

STATEMENT OF THE HONORABLE WM. LACY CLAY Before
The Committee on Financial Services
“Sarbanes-Oxley at Four: Protecting Investors and Strengthening the Markets”
September 19, 2006

Good afternoon Chairman Oxley, Ranking Member Frank, Members of the Committee and Witnesses, Chairman Cox and the Honorable Mr. Olson.

We meet today to evaluate the Sarbanes-Oxley Act at four years old. I can remember the market climate that necessitated this legislation. It was a period of market distrust, both with national and international investors. This was the time of Enron and World Com and highly publicized corporate collapses resulting in the loss of pensions for thousands of American workers, drastic devaluing of investors’ stocks and widespread market instability.

Sarbanes-Oxley brought in reforms to corporate governance rules that created new standards for accounting and reporting. It created the Public Company Accounting Oversight Board (PCAOB) with a mandate that included oversight of inspecting and registering all accounting firms that audited public companies. The PCOAB adopted standards of auditing, ethics, quality control, and other standards relating to the preparation of public company audit reports. This contributed heavily to the return of investor confidence to our markets and the overall stabilizing of the markets.

There has been a great deal of discussion in Europe recently in connection with potential transatlantic market mergers concerning the applicability of Sarbanes-Oxley and other US regulations to companies listed on foreign markets. Officials at the SEC have made it clear that Sarbanes-Oxley does not apply extraterritorially to companies listed on foreign markets and it was clearly not Congress’ intent to apply SOX extraterritorially. This is true whether those foreign markets are owned by US markets or not. Sarbanes-Oxley is meant to apply to companies listed on US markets only and need not be a part of the discussion of the proposed mergers.

We have come a long ways in these four years, but not without realizing that we do not have a perfect system. We know that we have to tinker with Section 404 and some other issues in Sarbanes Oxley. However, we must not use this evaluation to try to rid ourselves of Sarbanes-Oxley or blame Sarbanes Oxley for everything wrong in the world’s financial systems.

We have a better business/investment climate because of Sarbanes Oxley. Let us focus on those areas that are truly in need of fine tuning and clearly within the mandates of the Act.

