



Testimony of
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Chairman
Financial Accounting Standards Board
Before the
Subcommittee on Commerce, Trade and Consumer Protection
of the Committee on Energy and Commerce
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Prepared Remarks

Chairman Stearns, Ranking Member Towns, and the Members of the Subcommittee, thank you for the invitation to share my thoughts on the June 18, 2002, Discussion Draft of the Financial Accounting Standards Board Act (“Discussion Draft”). I have brief prepared remarks, and I would respectfully request that the full text of my testimony and all supporting materials be entered into the public record.

The Financial Accounting Standards Board (“FASB” or “Board”) is an independent private-sector organization. We are not part of the federal government. Our independence from the federal government, reporting enterprises, and auditors is fundamental to achieving our mission—to set accounting and reporting standards to protect the consumers of financial information—most notably, investors and creditors. Those consumers rely heavily on credible, transparent, and comparable financial reports for effective participation in the capital markets.

The FASB has no power to enforce its standards. Responsibility for ensuring that financial reports comply with accounting standards rests with the officers and directors of the reporting enterprise, with the auditors of the financial statements, and for public enterprises, ultimately with the Securities and Exchange Commission.

The FASB also has no authority with respect to auditing, including auditor independence and scope of services. Rather, our responsibility relates solely to establishing financial accounting and reporting standards.

I understand and appreciate the important role of this Subcommittee with respect to the FASB. I believe it is entirely appropriate and beneficial to the FASB, consumers, and to

the capital markets for this Subcommittee to exercise its oversight authority to ensure that the FASB is fulfilling its mission and responsibilities in the public interest. I, therefore, do not oppose (as explained in the full text of my testimony) certain provisions of the Discussion Draft that address the FASB's process.

I, however, also strongly believe, as I believe do most of our constituents, including most consumers, and most Members of Congress, that it is inappropriate and potentially harmful to consumers and the capital markets for Congress to mandate the subject matter, the content, or the timing of the Board's technical decisions or standards. I, therefore, cannot support (as explained in the full text of my testimony) certain provisions of the Discussion Draft that address the FASB's technical activities.

Just during my five years as Chairman of the FASB, on two different occasions in which the FASB was proposing major improvements to the transparency of financial reports, several Members of Congress either introduced, or threatened to introduce, legislation. The legislation, if enacted, would have, at a minimum, significantly delayed the needed improvements the FASB was proposing. In other cases, the legislation, if enacted, would have essentially eviscerated the FASB.

On both occasions the FASB, with the support of many constituents, including consumers, and Members of this Subcommittee, successfully responded to those challenges, and final standards were issued that dramatically improved the transparency of financial reports. Responding to those challenges, however, diverted some of the limited resources of the FASB; resources that otherwise would have been devoted to the FASB's primary mission of improving accounting standards to protect consumers.

Thus, my experience as Chairman of the FASB, has led me to conclude that this Subcommittee's oversight and input can be quite valuable to the Board. Members of Congress, however, must avoid the urge to legislate technical accounting standards and must reject the facile arguments and emotional appeals sometimes made by constituents claiming that FASB proposals will destroy Western civilization. Over 60 years of history conclusively demonstrate that accounting standards that result in more transparent financial reporting enhance, rather than hinder, the US economy.

I am very confident that my successor, Bob Herz, will demonstrate to the Subcommittee, and all who participate in the capital markets, that he has the leadership and technical skills necessary to ensure that the FASB continues to provide the markets with higher quality accounting standards that will result in more transparent and credible financial reports in the months and years ahead.

Thank you again, Mr. Chairman. I very much appreciate your interest in, and support of, the independence of the FASB. I also want to thank you Mr. Chairman, Ranking Member Towns, and all of the Members of the Subcommittee for the personal support you have graciously provided to me over the past five years.

I would be happy to respond to any questions.