

**Opening Statement**  
**Chairman Michael G. Oxley**  
**Committee on Financial Services**

**Subcommittee on Capital Markets, Insurance  
and Government Sponsored Enterprises**

**Fostering Accuracy and Transparency in Financial Reporting**  
**March 29, 2006**

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Good morning. We are here today to review the status of our public company financial reporting system. For over 70 years, public companies have been filing their financial statements with the Securities and Exchange Commission. Congress mandated these filings so that the investing public would understand the financial condition of public companies. These statements and the explanations accompanying these statements are at the heart of investor disclosure. It is critical for investors making decisions about where to put their money that these statements are readable, accessible, and meaningful.

Although we have seen some bad actors purposely and fraudulently deviate from accounting standards, the complexity of these standards can also be a factor in undermining compliance in well-intentioned companies. I commend the Financial Accounting Standards Board and the SEC for working towards reducing this complexity.

One approach to clarifying financial statements that the SEC and FASB are encouraging is the adoption of a principles-based, also called an objectives-oriented accounting system. Far too often, we have seen companies engineer transactions to circumvent bright-line accounting rules, making any purpose behind these rules meaningless. Under the Sarbanes-Oxley Act, we asked the SEC to study the adoption of a principles-based system, and the SEC concluded in its report that such an “approach should ultimately result in more meaningful and informative financial statements.”

However, this movement towards principles-based accounting needs more than just the efforts of our regulators. I encourage public companies, auditors, lawyers, and the securities industry to join in this initiative. There must be a concerted effort on the part of all market participants to move away from rules-based accounting and auditing standards to a principles-based financial reporting system. I look forward to hearing from our witnesses how we can most quickly and successfully adopt such a system.

I also would like to commend the U.S. Chamber of Commerce for encouraging its public company members to cease issuing quarterly earnings guidance. It is too tempting, once that guidance is issued, for a company to manage its business to meet those short-term earnings numbers rather than manage its business for the long-term health of the company. This may lead to poor decision making, but also sometimes to earnings manipulation. For the continued vitality of our capital markets, management and investors need to focus on long-term company health.

One way, perhaps, to distance ourselves from relying on these quarterly earnings forecasts, is to make progress toward real-time disclosure. Again, I must commend the SEC, under the leadership of Chairman Cox, for promoting a new way to more easily digest and analyze financial information—through interactive data, or eXtensible Business Reporting Language (XBRL). Interactive data will allow investors to quickly download relevant financial information into their own software applications for analysis. No longer will time and money be spent on entering financial data into spreadsheets. I look forward to hearing from our witnesses how they believe XBRL will revolutionize the reporting and analysis of financial information.

I would like to thank my colleague from Louisiana, Chairman Baker, for holding this timely hearing. Chairman Baker has once again taken the lead in improving financial reporting for investors. He took an interest in XBRL years ago, when few understood its benefits, and even fewer knew what it stood for.

Thank you again. I look forward to hearing from our two distinguished panels of witnesses on these important issues. I yield back.