

SOX



# What is SOX?

## SARBANES-OXLEY (SOX) ESSENTIALS

- **Purpose:** Ensures accurate financial reporting and strong governance for public companies.
- **Key Requirements:** Robust internal controls, transparent disclosures, and executive accountability.
- **Impact:** Builds investor trust through compliance and reliability.

## WHY IT MATTERS

- Prepares your company for SEC scrutiny.
- Drives operational discipline and scalability.

## CONTAINS THREE KEY SECTIONS:

- **302** – CEO/CFO certifications on disclosure controls/procedures and statements on ICFR
- **404(a)** – Establish and maintain effective ICFR environment
- **404(b)** – Auditor must audit and opine on ICFR

# What is Required?

## CORE ACTIONS

- **Establish Controls:** Set up as many as 100-150 controls per entity (approvals, reconciliations, reviews) to prevent or detect financial errors. Tailored to issuer complexity.
- **Test Rigorously:** Independently verify control design and effectiveness yearly, addressing any gaps.
- **Support Audits:** Provide evidence of controls to external auditors.

## SCOPE

- **Financial Cycles:** Revenue, financial close, capitalized software, fixed assets, payables, debt, equity, tax, treasury, payroll, and key FSLIs.
- **IT Systems:** General ledger, payroll, stock/equity systems, and supporting infrastructure (security, change control, backups).
- **Entity-Level Controls:** Align with COSO Framework for comprehensive governance.

## WHY IT MATTERS

Ensures financial accuracy, regulatory compliance, and investor confidence.

# Filing Status and SOX ICFR Requirements

FILER STATUS	FLOAT TO ENTER STATUS	404(A) <sup>1</sup>	404(B) <sup>2</sup>
Large accelerated filer	> \$700m	First annual report after IPO	Second annual report after IPO
Accelerated filer	> \$75m but < \$700m	First annual report after IPO	Second annual report after IPO
Non-Accelerated filer	< \$75m	First annual report after IPO	Not required (unless voluntarily provided)
EGC	Varies – up to \$1.235B revenue test	First annual report after IPO	Exempt until EGC status lost

<sup>1</sup>SOX Section 404(a) requires management to report on the effectiveness of internal controls over financial reporting

<sup>2</sup>SOX Section 404(b) requires an auditor attestation with respect to an issuer's internal controls over financial reporting

# SOX Roadmap: Your Path to Compliance

## ENGAGE EXPERTS

- Identify and hire external advisors to build a comprehensive SOX plan.

## ASSESS RISKS

- Conduct SOX risk assessment with gap analysis.
- Evaluate 3rd-party providers for legacy financial systems.

## DOCUMENT CONTROLS

- Develop SOX docs: RACM, policies, procedures, manuals, and SOPs.
- Review spreadsheet use in finance and implement controls.
- Optimize processes for improvements and stronger controls.

## TRAIN & EQUIP

- Deliver training on SOX documentation.
- Provide tools and ongoing employee training.

## ENTITY-LEVEL FRAMEWORK

- Set up internal audit function with a detailed plan.
- Align access rights to financial apps with job roles.
- Formalize board nominations, elections, and committees with charters and checklists.

## WHY IT MATTERS

- Ensures robust governance, financial accuracy, and regulatory readiness.

# SOX Compliance: Essential Insights



## LEAD FROM THE TOP

- Gain CEO, CFO, and CIO commitment to foster a strong compliance mindset.

## PREP AHEAD

- Launch SOX efforts 12+ months early to tackle intricate demands.

## BUILD EXPERTISE

- Allocate experienced personnel to sidestep the #1 hurdle for most companies: skill shortages.

## OPTIMIZE EFFICIENCY

- Adopt a risk-focused strategy to control costs while enhancing operations.

## THE PAYOFF

- Proactive prep secures compliance, boosts efficiency, and strengthens your public stance.

# SOX Pitfalls: Sidestep these Traps

## COMMON HURDLES

- **Weak Expertise:** Insufficient skills for complex accounting (top issue in S-1 filings).
- **System Gaps:** Legacy IT systems fail to scale for public company needs.
- **Policy Shortfalls:** Lack of formalized IT policies and access controls.
- **Risk Oversight:** Inadequate risk assessment for errors or fraud.

## PROVEN FIXES

- **Upgrade IT Early:** Implement scalable systems before IPO.
- **Formalize Policies:** Document IT procedures and enforce compliance.
- **Robust Risk Process:** Map risks to financial accounts and IT systems for SOX 404.

## THE PAYOFF

- Avoid material weaknesses, ensure compliance, and build investor trust.

# SOX Success Summary

## OWN THE PROCESS

Assign management leaders to champion SOX compliance as a value driver.

## FOSTER A COMPLIANCE CULTURE

Senior leadership must reinforce SOX's importance in strategic discussions.

## EMBRACE ONGOING EFFORT

Treat SOX as a continuous process, not a one-time task.

## ADAPT TO CHANGE

Build flexibility into your program to handle shifts in people, processes, and tech.

## LEVERAGE TECHNOLOGY

Use automated controls to boost reliability, efficiency, and compliance.

## WHY IT MATTERS

A strong SOX program ensures compliance, enhances operations, and builds investor confidence.

# Financial Reporting



# Registration Statement and Accounting Analysis

## IDENTIFICATION OF REPORTING PERIODS

- Which Periods to Include/Quarterly or Other Interim Periods
- Staleness
- Uplift Procedures
- Significance of Historical Acquisitions (3-05)

## ACCOUNTING POLICY HARMONIZATION

- M&A and Diverse Accounting Policies/Timing Implementation Differences
- Integrate and Harmonize

## FINANCIAL STATEMENT CLOSE PROCESS

- Policies and Procedures, IT Systems, Personnel

## OTHER REPORTING MATTERS

- Key Metrics and Non-GAAP Financial Measures
- EGC/SRC
- US GAAP vs. IFRS
- Addressing SEC Comments
- Reporting Currency

# Staleness Deadlines

<p><b>LARGE ACCELERATED FILERS</b></p>	<p>Companies with <math>\geq</math>\$700M public float, reporting under Exchange Act Section 13(a) or 15(d) for <math>\geq</math>12 months, and at least one filed Form 10-K.</p>	<ul style="list-style-type: none"> <li>• Mar. 3*: Q3 2024 (60 days after year end)</li> <li>• May 9: Year-end 2024 (129 days after year end)</li> <li>• Aug. 7: Q1 2025 (129 days after Q1 end)</li> <li>• Nov. 6: Q2 2025 (129 days after Q2 end)</li> </ul>
<p><b>ACCELERATED FILERS</b></p>	<p>Companies with public float of \$75M+ but <math>&lt;</math>\$700M that have reported under Exchange Act Sections 13(a) or 15(d) for <math>\geq</math>12 months and filed <math>\geq</math>1 annual report; or, if previously a large accelerated filer, \$60M+ but <math>&lt;</math>\$560M.</p>	<ul style="list-style-type: none"> <li>• Mar. 17*: Q3 2024 (75 days after year end)</li> <li>• May 9: Year-end 2024 (129 days after year end)</li> <li>• Aug. 7: Q1 2025 (129 days after Q1 end)</li> <li>• Nov. 6: Q2 2025 (129 days after Q2 end)</li> </ul>
<p><b>NON-ACCELERATED FILERS AND EGCs</b></p>	<p><b>Non-accelerated Filers:</b> Companies with a public float of <math>&lt;</math>\$75 million.  <b>EGCs:</b> Companies with annual gross revenues of <math>&lt;</math>\$1.235 billion during the most recently completed fiscal year.</p>	<ul style="list-style-type: none"> <li>• Mar. 31: Q3 2024 (90 days after year end)</li> <li>• May 14: Year-end 2024 (134 days after year end)</li> <li>• Aug. 12: Q1 2025 (134 days after Q1 end)</li> <li>• Nov. 12*: Q2 2025 (134 days after Q2 end)</li> </ul>
<p><b>LOSS CORPORATIONS, DELINQUENT FILERS, AND INITIAL FILERS</b></p>	<p><b>Loss Corporations:</b> A large accelerated filer, accelerated filer, non-accelerated filer, or emerging growth company (EGC) that either (i) does not expect positive income (after taxes and before extraordinary items and the cumulative effect of a change in accounting principle) for the most recently completed fiscal year, or (ii) has reported net losses after taxes in each of the two most recent fiscal years.</p>	<ul style="list-style-type: none"> <li>• Feb. 14: Q3 2024 (45 days after year end)</li> <li>• For Year-end 2024, Q1 2025, and Q2 2025, regular deadlines based on filer type</li> </ul> <p>*Extension for Weekend/Holiday</p>



# Financial Planning & Analysis

# FP&A: Fueling Your IPO Story

## BUILD ROBUST MODELS

- Create multi-year projections, budgets, and scenario analyses to drive roadshow success.
- Showcase a clear equity story to attract investors.

## TRACK KEY METRICS

- Identify investor-focused KPIs (e.g., revenue growth, margins).
- Stress-test data for accuracy and credibility.

## MITIGATE RISKS

- Analyze financial risks and capital needs.
- Optimize debt/equity balance for a strong capital structure.

**KEY ACTION:** Align FP&A with investor expectations to boost valuation.