public company financial statements in the United States in the 10-year period following the Sarbanes-Oxley Act (SOX) reveals a substantial drop in the number and severity of restatements.

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An in-depth academic analysis of trends and characteristics of restatements to public company financial statements in the United States in the 10-year period following the Sarbanes-Oxley Act (SOX) reveals a substantial drop in the number and severity of restatements.

Authored by Professor Susan Scholz, University of Kansas, the study chronicles several regulatory and policy changes that were introduced over the past 15 years that may have impacted financial restatements. Additionally, the study highlights the differences between those restatements reported on Form 8-Ks under Item 4.02, meaning the previously filed financial statements and audit report could no longer be relied upon, and non-Item 4.02 restatements.

"This report takes a deeper look at restatements including the company characteristics of restating companies and analysis of market reactions to restatement announcements," said Dr. Scholz. "The findings shed light on the impact of SOX and other regulations on financial restatements."

The Center for Audit Quality (CAQ) commissioned the study to investigate restatement trends and activity from 2003-2012 that were publicly disclosed by U.S. and foreign filers registered with the Securities and Exchange Commission (SEC). Scholz conducted a similar study for the Department of Treasury's Advisory Committee on the Auditing Profession in 2008.

“As the paper capably summarizes, policy developments—such as new laws,

10,479 restatements publicly disclosed by U.S. and foreign filers registered with the SEC over the decade.

Key findings from the study include:

- The number of restatement announcements during the period peaked in 2006 (1,784), soon after implementation of SOX Section 404 internal control reporting. ***(Figure 2)***
- In the years following SOX implementation the volume of 4.02 restatements has declined significantly, with 255 reported in 2012 as compared to the 1,784 reported in the 2005 peak year-a reduction of approximately 86%.
- Restatement periods are shorter in later years, declining from an average two or more years in 2005 to less than 18 months in 2012. ***(Table 4)***

- Across the decade, restatement activity was fairly consistent across industries. Computer & Software (18% of restatements), Financial, Banking & Insurance (16%), and Energy, Mining & Chemicals (14%) rank among the top three industries each year. ***(Table 5)***
- Over the decade, the average stock price reaction to restatements was -1.5%. ***(Figure 21)***. This is measured as the percent change in the stock price at the time of the announcement, adjusted for the overall market return.
- More serious restatements had more negative announcement reactions. Reactions to 4.02 restatements average -2.3%, compared to -0.7% for non-4.02 restatements.

This report takes a look at annual restatements and ICFR reports for accelerated filers, and identifies several areas for further research to assess whether the accounting issues underlying the restatements are related to the reported ICFR material weaknesses. The CAQ believes that analysis of trends in and characteristics of restatements of financial reports provides useful information for all stakeholders in the capital markets and encourages future research in this area.