

STATE OF NEW YORK

4873

2017-2018 Regular Sessions

IN ASSEMBLY

February 3, 2017

Introduced by M. of A. DINOWITZ -- read once and referred to the Committee on Corporations, Authorities and Commissions

AN ACT to amend the business corporation law, the limited liability company law, the partnership law, the public authorities law, the general business law, and the retirement and social security law, in relation to auditors' professional responsibility

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. This act shall be known and may be cited as the "integrity
2 in auditing act".

3 § 2. The business corporation law is amended by adding a new section
4 521 to read as follows:

5 § 521. Applicability of general business law to business corporations
6 issuing audited financial statements.

7 Every business corporation organized under this chapter and every
8 foreign corporation (including every foreign professional service corpo-
9 ration) qualified to do business in this state pursuant to this chapter
10 that issues audited financial statements shall be subject to paragraph
11 (a) of subdivision three of section three hundred fifty-two-c of the
12 general business law.

13 § 3. The limited liability company law is amended by adding a new
14 section 510 to read as follows:

15 § 510. Applicability of general business law to limited liability
16 companies issuing audited financial statements. Every limited liability
17 company organized under this chapter and every foreign limited liability
18 company (including every foreign professional service limited liability
19 company) qualified to do business in this state pursuant to this chapter
20 that issues audited financial statements shall be subject to paragraph
21 (a) of subdivision three of section three hundred fifty-two-c of the
22 general business law.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets
[-] is old law to be omitted.

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1 § 4. The partnership law is amended by adding a new section 44-a to
2 read as follows:

3 § 44-a. Applicability of general business law to partnerships issuing
4 audited financial statements. Every partnership or limited partnership
5 organized under this chapter and every foreign partnership or limited
6 partnership doing business in or qualified to do business in this state
7 pursuant to this chapter that issues audited financial statements shall
8 be subject to paragraph (a) of subdivision three of section three
9 hundred fifty-two-c of the general business law.

10 § 5. The public authorities law is amended by adding a new section
11 2802-a to read as follows:

12 § 2802-a. Applicability of general business law to public service
13 corporations that issue audited financial statements. Every public
14 service corporation organized under this chapter that issues audited
15 financial statements shall be subject to paragraph (a) of subdivision
16 three of section three hundred fifty-two-c of the general business law.

17 § 6. Subdivision 1 of section 352 of the general business law, as
18 amended by chapter 961 of the laws of 1960, is amended to read as
19 follows:

20 1. Whenever it shall appear to the [~~attorney-general~~] attorney
21 general, either upon complaint or otherwise, that in the advertisement,
22 investment advice, purchase, or sale within this state of any commodity
23 dealt in on any exchange within the United States of America or the
24 delivery of which is contemplated by transfer of negotiable documents of
25 title all of which are hereinafter called commodities, or that in the
26 issuance, exchange, purchase, sale, promotion, negotiation, advertise-
27 ment, investment advice, or distribution within or from this state, of
28 any stocks, bonds, notes, evidences of interest or indebtedness, or
29 other securities, including oil and mineral deeds or leases and any
30 interest therein, sold or transferred in whole or in part to the
31 purchaser where the same do not effect a transfer of the title in fee
32 simple to the land, or negotiable documents of title, or foreign curren-
33 cy orders, calls, or options therefor, hereinafter called security or
34 securities, any person, partnership, corporation, company, limited
35 liability company, trust, or association, or any agent or employee ther-
36 eof, shall have employed, or employs, or is about to employ any device,
37 scheme or artifice to defraud or for obtaining money or property by
38 means of any false pretense, representation, or promise, or that any
39 person, partnership, corporation, company, limited liability company,
40 trust, or association, or any agent or employee thereof, shall have
41 made, makes, or attempts to make within or from this state fictitious or
42 pretended purchases or sales of securities or commodities, or that any
43 person, partnership, corporation, company, limited liability company,
44 trust, or association, or agent or employee thereof, shall have
45 employed, or employs, or is about to employ, any deception, misrepresen-
46 tation, concealment, suppression, fraud, false pretense, or false prom-
47 ise, or shall have engaged in, or engages in, or is about to engage in
48 any practice or transaction or course of business relating to the
49 purchase, exchange, investment advice, or sale of securities or commod-
50 ities which is fraudulent or in violation of law and which has operated
51 or which would operate as a fraud upon the purchaser, or that any
52 person, partnership, corporation, company, trust, or association, being
53 either the issuer of any security, or any agent or employee thereof,
54 shall have issued or caused to be issued any audited financial statement
55 in connection with which the auditor engaged in professional misconduct,
56 or that any auditor who knew or should have known that his or her

1 certification or opinion would be used in connection with such financial
2 statement, or any agent or employee thereof, permitted the issuance of
3 such financial statement intending that any person rely on such audited
4 financial statement, or that any broker, dealer, or [~~salesman~~] salesper-
5 son, as defined by section three hundred fifty-nine-e of this article,
6 or any agent or employee thereof, has sold or offered for sale or is
7 attempting to sell or is offering for sale any security or securities in
8 violation of the provisions of said section or section three hundred
9 fifty-nine-ee, or that any other section of this article has been
10 violated, any one or all of which devices, schemes, artifices, ficti-
11 tious or pretended purchases or sales of securities or commodities,
12 deceptions, misrepresentations, concealments, suppressions, frauds,
13 false pretenses, false promises, practices, transactions, and courses of
14 business are hereby declared to be and are hereinafter referred to as a
15 fraudulent practice or fraudulent practices or he or she believes it to
16 be in the public interest that an investigation be made, he or she may,
17 in his or her discretion, either require or permit such person, partner-
18 ship, corporation, company, limited liability company, trust, or associ-
19 ation, or any agent or employee thereof, to file with him or her a
20 statement in writing, under oath or otherwise, as to all the facts and
21 circumstances concerning the subject matter which he or she believes it
22 is to the public interest to investigate, and, for that purpose, may
23 prescribe forms upon which such statements shall be made. The [~~attor-~~
24 ~~ney-general~~] attorney general may also require such other data and
25 information as he or she may deem relevant and may make such special and
26 independent investigations as he or she may deem necessary in connection
27 with the matter.

28 § 7. Section 352 of the general business law is amended by adding a
29 new subdivision 1-a to read as follows:

30 1-a. As used in this section:

31 (a) The term "financial statement" means any balance sheet, income or
32 loss statement, any attachments or exhibits thereto, or any other pres-
33 entation of financial information concerning a business enterprise,
34 however denominated, that is intended to portray the financial position
35 of such business enterprise or any significant portion thereof.

36 (b) The term "audited", when used in connection with a financial
37 statement means accompanied by an opinion, report, or certificate issued
38 by a licensed public accountant or certified public accountant acting
39 within the practice of public accountancy as defined in section seven-
40 ty-four hundred one of the education law.

41 (c) The term "auditor" means the licensed public accountant or certi-
42 fied public accountant, and his or her firm, which issued the opinion,
43 report, or certificate applicable to the financial statements that are
44 audited.

45 (d) The term "firm" means a partnership, corporation, company, limited
46 liability company, firm, or other organization engaged in whole or in
47 part in the practice of public accountancy.

48 (e) The term "professional misconduct" has the meaning assigned to it
49 by the education law, or any regulations adopted by the board of regents
50 or the commissioner of education with the approval of the board of
51 regents pursuant to section sixty-five hundred nine of the education
52 law; provided, however, that, in the absence of any such regulations,
53 the term "professional misconduct" means, as a minimum, a situation:

54 (1) where an auditor or his or her firm has a conflict of interest,
55 meaning any interest, financial or otherwise, direct or indirect, which

1 is in substantial conflict with the proper performance of an audit and
2 issuance of a proper report, opinion, or certificate; or

3 (2) where an auditor or his or her firm has provided to any publicly
4 traded company any non-audit services after the effective date of this
5 subdivision; provided, however, that it is an affirmative defense to any
6 charge of professional misconduct under this subdivision that the amount
7 or value of non-audit services rendered by the auditor or his or her
8 firm is so small in relation to the audit relationship with the publicly
9 traded company that no reasonable person could believe that a conflict
10 of interest would exist.

11 (f) The term "publicly traded company" means any business organiza-
12 tion, regardless of the form of organization, that issues or has issued
13 securities as defined in this section.

14 (g) The term "non-audit services" includes, but is not limited to,
15 business consulting, bookkeeping services, appraisal or valuation
16 services, fairness opinions, contribution-in-kind reporting, actuarial
17 services, internal audit outsourcing, management functions, broker-deal-
18 er services, investment advisement, investment banking, expert services,
19 risk consulting, tax services, corporate financing services, human capi-
20 tal consulting, legal services, business internet services, assurance
21 services, and outsourcing services.

22 § 8. The opening paragraph of subdivision 3 of section 352-c of the
23 general business law is designated paragraph (b) and a new paragraph (a)
24 is added to read as follows:

25 (a) It is illegal and prohibited for any person, partnership, corpo-
26 ration, company, limited liability company, trust, or association, being
27 either the issuer of any security, or any agent or employee thereof,
28 knowingly to issue or cause to be issued any audited financial statement
29 in connection with which the auditor engaged in professional misconduct,
30 or for any auditor who knew or should have known that his or her certif-
31 ication or opinion would be used in connection with such financial
32 statement, or any agent or employee thereof, to permit the issuance of
33 any such audited financial statement intending that any person rely on
34 such audited financial statement; provided, however, that this paragraph
35 shall not apply to any person, partnership, corporation, company, limit-
36 ed liability company, trust, or association that is a small business
37 concern as defined in section one hundred sixty of the state finance
38 law, except in a case where such small business concern issues an audit-
39 ed financial statement for the purpose of obtaining credit or any state
40 benefit. In addition to the penalties provided in subdivisions four,
41 five, and six of this section, any violator of this paragraph is subject
42 to the civil penalties provided in section three hundred fifty-two-cc of
43 this article.

44 § 9. The general business law is amended by adding a new section 352-
45 cc to read as follows:

46 § 352-cc. Civil penalties resulting from violations of paragraph (a)
47 of subdivision three of section three hundred fifty-two-c of this arti-
48 cle. Any issuer of any security or any auditor (in addition to any other
49 sanction for professional misconduct under the education law) that
50 violates the provisions of paragraph (a) of subdivision three of section
51 three hundred fifty-two-c of this article is subject to the following:

52 1. Each such violator is jointly and severally liable to stockholders,
53 members, partners, lenders, purchasers, or other investors in an indi-
54 vidual or class action for damages resulting from such violation. If any
55 plaintiff is unable to prove any actual damages resulting from such
56 violation, such plaintiff is entitled to nominal damages set by the

1 court, but not less than fifty dollars. Any successful plaintiff is
2 entitled to recover reasonable attorney's fees.

3 2. Each person convicted of a misdemeanor or a felony under paragraph
4 (a) of subdivision three of section three hundred fifty-two-c of this
5 article, or who has entered into any consent order, judgment, or decree
6 as a result of allegations of a violation of paragraph (a) of subdivi-
7 sion three of section three hundred fifty-two-c of this article, whether
8 or not such consent order, judgment, or decree admits any such
9 violation, shall be barred for a period of five years, or such other
10 period established in such consent order, judgment, or decree, from
11 receiving any economic development grants, any waivers or rebates of
12 taxes, or other similar benefits from the state or any political subdivi-
13 vision or public benefit corporation of the state, or any contract to
14 sell goods, services, or both, of any kind or description, to the state
15 or any political subdivision or public benefit corporation of the state.

16 3. The attorney general shall give notice of any conviction or any
17 consent order, judgment, or decree with respect to any violation of
18 paragraph (a) of subdivision three of section three hundred fifty-two-c
19 of this article to the governor, the temporary president of the senate,
20 the speaker of the assembly, the chief executive officers of all poli-
21 tical subdivisions and public benefit corporations of the state, and the
22 trustees of all public pension funds subject to section one hundred
23 seventy-seven-e of the retirement and social security law. The violator
24 shall, in addition to all other fines, penalties, and costs, pay the
25 reasonable costs of preparing and giving such notices.

26 § 10. Paragraph (c) of subdivision 1 of section 359-e of the general
27 business law, as added by chapter 692 of the laws of 1959, is amended to
28 read as follows:

29 (c) A [~~"salesman" shall mean~~] "salesperson" means and [~~include~~]
30 includes every person employed by a broker or dealer as said terms are
31 defined in this section, for the purpose of representing such broker or
32 dealer in the sale or purchase of securities to or from the public with-
33 in or from this state.

34 § 11. The retirement and social security law is amended by adding a
35 new section 177-e to read as follows:

36 § 177-e. Investment barred in certain securities. 1. The trustee or
37 trustees of a fund are authorized not to make any investment in any
38 security or securities issued by any person convicted of a misdemeanor
39 or a felony under paragraph (a) of subdivision three of section three
40 hundred fifty-two-c of the general business law, or who has entered into
41 any consent order, judgment, or decree as a result of allegations of a
42 violation of such section, whether or not such consent order, judgment,
43 or decree admits any such violation, for a period of five years or such
44 other period as may be established in such consent order, judgment, or
45 decree from the date when such trustee or trustees shall receive notice
46 of such conviction or consent order, judgment, or decree from the attor-
47 ney general or from the time when such trustee or trustees shall have
48 actual knowledge of such conviction or consent order, judgment, or
49 decree, whichever is earlier.

50 2. In the event that at the time of receiving the notice from the
51 attorney general described in subdivision one of this section or of
52 receiving actual knowledge of the conviction or consent order, judgment,
53 or decree described in such subdivision one, the trustee or trustees of
54 a fund hold on behalf of the fund any security or securities issued by a
55 violator of paragraph (a) of subdivision three of section three hundred
56 fifty-two-c of the general business law, such trustee or trustees are

1 authorized to divest themselves of such securities, unless, in the judg-
2 ment of such trustee or trustees of such fund, such divestment would not
3 be in the best interest of the beneficiaries of such fund.

4 § 12. If any item, clause, sentence, subparagraph, subdivision,
5 section, or other part of this act, or the application thereof to any
6 person or circumstances, is held to be invalid, such holding shall not
7 affect, impair, or invalidate the remainder of this act, or the applica-
8 tion of such section or part of a section held invalid, to any other
9 person or circumstances, but shall be confined in its operation to the
10 item, clause, sentence, subparagraph, subdivision, section, or other
11 part of this act directly involved in such holding, or to the person and
12 circumstances therein involved.

13 § 13. This act shall take effect on the first of April next succeeding
14 the date on which it shall have become a law.