

Opening statement
Chairman Michael G. Oxley
Committee on Financial Services

“Sarbanes-Oxley: Two Years of Market and Investor Recovery”
July 22, 2004

It has been two years since the Congress passed, and President Bush signed, the most sweeping corporate reform law in our nation’s history. The Sarbanes-Oxley Act of 2002 was designed to curb accounting fraud, make financial statements more transparent and understandable, and hold company executives and directors accountable.

I am pleased to say that the early returns are in. And they are positive.

We all know that no law will stop certain determined bad actors from violating the trust of shareholders. Indeed, if that were possible, we would have passed such legislation a long time ago.

But Congress can establish incentives and disincentives for certain behavior. It does have the ability – and the obligation – to establish a baseline of professional conduct for American business. And if these minimum standards are not met, Congress can help ensure that there will be swift, certain, and severe punishment.

Sarbanes-Oxley was passed during a period in which a majority of Americans had lost faith in the pillars of corporate life – company executives, public accountants, investment bankers, stock and bond analysts, and attorneys. This mistrust, I would point out, was well-founded. Too many failed to act ethically. Indeed, we have learned that many violated criminal laws, and will serve time in prison. Sadly, it was more than a few bad apples.

That is the climate in which Sarbanes-Oxley was debated and passed. Remarkably – considering the overheated political environment at the time – it is measured and responsible legislation. Many of its provisions require companies to do things that they were already doing or should have been doing. If companies find that certain mandates like the internal control standard are particularly costly, maybe that is because they were deficient in that particular area.

Numerous parts of the Act appear to be working extremely well. Certifications of company financials by chief executives and finance chiefs, independent and empowered audit committees, officer and director bars, and the FAIR Fund have all had a very powerful – and positive – impact, to cite just a few provisions.

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Are there increased costs? Yes. Do the benefits of improved financial reporting, more active and engaged boards, and trusted markets outweigh those added costs? I believe so. But don't take my word for it. Recent surveys indicate that a majority of corporate directors believe the Act has had a positive impact on their companies and boards.

That is not to say that it is a perfect statute. It is not. No legislation ever is, or at least none have been in my two decades here in Washington. But it does appear to be working quite well, and for that we should be proud.

I look forward to hearing from our distinguished panel today. We have heard from many of you before, and we obviously liked what he heard, because we have invited you back. Welcome.

I now turn to the Ranking Member for his opening statement.

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