

Opening Statement

Chairman Michael G. Oxley Committee on Financial Services

Sarbanes-Oxley at Four: Protecting Investors and Strengthening the Markets September 19, 2006

Good afternoon. This will likely be my final time to chair the Financial Services Committee and the subject is most appropriate: The Sarbanes-Oxley Act. Although it is named for two chairmen, it is the product of our legislative process. Senator Sarbanes and I have received both credit and blame in approximately equal doses. Nonetheless, Sarbanes-Oxley was necessary given the sustained damage both to our capital markets and to individual investors.

The day I took office on July 21, 1981, Americans were faced with sky-rocketing inflation and an Israeli-Lebanese conflict. Then-Federal Reserve Chairman Paul Volcker testified that day before the House Banking Committee, "Dealing with inflation is essential to our future well-being as a nation." The Dow Jones Industrial Average closed at 934, the S&P 500 at 128. At that time, 6.9 million households invested in mutual funds. Mutual funds had total assets of \$241 billion.

Since that day, the American investor and our capital markets have weathered many events: the insider trading scandals and the savings and loan debacle in the mid and late 80s, the deflation of the internet and telecom bubbles, the 9/11 terrorist attacks.

And perhaps the most daunting crisis for the American investor: the largest corporate scandals in American history in the inaugural years of this century. Congress's response to these scandals was the Sarbanes-Oxley Act, signed into law on July 30, 2002. With this legislation, Congress set about restoring investor confidence in our capital markets by strengthening the financial reporting and generally raising the bar at our public companies.

Nearly every provision in the Act can be tied to improving the accuracy and reliability of corporate disclosures, which is the heart of the federal securities laws. Sarbanes-Oxley requires more timely and complete disclosure of material information and underscores the duties of the individuals and entities monitoring financial reporting, from management and boards of directors to audit committees and auditors.

I believe the Act has been a success. More Americans than ever are invested in the market: over 53 million households own mutual funds, a nearly nine-fold increase from my first day on the job. Americans now have \$9.5 trillion invested in

mutual funds, 35 times as much as in 1981. Today, the Dow Jones Industrial Average and S&P 500 are near their all-time highs.

The Act, though, is still in its implementation stage, in particular for the most criticized of the provisions, Section 404, requiring management's report on internal controls and an auditor's assessment of this report. I must note that Section 404 was not in the original House-passed bill. So maligned is this provision that some are using it to try to impede the New York Stock Exchange-Euronext merger or to try to disrupt other potential cross-border exchange transactions, claiming that the Act will apply to companies listed solely in Europe, a claim that is false. Sarbanes-Oxley always has applied only to companies listed in the United States.

Ironically, Section 404, surely the most costly provision from the company's perspective, may be one of the most beneficial to investors. Companies—the board of directors, audit committees, management—are more engaged in ensuring a proper system of internal controls over financial reporting. In a Corporate Board Member survey, 81 percent of senior executives report Section 404 compliance as a success and 76 percent of senior executives believe Section 404 compliance has motivated improved internal controls. Stronger financial reporting benefits investors and improved accounting transparency fortifies our capital markets.

That being said, Section 404 has proved costlier than originally anticipated. I continue to believe these costs are due, not to the text of the Sarbanes-Oxley Act, but to an overzealous implementation of these internal control provisions.

I commend our witnesses today, Christopher Cox, our former colleague and Chairman of the Securities and Exchange Commission, and Mark Olson, Chairman of the Public Company Accounting Oversight Board, for leading efforts in making this implementation effective and cost-efficient. I support their bold intentions to revise Auditing Standard No. 2 to provide further implementation guidance to public companies and their auditors.

I look forward to hearing their views on these efforts as well as the impact of Sarbanes-Oxley on investor confidence.

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