

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services
Subcommittee on Capital Markets, Insurance, and Government-Sponsored
Enterprises
Corporate Accounting Practices: Is There a Credibility GAAP?
May 1, 2002

Good morning. I want to thank the Chairman of the Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises, Congressman Richard Baker, for holding this important hearing.

Last week, the House overwhelmingly passed H.R. 3763, the Corporate and Auditing Responsibility, Transparency, and Accountability Act of 2002, or CARTA. Chief among the provisions passed by a strong bipartisan vote were mandates for increased financial disclosures by publicly traded companies. We also set forth a new regime for tough oversight of the accounting profession by the creation of a new board under the Securities and Exchange Commission, which is the only legally recognized authority over this important function of our economy. We look forward to the Senate leadership's swift and bipartisan passage of CARTA.

However, our responsibilities for protecting American households, public pension funds, and private investment accounts cannot end with CARTA. We must continue to review the generally accepted accounting principles and discretionary accounting practices that American companies use every day to report on their operations.

During the initial phase of our CARTA hearings, the Committee publicly discussed the complex principles involved in the accounting for financing tools such as special purpose entities. We disclosed that those principles had not been clearly stated by the Financial Accounting Standards Board and the SEC, and that Enron clearly and continually abused these principles.

We also discussed the principles involved in accounting for sales and swaps of fiber-optic cable capacity among telecom companies such as Global Crossing, Qwest, and WorldCom. After a change in the principles in 1999, companies increasingly turned to unaudited "pro forma" statements to better explain the cash flow in their business. There is no guidance on the consistent preparation of those statements, however, which leaves investors, and even seasoned professionals, unsure of a company's or industry's results or direction.

Clearly, there are plenty of other events that we should also review. Accounting principles and corporate practices for reporting revenue from the sale of a business, changes to accounts receivable, company loans to corporate insiders, special accounting mechanisms designed to minimize taxes, and pension fund transactions have all been raised in the financial press and have been the subject of SEC reviews.

There have been too many restatements of financial statements, too many SEC investigations, and too many pension plan losses for us to not dig further into this area.

Our witnesses today will give us their perspectives on the problems in accounting principles and practices and the impacts on different sectors of American life. I am especially pleased that Betty Montgomery, the distinguished Attorney General of Ohio, has taken the time from her extremely busy schedule to come to Washington today in order to discuss how she is trying to recover losses suffered by public employees. Attorney General Montgomery and the other expert witnesses will, I'm sure, advise us of ways by which we can help investors and employees by encouraging more informative and updated financial information by publicly traded companies.

As I said at our Global Crossing hearing on March 21, it is only by reviewing these practices that we can help investors to base their decisions upon a company's real financial condition.

That concludes my comments, and I will now yield to the gentleman from Louisiana, Mr. Baker, for what I anticipate will be a very interesting and illuminating hearing.

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