

**OPENING STATEMENT OF  
CONGRESSMAN PAUL E. KANJORSKI  
COMMITTEE ON FINANCIAL SERVICES  
HEARING ON THE EFFECTS OF  
THE SARBANES-OXLEY ACT  
THURSDAY, APRIL 21, 2005**

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Mr. Chairman, nearly three years ago after a surge of corporate and accounting scandals, we adopted the Sarbanes-Oxley Act. As you know, I was intimately involved in every stage of this law's development, from the first congressional hearing on the collapse of Enron through the final meeting of our bicameral conference committee. We are meeting today to review the effects of this historic law on our capital markets. In general, I believe that this landmark legislation has strengthened corporate responsibility and enhanced investor confidence.

In recent months, the Public Company Accounting Oversight Board and the Securities and Exchange Commission have continued to pursue an ambitious agenda as they have worked to implement the reforms that Congress mandated. Today's hearing will help us to better appreciate their hard work in turning a functional statutory outline into an active regulatory system. It will also help us to understand the progress that they have made in bolstering investor confidence, restoring the integrity of financial statements, and rebuilding trust in our securities markets.

Since the enactment of the Sarbanes-Oxley Act, we have also heard regular complaints from some about the costs of complying with the law. Most recently, the statute's provisions regarding internal control audits have become the subject of considerable public debate. I would therefore like to focus my comments this morning on this area of the law.

We designed Section 404 to require publicly traded companies and their auditors to assess internal controls, which are a firm's policies, practices, systems and procedures to prevent abuse, protect against fraud, and ensure proper accounting. This section of the law requires companies to report their material weaknesses in their internal controls -- and work to fix these problems -- before financial reporting failures occur. As a result of this mandate, public corporations are decreasing their risk of future shareholder losses.

Section 404 has another important benefit. It is helping corporate executives to better understand the financial reporting shortcomings within their companies, allowing them to recognize the nature of the problems earlier and adopt reforms in accounting procedures expeditiously. Such internal analysis by a company and external verification by an outside auditor is also helping to provide important assurances to the chief executive and financial officers of public companies who now must sign statements attesting to the accuracy and veracity of their financial statements under Section 302 of the very same law.

Today, we are fortunate to once again have before us the leaders of the Securities and Exchange Commission and the Public Company Accounting Oversight Board. In their comments, I hope that they will examine the implementation of and complaints regarding Section 404. I know that both organizations have been diligently working to address these concerns, particularly by conducting outreach, holding forums, and providing assistance in these matters.

It is my hope that both organizations will continue with these efforts, particularly for the smaller issuers that will have disproportionate costs in implementing these well-intentioned

reforms. I know that the Public Company Accounting Oversight Board intends to issue next month additional guidance in these matters. I expect that such guidance will maintain the spirit of the reforms that Congress envisioned, but offer auditors greater flexibility in tailoring their examinations of internal controls to match the size and complexity of the client. Such guidance should also help to improve the effectiveness of the law.

In closing, Mr. Chairman, we cannot and should not remove the risks associated with investing. Our capital markets work well because of that risk. We should, however, ensure that every corporation plays by the rules, that all investors have access to the reliable information needed to make prudent decisions, and that each party who violates our securities laws is held accountable. As the Securities and Exchange Commission and the Public Company Accounting Oversight Board work to achieve these objectives, it is appropriate for us to review their progress.

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