2004).

According to Lansing and Grgunch (2004) and Karmel (2004) foreign private issuers may face problems to find suitable candidates for the audit committee. Most of the foreign private issuers typically have a two tier board system where half of the lower tier or supervisory board is comprised of directors are elected by employees of the company, therefore disqualifying them as independent. In addition, the remaining members of the supervisory board are characteristically executives in the company’s subsidiaries, likewise disqualifying these persons from the audit committee. Another problem foreign private issuers encounter is that most of the directors possess significant cross-share holdings in other companies. Based on the Act, even independent directors sitting in the board of subsidiary companies or affiliates are prohibited from sitting in the issuers audit committee.
3.4.5 Auditor Independence

The Act puts the relationship between firms and their audit firms into a totally different light. The Act sees great importance that there is independence in the relationship. An audit firm is not allowed to provide services to a firm if it has done it for each of previous five years. The Act also involves a cooling-off period of five years. This means that five years must pass before the audit firm is allowed to perform services for that specific firm again (Ernstberger et al., 2005).

Under the Act an accounting firm is not independent if an employee of the company with a financial reporting oversight role has been a member of the accounting company’s audit action group during the cooling-off period of twelve months. Employees concerned by the cooling-off period are the CEO, the CFO, the controller, chief accounting officer (CAO), every employee in a financial reporting oversight position and everyone who prepares financial statements (Karmel, 2004).

Based on the SOX it is prohibited for a registered public accounting firm to provide certain non-audit services, if they have performed an audit to the company. However, the auditor may provide other non-audit services that are permitted if they are approved in advance by the company’s audit committee. The prohibited non-auditing services include:

- Bookkeeping or other services related to accounting records or financial statements
- Financial information systems design and implementation
- Appraisal or valuation services and fairness opinions
- Actuarial services
- Internal audit outsourcing
- Legal services
- Expert services
- Broker-dealer, investment advisor or investment bank services (Lander, 2004).
3.4.6 External monitoring

The Act does not only focus on increasing the internal controls it as well increases the requirements for external disclosure to try to reduce the chance for misleading information reaching the investors. In the aftermath of Enron there was a need to account for all the Special Purpose Entities (SPE) that they had used in attempts to mislead their investors and the market. An example is when Enron sold debt or sold an asset to companies that they had interest in and then leased it back to Enron. The Act forces now the firms to disclose these. The Act still has not categorized specifically how it has to be done. This forces the issuers to go through all independent holdings to find if there is any misleading attempt in the financial statements as a result. This is a major task to undertake to look into especially for European firms where cross-corporate control is more common and this may have a negative effect on their tax plan and may force these firms to de-list form the US market. The end result is that before firms were only required to disclose information that had an affect on the firms’ performance but now they are forced to disclose any information that is likely to have a current or future effect in the firms’ financial results or any information that is relevant to the investors (Lansing & Grgurich, 2004).

Since the Acts introduction the SEC has amended of what is required to disclose. It is both unnecessary and time consuming to make firms account for information that does not have any affect on the financial statements. It is only required to disclose off balance events if it effects the following financial position, changes in financial position and income or costs. Still the firm has to disclose information that they may be needed for the investors to understand the off balance sheet activities the firm is conducting. The disclosure required is more then often enough with the present year but if there has been any changes that affects firm from previous years then it should be as well disclosed (Karmel, 2004).

3.4.7 Applicability of SOX

Most of the Act’s terms apply to all companies, both American and non-American, that have registered equity or debt securities with the SEC under the Exchange Act.
There are, however, requirements that apply only on to companies with equity or debt listed on the US capital markets. The majority of the requirements apply also to those companies that have registered a public offering of securities in the US. The complexity of SOX means that applicability of all sections of the Act must be observantly looked at to be sure if a specific provision applies to any particular situation (Lander, 2004).

Before the implementation of SOX the SEC had a policy to provide exemptions for foreign private issuers but this is not the case with SOX. Ernstberger et al. (2005) argues that there are several fundamental reasons behind this. One reason could be that regulators were afraid that the exemption of foreign private issuers could create opportunities for dishonest companies to flourish. Still the major reason that seems to arise when looking at SOX is the fact that it only took 29 days to launch it. This was done on purpose to show strength in the eyes of American investors and there was no time to argue for exemptions for foreign issuers, yet this question was raised by several congressmen. The Act does not imply any exemptions for foreign firms but still the SEC has the authority to exempt or change rules in the interest of investors and the Act (Ernstberger, Haller, & Kraus, 2005).

The implication of SOX have also meant that accounting firms are required to register with the PCAOB an independent non-profit organization under control of the SEC. Their purpose is to oversee the audit firms’ foreign and domestic comply with the Act which force them at least every three years to conduct inspections and investigations. When SOX came into effect in July 30, 2002 there had not been any consultation from US regulators with the EU commission of possible complications. With this in mind the Commission with several others European actors lobbied the SEC and PCAOB for exemption and got their way (Ernstberger et al., 2005).

Non US based firms are at the moment exempt from some measures of the Act. SEC announced on the 2nd of March 2005 that foreign private issuers will have until their fiscal year ending on or after 15 July 2006 to comply fully with the Act. According to the SEC, the main reason behind the exemption was the fact that several firms were already facing a large challenge when converting to the new International Financial Reporting Standards (IFRS) (Boerner, 2005).
3.4.8 SOX and Cross-listing

There has ever since the introduction of SOX been a worry that it will have a negative effect on the interest of firms that want to raise capital in the US. The SEC has acknowledged this problem and their chairman William Donaldson raised the issue in the beginning of 2005 at London School of Economics. He argued that, for SOX to be successful outside the US, the rest of the world has to adapt as well. The reason for this is that you can not fix a problem only in one market, it may surface itself somewhere else. Success is achieved only through international cooperation. International cooperation can have an end result of a global market where all investors can feel safe and have a clear insight into all firms (Boerner, 2005).

There are some studies which argue that the impact of SOX on foreign issuers will not be that excessive and the benefits cover the costs. The result would be that companies still would prefer to list in the US due to high liquidity of the market (Levinsohn, 2005). Perino (2005) argues that even if it is expensive to comply with the Act the firms that are cross-listed are often quite large and should not have any problems to handle the related costs. In addition, Perino (2005) argues that some other risks like increased liability risk is not accurate. Foreign private issuers gain a lot of benefits of being listed in the US like greater visibility and have access to a high liquid market. According to Perino, the costs are outweighed by the benefits (Perino, 2005).

When a firm decides to list in the US it has to follow the SEC regulations. The company does this out of its own will and thereby puts itself in the hands of the SEC enforcement. Still the major benefit is that it sends out signals to all investors that the firm protects them. Perino (2005) argues that empirical research has shown that this signal is very important and especially important to firms that are in an expanding phase growing very rapidly and in the need of new capital. There are also several disadvantages of de-listing from the US markets. The most obvious is that it costs more to exit than it costs to comply with the Act. The North American market is largely compiled by US investors and as long as this is the case US regulation will be in place to protect its investors and force firms to disclose relevant information (Perino, 2005).
Since the introduction of the Act the auditing community has started to warn investors more often when there is a problem arising inside of a company. As a result, more going concern audit opinions have been issued by auditors. These were not as common prior to SOX but now there is more responsibility on the shoulders of the auditors. Due to this, there has been a sharp increase in bankruptcies as a result. Geiger et al. (2005) made this assumption valid by comparing results to a period of 1991-92 which also was a recovery period after a recession (Geiger et al., 2005).

### 3.4.9 Costs of SOX

Engel et al., (2004) argues that SOX will increase the transparency of companies and by this generate gains for investors. They also argue that it is value maximizing for firms to go private if the costs of introducing SOX exceeds the benefits to its owners compared to the benefits they enjoyed before the introduction of SOX. One of the major criticism of SOX has been the expected increase in costs of complying with the regulations, according to research done 48 percent of companies will spend at least 500,000 United States Dollars (USD) trying to comply inside the first year. It is extremely difficult to estimate the total cost of SOX compliance. In a study by the Financial Executive Institute estimated the incremental annual auditor verification costs fees alone to average of 590,000 USD and initial implementation costs (including external consulting, software and other vendor charges but excluding internal employee time) to average of 730,000 USD. Based on these figures Engel et al. (2004) calculated that the total costs for a company to comply with the SOX are in excess of 5 million USD. This figure does not even include the more complicated opportunity costs such as management and board member time and attention, which are more difficult to estimate.

The information technology (IT) costs play a significant role in the total compliance costs. Perino (2005) estimates that public companies as a group will spend 2.5 billion USD on IT and related consulting in order to comply with the Act’s internal control provisions. Perino also states that the costs of being public for middle sized US company nearly doubled after the issuance of SOX from 1.3 million USD to 2.5 million USD per year. Thus SOX may force companies that wanted to list in the US
before the introduction of the Act to turn to other markets to raise capital (Ernstberger et al., 2005).

### 3.4.10 Penalties

A major aspect of the Act is the fact that it has increased the penalties for CEO’s and CFO’s in regard to internal and external controls being followed. The Act makes criminal misconduct in two areas:

- CEO and CFO certification requirements
- Demolition of Company’s audit record and/or modification or fabrication of records (Lander, 2004).

Based on the Act, a knowingly certified misleading statement is an offence punishable by a fine up to 1 million USD and imprisonment up to 10 years. While wilfully given misleading certification is an offence liable to be punished by a fine of up to 5 million USD and sentence for up to 20 years. The penalties for destruction of audit related papers are subject to a maximum punishment of 10 years imprisonment. In addition, demolition, modification, or fabrication of records in federal investigation and bankruptcy proceedings with the intention to obstruct or manipulate such investigation are now punishable by 20 years in prison (Lander, 2004).

### 3.5 Post SOX Corporate Governance in the EU

The European Union (EU) is aiming to create equal corporate governance rules to all of the participants acting in the European capital market. Regulations of the EU automatically bind the Member States. The European Unions reply to SOX is a Directive on statutory audit of annual accounts and consolidation accounts, also known as the 8th Directive. The 8th Directive covers some of the same issues as SOX, including the responsibilities of directors’ and auditor independence. Its aim is to reinforce and harmonise the statutory audit function throughout the EU. It sets out principles for public supervision in all Member States. According to Ernstberger et al. (2005) the 8th Directive is not as detailed as SOX is. Instead, it is more suitable for the
principle based European corporate governance model. The 8th Directive was approved by the European Parliament on the 28th of September 2005 (Ernstberger et al., 2005).
4 Empirical Findings

In the Empirical Research chapter the results of the interviews with the representatives of the cross-listed Swedish companies are presented. In order to analyse the questions in a more rational technique, the questions have been divided into five different areas that are identified in the “Problem” section on chapter 1.

4.1 Responses

In this segment the comments and the answers of the interviews are presented. In order to give more comprehensive view to interviewee’s thoughts, quotations are presented with every question.

4.1.1 Background of the Companies and the Interviewees

All of the seven companies interviewed in this study are Swedish based and are operating in the international market. All of the corporations are registered with the SEC and are thereby obligated to follow the Sarbanes-Oxley Act. These companies have securities, stocks or bonds, listed on the US capital market.

The interviewees have mixed professional background from accounting, auditing, finance and controlling. They all possess extensive experience from these businesses. The common denominator between the interviewees is that all of them are in leading positions in the SOX implementation projects of their companies, both on national and international level.

4.1.2 Cross-Listing

To understand the background of the companies it is important to know for how long they have been involved in the US capital markets. The question that was put forward was when did they list cross-list and what were the reasons behind the decision? It differed quite substantially when they entered the US capital markets. The earliest
listed in 1984 and the most resent in 2001. Main reason for listing on the US markets, according to the interviewees, was better access to capital. Still some companies mentioned some other reasons.

“The reason we went to the US markets was to follow the hype markets like our competitors did.” (R6)

“Our company is a global player and we are quite big and before we had a part in the group that was a major player in the US market. We have very diversified shareholders in the US.” (R7)

Out of the seven companies interviewed, two have de-listed from the NYSE or NASDAQ but are still registered with the SEC and by such required to follow the Act. They de-listed 2001 respectively 2003 and they had different reasons for this. One company de-listed as it was a requirement for a merger and the other de-listed as the liquidity of their stock was low.

“The de-listing came in 2001 when the merger with another company was negotiated. One of the requirements for the merger was to de-list from the US.” (R6)

“The reason for de-listing was that the stock in the US was not heavily traded. It was not only NASDAQ that we de-listed from. We also de-listed from every other stock exchange except from the Stockholm stock exchange. Investors in the US do not have to buy from NASDAQ anymore. They can buy it just as well from the Stockholm stock exchange. With lower transaction costs it is a cost benefit for us and to be listed at one stock exchange only.” (R4)

The de-listed companies explained why they are still registered with the SEC while they have already de-listed from the stock exchanges. One of the companies has still more that 300 US based owners on their securities issued in the US, while the other has issued bonds in the US which mature during the next few years.
“We have too many US based share owners in the US and thus can not totally resign from the requirements of the SEC.” (R6)

“We have some bonds issued there, but these will expire in a few years.” (R4)

4.1.3 Implementation of SOX

The implementation process for SOX started in all companies during the first half of 2004. The earliest one started in February 2004, while the last company commenced their project in June 2004. However, in some cases the initial scoping and planning had already started few months before the official kick-off.

“Kick-off for our company was in June 2004.” (R1)

“Globally the project started in February in 2004. In Sweden we started to research what SOX is and how do we need to confront it, and what kind of organisation do we need when driving the project.” (R2)

“Project started in May 2004, but the initial scoping had been done before that.” (R6)

The number of employees directly involved in the process differed significantly between the companies. It was also difficult for the interviewees to estimate the total number of employees involved. Some of the interviewees stated that their companies are so big, that it is impossible to give an accurate estimation. Moreover, the number of employees has varied during the process. The figures used here are the highest during the process. All of the respondents did not give the number of external employees used in the process. The top figure was 600 employees, while one of the responding companies used only 10 persons in the process.

“That has varied over time. While we documented the controls we used a lot of resources. Centrally it was about 100 while documenting. This includes both internal and external from Ernst & Young (E&Y). Now during the
implementation, we have 25 legal entities worldwide and we have a project in each of those entities all together with central part, the figure is close to 200 persons.” (R3)

“We have 600 persons involved internally. Some external, but mostly internal. Our external advisor is Ernst & Young.” (R6)

“Internally we use from 75 to 100 employees. Externally between 2-30 persons on a Swedish level. For the processes we use Deloitte. For information technology (IT) we use Ernst & Young.” (R2)

“I work full time as a project leader. Then we have project leaders locally in four other entities. The financial managers of our companies are also involved, but not full time. But for full time we have four persons. All together it is around 10 persons. We have also used KPMG as our consultants.” (R5)

There are some differences on how far the implementation process has progressed. Generally all of the companies have documented the processes and have tested or are testing the controls and are now working to fill the gaps. Three of the companies are ready to be compliant by the year end of 2005, while the rest of the companies will be compliant before December 2006.

"We can see that most of the processes and controls have been tested and are operating effectively. This means that we are at the end of implementing SOX. We can also say that the project will be closed in the middle of November and that we are SOX compliant at the end of 2005.” (R2)

“"We are quite far at the moment. Where we have documented all the processes and we have made evaluations about effectiveness of controls and then we have started to fix the gaps that we have identified. We are in the final end of the remediation and the testing has also started parallel to this phase.” (R6)

“"We are now testing the controls. If any gaps are found they have to be filled up. It is a quite time consuming job with a lot of processes with several
controls in each of them. We have a deadline to be SOX compliant at the end of the year internally. It has not been decided when we are going to file with the SEC." (R7)

“We have almost come to the finish of the documentation phase. We are now working with the gaps. We have a deadline before the end of this year. After that we will work with the gaps during the next year” (R5)

The largest challenges that the companies have faced during the implementation process varied moderately. Four of the interviewees named construction of information technology (IT) and information systems (IS) as main challenges. In addition, it has been difficult for the companies to comprehend if they are required to follow the Act and what the requirements mean. According to the respondents this was due the lack of information after the Act was issued. Three of the interviewees also mentioned the size of the documentation as a primary challenge with the implementation.

“The IT parts especially the IS general controls and also a lot of the home build systems involved in the financial transactions. This means that we have to rebuild a lot of routines and write a lot of policies to achieve this.” (R2)

“One of the largest challenges is the IT-efforts that needs to be done.” (R4)

“In the beginning the largest challenge it was to understand if and why we have to follow the Act. A lot of communication and training was needed to explain that this is a legal requirement and then to describe what to do. Afterwards it has been the size of our company. We are acting in 12 countries and 22 legal units and our company is more like a holding type of corporation. How to get into those separate companies so that they will commit to do this has been difficult.” (R6)

“A big challenge is to get as many automatic controls into the units as possible. We need to have the right control in the right place. This requires a
lot of investments and time to implement an IT system that is capable to handle all the controls.” (R7)

“Nobody knows what they are doing. I think that this is a conspiracy between PWC and E&Y. You would think that if they wanted us to do a good implementation they should tell us what we need to do. IT is the hardest part to implement. There is also very little exchange of information. Our company is so decentralized and this creates problems. If you have centralized model it is easier. If every unit is independent you document all process again and again, it is time consuming.” (R1)

“The largest challenge for our company was to come up with the strategy. Our best decision was to lead this project centrally. We didn’t have that much time in the beginning especially when documenting took so much time. The size of documentation was huge and it took a long time to get the approval for the documentation from the auditors. We are a global company and many resources are involved. Just to understand the requirements was difficult. The size of the requirements is really high. In addition, the auditors have their own interpretations of the law as well as other companies.” (R3)

Only three of the interviewees gave an estimation of the external costs. These figures varied between 6 to 50 million Swedish Kronor (SEK). However, all of the respondents admitted that the costs are substantial. Five of the companies have a budget for the implementation project, while the rest of the companies only follow up the costs.

“We have paid out over 50 million SEK to external consultants for this project. But I can’t estimate the total costs because we are not counting the internal costs so detailed.” (R6)

“A lot of money is being put in to the project. I have no figures but it is a high number and the highest costs are within the IT-area and the management testing, which we are purchasing externally.” (R4)
“So far the costs have been approximately three millions SEK, maybe six millions when this project is done. These figures include both internal and external costs. Then there will also be yearly costs when we are running SOX.” (R5)

“I can not give an exact cost but I estimate somewhere around 20 million SEK externally” (R2)

“We will keep it to ourselves. Of course it will cost but we are starting to see it as an investment, so it is worth the money. The costs of course have soared due to the time pressure involved. It could be discussed if this is fair for the competition in our market. It creates a disadvantage for us against competitors that do not have to follow SOX. Luckily the implementation came in period of economic boom for us.” (R7)

Despite the high external costs, some of the respondents were not satisfied with the level of consultation they received from the consulting companies.

“There was a problem as the auditing and consulting firms did not agree with each other. For example, in the beginning we had Ernst & Young as our consultant for the internal controls. They argued that we were compliant already last year. We sent the documentation to the global project group and it was thrown out as unacceptable. After this, the management decided to change Ernst & Young for Deloitte. This meant that we had to restart the process in February.” (R2)

“We have used KPMG as our consultants. However, we didn’t get that much new information from them. Everybody was on the same level in the beginning.” (R5)
4.1.4 Attitudes towards SOX

All of the interviewees found both positive and negative sides of SOX for their companies. They all believe that the documentation of processes and controls will help the companies to gain efficiencies and to clarify different roles in the organisation.

“It is good to have all processes on paper. I am hoping that our company will continue to work with the SOX and integrate it into the daily business.” (R1)

“I think that SOX is a good thing like ISO 9000 standardisation system is. We like to call it good financial practice. At least we can now see who is doing what and we can also see the point of what one person delivers to another. The documentation could be a stepstone for creating new routines and systems.” (R2)

“In the financial department there are many persons who are quite happy about SOX. That is because they have always worked more or less ad hoc but now we have chance to put everything on paper so that everyone knows what they should do.” (R5)

“When you get down to see what you are actually doing and map all the processes and controls, you see the efficiency gains that you can get from SOX. You can see that, some controls are done double. People become more aware of that you need evidence and mapping of what you do, it structures the department, cleans it.” (R4)

Most of the companies felt, that it took a long time to comprehend what the Act is about. Some of the interviewees believe also, that SOX was created hastily and that it is too detailed. Thus, the implementation has taken a great amount of resources and the costs have ascended steadily.
“My personal belief is that SOX was created hastily and it was a bit overworked. In some cases you get the feeling that it is too much in detail at lower levels.” (R4)

“The negative sides would be that we spend a lot of time understanding the requirements and since the time table was so tight we had to force people to rollout SOX and to put a lot of man hours into this.” (R3)

“If we didn’t have to do this, we could have used the money somewhere else. The negative side is the extensive amount of work that has to be put into the project.” (R7)

“It is very costly it will take a long time before we will get any benefits.” (R1)

“Negative is of course that it is expensive. It is taking a lot of effort in the organization, a lot of time when they think that they could be doing something else.” (R4)

Most of the companies have communicated the implementation project to the employees through the Internet. Only two companies did not use the Internet or the intranet as a communication channel. However, all of the companies use management and/or presentations as a channel to communicate. Three of the respondents have used the company newspaper to converse the implementation process to the employees.

“Through an internal website located on the intranet. At the group meetings the issue of SOX is always on the agenda.” (R7)

“We have intranet as one of the tools but we also use the management of each local unit as well. They are involved in the process and they have their own responsibilities. For the employees the intranet is the main channel and for the management it is the forums; steering group of SOX or steering committees on group level.” (R6)
“Through the intranet system, we have a homepage about SOX and we have given information about this homepage to the employees. In Sweden we have a company newspaper where we had articles describing SOX. The management is responsible to communicate with the employees about certain areas in the SOX project.” (R4)

“We have communicated through several kick-offs and workshops. We also had an article in the company newspaper. I give a lot of presentations to the parent directors and the local directors in Sweden. E-learning is not common with our company like it is in some other companies.” (R1)

The answers regarding the level of SOX knowledge among the management and the employees were similar. All of the interviewees stated that the knowledge among the managers is high, while the lower management and other employees are mostly not aware of SOX, especially if they are not involved with the implementation process. One of the interviewees stated, that language difficulties have made it complicated to communicate SOX to the employees.

“Top management is really highly aware due to the fact that CFOs and CEOs can get prison time if they do something wrong. Probably a lower manager does not exactly know what SOX is. The employees on lower levels know SOX only if they are involved in the implementation.” (R1)

“The persons who are involved with SOX have quite a good knowledge. The management has started to show interest. SOX is nothing that you earn money with, it is always hard to get the management involved with a project that you can not earn money with. But our CEO is very interested.” (R5)

“Management is very well aware, because we have been working together with management all the way through. When we go down the selective processes obviously the process owners and organisations are well aware. But when we go further down in the organisation, the knowledge of SOX is very limited.” (R6)
“In top management there is more knowledge about what it is, but it’s more
difficult to get it to lower levels. Our company is a global corporation and in
sometimes it’s a matter of language to communicate SOX to all parts.” (R7)

The answers regarding the attitudes of management and non-management towards
SOX differed to some extent. Two of the interviewees admitted that there is negative
attitude among the management of their companies towards SOX. However, all of the
respondents stated that there is more negative attitude in the lower management and
employees. According to the interviewees, the main reasons for the negative attitudes
are increased work load and changes in the old routines.

“Management has good attitude as they give SOX first priority always. Non-
management however, did no accept SOX in the beginning.” (R2)

“We have had very good attitude from management. Everybody understands
that this is something that we have to do. However, the people in sales, for
instance, are not used to work with compliance, they just want to sell. That has
not been so easy.” (R3)

“The attitude is generally speaking quite negative because SOX is an
additional workload. People think they have done a nice job before, why do we
have to do this extra. People feel that there was some trouble in some
companies in the US and now all companies have to suffer for that.” (R4)

“The attitude has been variable. The deeper you go on the organisation the
less is understood and the accepted. Middle management levels sometimes
also have a bad attitude towards SOX, since they are obligated to give the
resources to this project.” (R6)

4.1.5 SOX and the US Capital Markets

The answers to the question regarding why the US capital market has been attractive
for Swedish companies were rather unambiguous. All of the companies answered that
it was the size of the market and the possibilities to attract much capital that was the main reason. Three of the companies answered that another important reason was that the US market is an important sales market for these companies that they also want to be present in the capital market. It is a way to market the company and to create trust with the customers.

“I think the leading trend of development in our industry has happened in the US even, that is why it is natural that our stock is available there.” (R2)

“We are a global company and the US is a big market for us, it is important for us to be present there.” (R3)

“To attract capital and to find investors.” (R4)

“It is the only market with so much available capital. We looked at the European capital markets before the issuing of our last bond. But the US market was more liquid. Maybe the market in Europe is better now. In the future European markets will probably be more attractive.” (R5)

“It is a very big part of the total capital market in the world that is needed by global companies. The American sales market is very important for our company and then it’s natural to be listed in the US.” (R7)

All companies agreed that SOX will improve the protection of the investors to a certain degree. Two of the companies mentioned that the law might not make a big difference for Swedish companies but it was more necessary for American companies. One company mentioned that SOX goes down to a very detailed level and this can probably prevent smaller frauds, while the possibilities for larger frauds in top management will still be there.

“Maybe normal people can sleep better at night. Maybe the complete Act will increase the protection, but not only section 404.” (R1)
“For Swedish companies I am not sure. When I am talking about our company I can say that we had a good protection before. The thing that happened with Enron and WorldCom should not have happened and they would not have happened within our company. I think that SOX is needed more in America.” (R3)

“I think it is good for all investors. The purpose with the whole legislation is that the investors should be assured that the financial information that is reported is accurate.” (R4)

“With SOX we go on very detailed level and that is not always so important. This can maybe prevent smaller frauds, the possibilities for big frauds are still there since this happens at management level.” (R5)

“The shareholder might have a higher trust in the companies now. SOX brings higher transparency. This is good from a minor shareholders point of view. You see more what is happening in the company, you can see the behavior of management especially. Personally I would like to see as much as possible as a shareowner.” (R6)

“The demands from SEC in the US are generally speaking a bit higher than similar organizations in Europe, there is a higher demand of disclosure. I don’t think that our stockholders have ever doubted the information from our company.” (R7)

All companies except one think that SOX will affect the attractiveness of the US capital market for Swedish companies to a certain degree. It is costly to comply with the regulations of SOX and this might cause some companies to choose other capital markets. Two companies mention that the affects will mainly be short term and that in the long turn the attractiveness will return. Two companies mentioned that for the really large companies the attractiveness will not change but for the smaller ones it will be of larger importance. One company stressed that with the changes in technology during the last years, it is no longer necessary to be present at all capital markets.
“I do not think so, maybe short term. Maybe companies that were planning top go in may wait for the laws to soften up.” (R1)

“We know that some companies have de-listed and chosen London or some other exchange instead. To comply with SOX is costly, so it can have some effect on smaller companies. For larger companies that invest in these kinds of things any way, it does not matter.” (R3)

“I think that there will be similar legislations in other countries. We can see now that a lot of capital has moved from US to London for example. In the short run it might be more profitable to list on other capital markets. If you have the choice and don’t want to fulfill these requirements at listing it might be better to list somewhere else.” (R4)

“To some extent, yes. I know that some companies are looking for the possibility of delisting. We would still release bonds in the US if we would have known about SOX.” (R5)

“I think that the US market will be less attractive, mainly because of these of requirements. It brings quite heavy requirements of fulfilling these detailed documentations. As a head of a company I would consider the listing. The attractiveness for the larger Swedish companies will not change so much, they are required to be there because of the market demand. Smaller companies, on the other hand, should give a serious thought before using the US capital market.” (R6)

“I think that Swedish companies that chose to enter the US capital market do it by such strong reasons that the changes that SOX brings will not stop the companies from entering. If a company is about to use the US capital market they must have very strong reasons for it.” (R7)

“The capital markets are more international and it’s not necessary to be available at all markets anymore. Our company has de-listed from London
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and Frankfurt stock exchange because it isn’t necessary to be present there anymore. The technology helps that is not necessary anymore. Several Swedish companies that previously have been present at the US capital market have chosen to withdraw.” (R7)

4.1.6 Future

All of the respondents believe that there will be a law similar to SOX in Europe during the next few years. However, they do not think that the European Union (EU) will issue an equally detailed law as SOX. The interviewees refer to the Swedish “Bolagsstyrningskoden” as a Swedish answer to the Act.

“I know that the EU is working on it. We have already the bolagskoden in Sweden which is going to be effective this year. It is not of the same magnitude at all, so we can not compare these laws but there is work going on in the EU.” (R4)

“The EU is working now with the eighth directive, which is supposed to come into force on 2008. I do not think that it is going to be as detailed as SOX is.” (R5)

“Yes, I think we will. We have already seen this in Sweden. I am sure there will be something within the EU.” (R3)

“The future is partly already here, bolagsstyrningskoden already exists in Sweden. Europe and Sweden have always used a more principal based law system while the US uses rules based. The detail level is much higher in the US laws. I do not think that there will be real SOX in Europe but a more principal based law like bolagsstyrningskoden.” (R7)

Only five of the interviewees could answer to the question regarding their company’s future on the US capital markets. One of the respondents admitted that their company has already tried and is still trying to un-register from the SEC. Two of the
interviewees were uncertain about the future, as it depends on the future liquidity needs of their company. Two of the respondents did not see any needs for changes on their position on the US capital markets.

“We are surely trying to un-register from the SEC. We have already tried to do that unsuccessfully.” (R6)

“Bonds will mature in 2007-2008. I do not know if we will still be registered with SEC or not, but we will still keep up the SOX work in any case.” (R4)

“I can not see that anything changes due to SOX. I do not think that it will change.” (R3)

“I don’t know yet, it depends on our liquidity” (R5)
5 Analysis

In the Analysis chapter, the results of the empirical research are combined with the theoretical framework presented in chapter three. The data is then analysed in order to find what effects does the Sarbanes-Oxley Act have on Swedish companies that are required to comply with the Act.

5.1 Cross-Listing

There is a great deal of theory written about the reasons for a company to use foreign capital markets. Pagano et al. (2001) argue that greater liquidity of a capital market offers generally a lower cost of capital. One would therefore anticipate cross-listing decisions to be motivated by the search for better liquidity. This is what the majority of the respondents felt as well. Cross-listing to the US offers them a capital market with higher liquidity than the Swedish market. This is in contradiction to a survey done by Bancel and Mittoo (2001), where 60% out of 300 European companies answered that the most important benefit of being listed in a foreign market is the increased visibility and prestige. Two of the interviewed companies have de-listed from the NYSE or NASDAQ, mainly due to higher transaction costs and low trading compared to the Swedish stock market.

Saudagaran and Biddle (1992) state, that cross-listing in a country with advanced accounting regulation allows the corporation to gain deeper disclosure and transparency. Greater transparency leads to reduced monitoring costs and decreases the required rate of return for the investment. However, the costs are often considerable when a company adapts new accounting regulations. Yet, the interviewees did not see advanced accounting regulations as an important factor for a cross-listing. Adapting to these stricter rules may have a negative impact and the obvious indicator for this is the cost benefit aspect.

Pagano et al. (2001) argue that the transactions costs are up to 40% lower in the US market than in the home market. The results of this study do not concur with Pango’s results. One of the companies interviewed in this study withdrew from all other stock
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exchanges except the Swedish due to high transactions costs. As the transaction costs were higher in foreign exchanges, the trading was concentrated to Stockholm stock exchange where the costs were lower.

The attention of financial analysts’ on the destination market is one potential benefit for cross-listing. Additional interest on the company from analysts can create more interest and thus wider investor base (Saudagar & Biddle, 1992). In this study, none of the companies mentioned increased attention from financial analyst as an important reason to cross-list. These results are in line with the research done by Pagano et al. (2001), which shows that there is no evidence of this phenomenon.

Pagano et al. (2001) argue that cross-listing behaviour can be affected by informational cascades. If several competitors of a company are listed on a particular stock exchange the company may have a reason to list in the same market. Failing to do so might give a competitive advantage to the competitors. This is the situation for two of the companies interviewed. They are both in a technology driven business and not being listed in the US would put them in a disadvantageous situation. This shows how important it is to be listed in the markets where your competitors already operate.

There are several reasons behind cross listings of the interviewed companies. Access to the capital available is the primary reason. The transparency aspect of being listed in the US is not as important for the Swedish companies as it may be for companies from countries with less strict accounting regulations and neither is the increased attention from financial analysts. Two of interviewees entered the market because it their competitors where already present in the US capital market, this shows that to be in the peer markets is also a reason to cross-list.

5.2 Implementation of SOX

The implementation process started in all of the companies during the first half of 2004. This is surprisingly late, as the Act was ratified already in July 2002. One of the reasons for this can be that before the ratification of SOX, the SEC had a policy to provide exemptions for foreign private issuers. However, this is not the case with
SOX (Ernstberger et al., 2005). It is possible that the Swedish companies expected that the SEC would once again provide European companies with an exemption and therefore waited with the implementation. In addition they also had difficulties to comprehend if they have to follow SOX.

“In the beginning the largest challenge it was to understand if and why we have to follow the act.” (R6)

The number of employees directly involved in the implementing process differed substantially. This is understandable, as the size of the companies varies and it is also difficult to give exact estimations how many persons are involved. Some of the interviewees even stated that their companies are so big, that it is impossible to give an accurate estimation. Especially the documentation of internal controls for Section 404 requires considerable resources and this means that numerous employees are involved (Ramos, 2004). This seems to be the case especially with large international companies. According to the interviews, the average number of internal employees directly involved in the process is between 100 and 200 employees. One of the responding companies had 600 employees directly involved in the implementation process. The number of external employees was between 2 and 30 on central level. However, external help was used mainly in the beginning of the project.

“That has varied over time. While we documented the controls we used a lot of resources. Centrally it was about 100 while documenting. This includes both internal and external from Ernst & Young (E&Y). Now during the implementation, we have 25 legal entities worldwide and we have a project in each of those entities all together with central part, the figure is close to 200 persons.” (R3)

The implementation has progressed to different phases in the companies. Generally all of the companies have documented the internal controls and are now fulfilling the deficiencies. The documentation of the internal controls is one of the key provisions of the Act (Quall, 2004). Three of the interviewed companies are ready to be compliant by the yearend 2005, while the rest of the companies will be compliant before the yearend of 2006. There are no specific reasons behind these differences.
However, some of the companies have decided to use the original time schedule and be compliant in December 2005 as the SEC originally required. The rest of the companies want to use the extra year that was given to them by the SEC in March 2005 to be compliant with the requirements (Boerner, 2005).

The largest challenges that the companies have faced during the implementation process varied moderately. Four of the respondent named construction of information technology and information systems as their main challenges. These answers are in accordance with the findings of Levinsohn (2005), who argues that SOX and especially section 404 compliance presents new challenges to businesses and in particular to IT related to the documentation of control procedures. Three of the interviewees mentioned also the size of the documentation as a major challenge with the implementation. In addition, it has been difficult for the companies to comprehend if they are required to follow the Act and what the requirements mean. The findings of Lander (2004) support these answers. Lander states that the complexity of SOX means that all of the sections of the Act must be gone through carefully to be sure if a specific provision applies to any particular situation. Also the high external consulting costs support these findings.

Only three of the interviewees were able to give an estimation of the external costs. These figures varied between 5 million SEK to 50 million SEK. However, all of the respondents admitted that the costs are substantial. According to Ernstberger et al., (2005) one of the major criticism of SOX has been the expected increase in costs of complying with the regulations. Engel et al. (2004) calculated that the total costs for a company to comply with the SOX are in excess of 5 million USD (40 million SEK). This figure does not even include the opportunity costs such as management and board member time and attention, since these are very complicated to estimate. These figures are somewhat in accordance with the results of our interviews. Two of the companies expressed their dissatisfaction with the effort and knowledge that received from the consulting companies. One of the interviewed companies even changed their consulting company in the middle of the implementation process.

To summarise, the implementation has started in all of the companies during the first six months of 2004. This is relatively late, as the Act was ratified in July 2002. There
are two main reasons for this. Firstly, the companies were not sure if they have to follow the Act and secondly, the Swedish companies expected that the SEC would issue an exemption for foreign private issuers. The number of employees used directly in the implementation varied significantly between the companies. This is mainly because of the different size of the companies. In addition, it is also difficult to estimate the number of employees used in the process. All of the companies used extensive help from external consulting companies. The implementation has progressed in different pace in the companies. Few of the companies will be compliant before the yearend, while the rest will follow during the next year. The reason for this is that some of the companies are following the original SEC timetable, while others want to use the extra year given to them. The respondents felt that the biggest challenge was the construction if information technology and information systems. Large investments in IT and IS are required from the companies in order to fulfil the internal control requirements. In addition, the size of the documentation was a major challenge for the companies. The respondents felt also that in the beginning it was difficult to comprehend the demands of SOX. The external costs for the implementation varied between 5 and 50 million SEK. These results are in accordance with the study of Engel et al. (2004).

5.3 Attitudes towards SOX

All of the interviewed companies found both positive and negative sides of SOX. Additionally, all of the respondents named the same primary positive effect of the Act. The documentation of financial controls and processes has helped them to gain efficiencies and clarify different positions within the organisations. However, the interviewees also believed that it will take time before they will see the efficiencies materialise. On the negative side, most of the companies felt, that it took too long time to comprehend what the Act is about. In addition, the respondents believed that SOX was created hastily and that it is too detailed. Thereby the implementation demands a great amount of resources and the costs have become high, still the companies in this research are very large and can handle these costs. These findings are supported to some extent by Perino (2005) and Levinsohn (2005), who stated that the impact of SOX on foreign issuers will not be that excessive and the benefits cover the costs.
Perino also argues that even if it is expensive to comply with the Act the firms that are cross-listed are often quite large and should not have any problems to handle the related costs.

“It is good to have all processes on paper. I am hoping that our company will continue to work with the SOX and integrate it into the daily business.” (R1)

“The negative sides would be that we spend a lot of time understanding the requirements and since the time table was so tight we had to force people to rollout SOX and to put a lot of man hours into this.” (R3)

Most of the companies have used the Internet as their main tool to communicate the implementation to the employees of the company. Only two of the interviewed companies did not use the Internet. According to the respondents of these two companies, e-learning is just not popular in their companies. All of the companies used the management and presentations as a channel to communicate the Act to the employees. Three of the companies used the company newspaper as a communication channel.

The answers regarding the level of SOX knowledge among the management and non-management were strikingly similar. All of the respondents stated that the knowledge level among the management was high, while the lower management and employees are mostly not aware. This is the case especially if they are not involved in the implementation process. The answers were as expected. A major aspect of the Act is the increased penalties for CEO’s and CFO’s in regard to internal and external controls being followed (Lander 2004). In addition, CEO’s and CFO’s are now obliged to certify (sections 302 and 906) that their companies’ annual and quarterly financial reports are accurate and not misleading, and that they have met their responsibility to evaluate the internal controls (Karmel, 2004). These demands and possible hard penalties certainly raise the interest of the management towards the Act.

The answers on the attitude of management and non-management towards the Act differed to some magnitude. Two of the interviewees admitted that there is negative attitude among the management towards the Sarbanes-Oxley Act. However, all of the
respondent admitted that there is more negative attitude among the lower management and employees. The interviewees believed that the SOX implementation has increased the workload and changed the old work routines for the lower management and the employees thereby aggravating negative attitude. The negative attitude of the management is rather surprising. As said earlier, SOX raises the responsibilities and the possible penalties of management (Karmel 2004 and Lander 2004). However, also this can be explained by the increased workload and costs. SOX can be especially difficult to accept for the most business orientated managers as the invested workload does not bring in any direct cash flows.

“The attitude is generally speaking quite negative because SOX is an additional workload.” (R4)

To summarise, all of the respondents believe that SOX will help them to gain efficiencies and to clear responsibilities and roles within their organisations. However, they also believe that it will take few years when these efficiencies materialise. The interviewees felt that it took too long to comprehend the provisions of the Act. In addition they think that SOX was created hastily and that it is too detailed. The companies used mainly the internet as their main tool to communicate SOX to the employees. Also articles in the company newspapers and presentations were popular. The level of knowledge is the highest in the top management of the companies, while lower management and employees are mostly not aware of the Act. Furthermore, the attitudes towards SOX were mainly positive at top of the organisations and negative in the lower parts of the organisations.

5.4 SOX and the US Capital Markets

All companies in our research answered that the main reason for Swedish companies to use the US capital market was the size of the market and the possibilities to attract much capital. The information collected about why the US capital market has been attractive for Swedish companies corresponded with the answers about the reason for cross-listing. Since it does not bring any additional value to state this answers once again, the readers that want to read more about this topic can do it in section 5.1.
Sarbanes-Oxley Act was a reaction to the problem that faced the American corporate governance system in the US. The main reason behind the introduction of SOX has been investors’ lack of confidence after the accounting scandals. (Lobo & Zhou, 2005). The question is if the companies think that the investor protection really has improved. The answers from the companies regarding SOX improving investor protection were ambiguous. It is difficult to make a statement regarding this issue, but most companies thought that SOX will improve the investor protection. Many companies mentioned that the law will not make a great difference for Swedish companies, probably since the investor protection in Sweden is already rather high. One company mentioned that the SOX regulations goes down to a very detailed level and this can probably prevent smaller frauds, while the possibilities for larger frauds in top management will still be there.

There has ever since the introduction of SOX been a worry that it will have a negative effect on the interest of firms that want to raise capital in the US. The SEC has acknowledged this problem. Perino (2005) argues that even if it is expensive to comply with the Act the firms that are cross-listed are often quite large and should not have any problems to handle the related costs. In addition, Perino argues that some other risks like increased liability risk is not accurate. Foreign private issuers gain a lot of benefits of being listed in the US like greater visibility and access to a high liquid market. According to Perino, the costs are outweighed by the benefits (Perino, 2005).

Engel et al., (2004) argue that it is value maximising for firms to go private if the costs of introducing SOX exceeds the benefits to its owners if the difference exceeds the benefits they enjoyed before the introduction of SOX. SOX may force companies that wanted to list in the US before the introduction of the Act to turn to other market to raise capital (Ernstberger et al., 2005). The interviews conducted verify the theory of Ernstberger (2005), it is possible to see that SOX will affect the attractiveness of the US capital market for Swedish companies. The costs of complying with the regulations of SOX are high and this might cause some Swedish companies to choose other capital markets. The effects are bound to be short term since the detail of the regulation will soften up and similar laws are approaching in Europe.
It is obvious that the main reason for Swedish companies to use the US capital market is to attract large amounts of capital at low cost. The companies believe that SOX will improve the protection of the investors but the question is if it will have an effect on Swedish companies. There has been a discussion in theory if SOX will influence the attractiveness of the US capital market for foreign companies. In this research it is possible to see that the costs and the efforts of implementing SOX are so substantial that it might cause Swedish companies to choose other capital markets.

5.5 Future

The interviewees all believe that a similar law will be issued in Europe and all of them referred as well to the Swedish “bolagsstyrningskoden”. Some of the interviewees mentioned also the 8th Directive of the European Union. The respondents agreed that the European version of SOX will not be as detailed as the Sarbanes-Oxley Act is. An interviewee also pointed out that the Act did not take the foreign private issuers into consideration. Additionally, the interviewees felt that SOX was created hastily by legal representatives and not peoples with insight how to run a business. These opinions are in conformity with the findings of Coffee (2002), Gates (2003) and Ernstberger et al. (2005).

Out of all the interviewees only five could give a suggestion of what their future holds in regard of being involved in the US capital market. One of the companies is trying frantically to un-register from the SEC. Two of respondents said that the future depends on their upcoming need for capital. The final two could not see any need of any change in their position. The rest of the companies could not see an immediate change in their position on the US capital market.

To summarise, all of the respondents believe that there will be a similar law in Europe to SOX. However, they do not believe that it will be as detailed as the Act is. Sweden has its own SOX already in the form of the “bolagsstyrningskoden”. One of the interviewed companies is trying to un-register with the SEC and another is deciding their future based on their potential need for capital. Five of the interviewed
companies could not see any instant changes in their position in the US capital markets.
6 Concluding Discussion

The Concluding Discussion chapter presents the conclusions drawn from the analysis. The conclusions will provide an answer to the research problem. In addition, this chapter provides suggestions for further research in the subject.

6.1 Conclusions

The aim of this thesis is to enlighten the reader of the effects of the Sarbanes-Oxley Act on the applicable Swedish companies. The main research question is:

Which Effects does the Sarbanes-Oxley Act have on Swedish companies that are required to comply with the Act?

To be able to answer the research question, five sub questions were formed. The answers to each of these sub questions are described in following paragraphs.

Based on the interviews we can conclude that SOX affects Swedish companies on numerous levels. There are several different reasons behind the decisions to enter the US capital markets. The primary reason is the access to the large amount of capital available in the US market. Minor reasons are to gain greater attention and informational cascades in form of peer markets. This study does not find any evidence, that Swedish companies would use the US capital markets to gain better transparency through tighter corporate governance and accounting regulations. This is probably due the relatively high corporate governance level that Sweden already has. Two of the interviewed companies have de-listed from the NYSE or NASDAQ, mainly due to higher transaction costs and low trading compared to the Swedish stock market.

The implementation project has been extensive and there are differences in the methods used. All of the companies started their implementation project under the first half of 2004. This is reasonably late as SOX was ratified in July 2002. Our conclusion is that it took a long for the companies to comprehend what SOX is about.
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and which parts are applicable for them. Additionally we believe that the Swedish companies expected that the SEC would issue an exemption for foreign private issuers regarding the Act. The implementation has required large recourses. Some of the companies have followed the original SEC timetable and are compliant before the year end 2005, while the rest will be compliant before December 2006. The interviewed companies have used both internal and external employees. The external costs have varied between 500,000 USD to 5 million USD depending on the company’s size and the amount of external consulting. External help has been used especially in the beginning of the implementation to gain SOX knowledge. The biggest challenges so far have been the documentation and the creation of information technology and information systems to fulfil the internal control requirements. Some of the companies are not satisfied with the level of knowledge that they received from their consulting companies.

The documentation of financial controls and processes has helped the companies to gain efficiencies and clarify different positions within their organisations. However, the interviewees believe that it will take time before they will see the benefits materialise. The respondents believed that SOX was created hastily and that it is too detailed. To communicate the implementation of SOX to the employees of the companies, Internet together with presentations has been used as the main tools. There is a high knowledge level among management, while the lower management and employees are mostly not aware. It is possible to see that there is negative attitude in the lower levels of the companies, mainly because of the increased workload and introduction of new routines.

The possibility to attract large amounts of capital at a low cost is the main reason for Swedish companies to use the US capital market. In this research it is possible to see that the costs and the efforts of implementing SOX are so substantial that it might cause Swedish companies to choose other capital markets instead of the US market. There is a belief in all companies that SOX will improve the protection of the investors but the question is if it will have any effect on Swedish companies.

All of the respondents believe that there will be a similar law to SOX in Europe. However, they do not believe that the European version will be as detailed as the Act
is. Five of the companies will stay in the US capital market despite the Act, while one of them wants to un-register from the SEC as soon as possible. We can thereby conclude that the majority of Swedish companies already registered with the SEC will not be un-registering merely because of the Sarbanes-Oxley Act. Most of the cross-listed companies are so large that they can cope with the associated SOX costs. In addition, the companies admit that the Act has also positive implications to them. The situation can, however, be totally different for smaller companies and companies that are considering to cross-list on the US market.

In our opinion, SOX has influenced Swedish companies to a great extent. While the implementation costs are considerable, SOX will still bring some value to the companies by streamlining their control processes. It is almost impossible for the companies in this study to un-register from the SEC. If this was not the case, we believe that some of the companies would have un-registered to avoid the demands of SOX. The SOX associated costs may be a determinant factor for the Swedish companies considering entering the US capital markets. Since the costs are so substantial, it is likely that these companies will choose another capital market. The companies are trying very hard to see the benefits of SOX but according to us it is not possible to see the exact benefits before the implementation is finished. SOX forces companies to spend large volumes of money, especially on the internal control systems. Hopefully the implementation will give these companies an competitive advantage in the future even if they would decide to un-register with the SEC. It will probably be easier for these companies to follow the upcoming European equivalent, the 8th Directive.

6.2 Suggestions for Further Research

The effects of SOX on Swedish companies have been discussed in this thesis. In the process of writing, new interesting angles and problems that could be subjects for future research has been discovered.
• It would be interesting to conduct a similar study once the implementation of SOX is completed in the companies. How much continuous work will SOX demand?

• Another interesting topic would be to include companies outside Sweden, in this way the amount of companies would increase substantially and a more quantitative approach can be used.

• We also believe that it would be fascinating to study the role of the external consultants in the implementation process. The external consults have cost considerable amount of money and the question if their assistance is worth their fees.
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