



# Senate

General Assembly

February Session, 2004

**File No. 468**

Senate Bill No. 492

*Senate, April 6, 2004*

The Committee on Judiciary reported through SEN. MCDONALD of the 27th Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

## **AN ACT CONCERNING CORPORATE FRAUD ACCOUNTABILITY.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 33 of public act 03-259 is repealed and the  
2 following is substituted in lieu thereof (*Effective from passage*):

3 After the inception of an investigation by the state, or after  
4 reasonable knowledge by a person of the fact that a state investigation  
5 is likely to begin, no individual, [or publicly held] and no corporation  
6 the securities of which are registered under Section 12 of the Securities  
7 Exchange Act of 1934, as from time to time amended, or that is  
8 required to file reports under Section 15(d) of the Securities Exchange  
9 Act of 1934, as from time to time amended, shall alter, falsify, destroy  
10 or conceal any record, document or tangible object for the purposes of  
11 impeding, obstructing or influencing an investigation by the state  
12 pertaining to [publicly held] securities issued by any such corporation.

13 Sec. 2. Subsection (a) of section 34 of public act 03-259 is repealed

14 and the following is substituted in lieu thereof (*Effective from passage*):

15 (a) No [publicly held corporation or] corporation organized under  
16 the laws of this state or authorized to transact business in this state, the  
17 securities of which are registered under Section 12 of the Securities  
18 Exchange Act of 1934, as from time to time amended, or that is  
19 required to file reports under Section 15(d) of the Securities Exchange  
20 Act of 1934, as from time to time amended, and no officer, employee,  
21 contractor, subcontractor [,] or agent of [a publicly held] any such  
22 corporation, may discharge, demote, suspend, threaten, harass [,] or in  
23 any manner discriminate against [an] any employee who performs any  
24 portion of such employee's employment duties within this state in the  
25 terms and conditions of employment because of any lawful act done  
26 by the employee (1) to provide information, cause information to be  
27 provided, or otherwise assist in an investigation regarding any  
28 conduct that the employee reasonably believes constitutes a violation  
29 of 18 USC Section 1341, 1343, 1344 or 1348, any rule or regulation of the  
30 Securities and Exchange Commission, or any provision of federal or  
31 state law relating to fraud against shareholders, when the information  
32 or assistance is provided to or the investigation is conducted by (A) a  
33 federal or state regulatory or law enforcement agency, (B) a member or  
34 committee of Congress or the General Assembly, or (C) a person with  
35 supervisory authority over the employee, or such other person  
36 working for the employer who has the authority to investigate,  
37 discover or terminate misconduct, or (2) to file [,] or cause to be filed a  
38 proceeding, or to testify, participate [in,] or otherwise assist in a  
39 proceeding filed or about to be filed, with any knowledge of the  
40 employer, relating to an alleged violation of 18 USC Section 1341, 1343,  
41 1344 or 1348, any rule or regulation of the Securities and Exchange  
42 Commission, or any provision of federal or state law relating to fraud  
43 against shareholders.

44 Sec. 3. Section 35 of public act 03-259 is repealed and the following is  
45 substituted in lieu thereof (*Effective from passage*):

46 No accountant who conducts an audit of a [publicly held]

47 corporation the securities of which are registered under Section 12 of  
 48 the Securities Exchange Act of 1934, as from time to time amended, or  
 49 that is required to file reports under Section 15(d) of the Securities  
 50 Exchange Act of 1934, as from time to time amended, shall alter,  
 51 destroy or conceal any documents sent, received or created in  
 52 connection with such audit and containing conclusions, opinions,  
 53 analyses [,] or financial data related to such audit for a period  
 54 extending from the end of the fiscal period in which the audit was  
 55 concluded until seven years after the conclusion of the audit.

56 Sec. 4. Subsection (c) of section 20-281k of the general statutes, as  
 57 amended by section 43 of public act 03-259, is repealed and the  
 58 following is substituted in lieu thereof (*Effective from passage*):

59 (c) Nothing [herein] in this section shall require a licensee to keep  
 60 any workpaper beyond the period prescribed in any other applicable  
 61 statute, except that any workpaper prepared by a licensee in the course  
 62 of an audit of a [publicly held] corporation the securities of which are  
 63 registered under Section 12 of the Securities Exchange Act of 1934, as  
 64 from time to time amended, or that is required to file reports under  
 65 Section 15(d) of the Securities Exchange Act of 1934, as from time to  
 66 time amended, shall be retained for the period described in section 35  
 67 of [this act] public act 03-259, as amended by this act.

|  |                     |
|--|---------------------|
| This act shall take effect as follows: |                     |
| Section 1                              | <i>from passage</i> |
| Sec. 2                                 | <i>from passage</i> |
| Sec. 3                                 | <i>from passage</i> |
| Sec. 4                                 | <i>from passage</i> |

**JUD**      *Joint Favorable*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

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***OFA Fiscal Note***

***State Impact:*** None

***Municipal Impact:*** None

***Explanation***

The bill makes clarifying and technical changes that have no fiscal impact.

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**OLR BILL ANALYSIS**

SB 492

***AN ACT CONCERNING CORPORATE FRAUD ACCOUNTABILITY*****SUMMARY:**

Current law prohibits an individual or publicly held corporation from altering, falsifying, destroying, or concealing a record, document, or tangible object to impede, obstruct, or influence a state investigation into publicly held securities after (1) the investigation begins or (2) a person has reasonable knowledge that an investigation is likely to begin. The bill clarifies which corporations the law includes by replacing the term “publicly held corporation,” which the law does not define, with a definition from the federal Sarbanes-Oxley Act of 2002, upon which the state law was modeled. Under the new definition, the law applies to corporations whose securities are registered under the federal Securities Exchange Act of 1934 or which must file related reports under that act, thus covering all corporations offering stock to the public. The bill also expands the types of securities that may be the subject of the state investigation to include privately held securities. And it applies the new definition of a corporation to provisions concerning audits of publicly held corporations.

The law protects corporate employees who assist in investigations or proceedings involving conduct that violates certain state and federal laws prohibiting fraud. The bill specifies that these provisions apply to (1) corporations organized under Connecticut law, (2) corporations authorized to transact business in Connecticut, and (3) corporate employees who perform any portion of their duties in Connecticut. It applies the new definition of a corporation to those provisions. Current law includes all publicly held corporations and their employees, without regard to where the corporations are organized or transact business or where their employees work.

EFFECTIVE DATE: Upon passage

**BACKGROUND*****Sarbanes-Oxley Act of 2002***

The Sarbanes-Oxley Act of 2002 imposes stricter standards and increased oversight for corporate accounting in order to protect investors from executive fraud. It requires greater transparency and disclosure of corporations' financial status and transactions.

**COMMITTEE ACTION**

Judiciary Committee

Joint Favorable Report

Yea 42 Nay 0