

**OPENING STATEMENT OF  
CHAIRMAN PAUL E. KANJORSKI**

**SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND  
GOVERNMENT SPONSORED ENTERPRISES**

**HEARING ON ACCOUNTING AND AUDITING STANDARDS:  
PENDING PROPOSALS AND EMERGING ISSUES**

**MAY 21, 2010**

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Good morning. Since the start of the financial crisis, we have done much work to understand its root causes and to pass robust reform legislation initially in the House and the Senate that will end the era of too-big-to-fail financial companies, reform credit rating agency operations and regulation, and implement a broad array of sorely needed measures that will better protect innocent Main Street investors from unscrupulous Wall Street operators.

In debating these matters, accounting and auditing issues have surfaced more than once. As a result, the House-passed Wall Street reform bill includes my reforms aimed at responding to the Madoff fraud by better regulating the auditors of broker-dealers. This legislation also contains my provisions designed to enhance the ability of securities authorities to coordinate foreign and domestic investigations and to improve the ability of the Public Company Accounting Oversight Board to collect from and share information with foreign entities.

The bill additionally includes a provision by Congressman Lee of New York providing for an annual accounting transparency hearing, like the one we are having today. It further incorporates a provision by Congressman Miller of California to create a Financial Reporting Forum for regulators. Finally, Congressman Adler and Capital Markets Ranking Member Garrett, both of New Jersey, amended the bill to exempt small public companies from the Sarbanes-Oxley Act's requirements for external audits of internal controls, a provision which continues to concern me.

At today's hearing, we will doubtlessly reexamine each of these matters, as well as the pending Supreme Court case on the process for appointing members of the Public Company Accounting Oversight Board. We will also continue to explore whether or not accounting and auditing standards helped to contribute to the financial crisis.

Decisions to move problematic assets off of their balance sheets allowed some companies to hide the real nature of their financial health. Moreover, the recent court-appointed examiner's report of the Lehman Brothers bankruptcy highlighted the troubling Repo 105 practice that some companies may use to embellish their financial viability and inaccurately portray leverage.

These practices, motivated purely by short term self-interest, are not literary works to be admired. Rather, they are fictional stories based on half truths that have no place in our capital markets. Accounting standards and those that apply them ought to portray a company's financial condition candidly and in a way that investors can readily understand.

Today, we will also explore what progress regulators and standard setters have made to simplify our reporting framework and produce books that investors want to read. We will further examine how to improve accounting transparency, decrease regulatory burdens, and address old issues like auditor concentration and newer ones like converging accounting rules.

The financial crisis demonstrated just how interconnected our economic fortunes are. Capital now moves across international borders at lightening speed as investors diversify their portfolios and take advantage of opportunities both here and abroad. Investors therefore need to have access to timely, accurate financial information that allows them to make apples-to-apples instead of apples-to-oranges comparisons at similar companies around the world.

While we should move quickly on converging global accounting standards, we must also proceed carefully to ensure that these rules produce high quality results for investors. America's markets and its financial reporting framework are among the most developed in the world because of the independence of standard setting and enforcement. To protect the credibility of our markets and instill investor trust, we must ensure that any new international system continues to adhere to the core principles of independence, transparency and accuracy.

In closing, I look forward to hearing from today's witnesses on the state of accounting and auditing regulation, the progress they have each made in improving standards and enforcement, their priorities, their coordination efforts, and the challenges they now, or may soon, face. I thank each of them for coming and look forward to their testimony.

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