U.S. SENATE COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS

Opening Statements of Committee Members

Opening Statement of Chairman Paul S. Sarbanes (D-MD)

Oversight Hearing on "Accounting and Investor Protection Issues Raised by Enron and Other Public Companies."
10:00 a.m., Tuesday, February 12, 2002 - Dirksen 538

This morning the Senate Committee on Banking Housing and Urban Affairs will conduct the first in a series of hearings on accounting and investor protection issues raised by the problems of Enron Corporation and other public companies. These issues have taken on increasing significance in recent years and Enron's situation has placed them in the national spotlight. They have a critical impact on the national confidence in the financial markets.

In 2000, Enron Corp. was among the top ten of the Fortune 500 and had a stock market value of over $60 billion. Its financial statements had been audited and certified by one of the major public accounting firms, Arthur Andersen. Stock analysts glowingly recommended its stock.

On October 16th of last year Enron took a billion dollar write-down of investments. On November 8th, Enron reported it had overstated earnings since 1997 by $586 million. On December 2, Enron filed for bankruptcy.

The stunning collapse of Enron has cast a long and dark shadow over our capital markets, crowding other important stories off the business pages and creating widespread anxiety. Headlines like "Worries of More Enrons to Come Give Prices a Pounding" (New York Times, January 30) and Nervous and Scandal-Shy Investors Hold prices Down" (New York Times, February 6) have become routine. A troubled and uncertain economy is further aggravated by what is widely referred to as the "Enron Effect." The enormity of the losses that Enron employees have suffered in their retirement savings has sent shock waves through working men and women everywhere; as the Washington Post put it, if one company "issued make-believe accounts, why should anyone believe that dozens of other companies aren't practicing the same deception?"

The failure of Enron raises numerous important issues that have arisen on occasion in connection with other public companies. These involve:

- the integrity of certified financial audits
- appropriate accounting principles and auditing standards
- the effectiveness of the accounting regulatory oversight system
- the impact of auditor independence on the quality of audits
- the completeness of corporate disclosure in SEC filings and shareholder communications
- the adequacy of the SEC's "selective review" process for disclosures filed by public companies with novel and complex finances
- conflicts of interest among affiliated securities underwriters, stock analysts and lenders as well as accountants
- insider abuses
- the clarity of recommendations by stock analysts
- corporate governance
- the quality of agencies' debt ratings
- the adequacy of resources available to the Security and Exchange Commission to meet its responsibilities

The Committee will hear from a broad array of witnesses with long and distinguished experience in the relevant fields, in both the public and private sectors. We will seek their views on the developments that made the collapse of Enron and other significant failures possible. Above all, we will seek their recommendations as to appropriate steps this committee might take to minimize the prospect of any future event of this type.

The Committee's inquiry in the weeks ahead will focus on the protection of investors and the efficient functioning of our capital markets. These markets are critical to a healthy economy and indeed to our national economic strength at a time when our nation faces unprecedented challenges.

It is commonplace but nonetheless worth repeating that our markets depend on investors' confidence - as The Washington Post among others has pointed out (editorial, January 24), it is the public trust that allows our nation's "vaunted" markets to function. As investors make the financial decisions that significantly shape their lives and assure their families' well-being, they must be able to rely on information available to them as being complete, accurate, timely and comprehensible. Today, for the first time in our nation's history, a majority of Americans are investors, directly or indirectly - a development in which our markets take great and understandable pride.

As we proceed with our work we must keep in mind that although many of the issues we will be examining in the weeks ahead are highly complex, they have implications that are critical to the security of the American investing public. They reach to fundamental principles of trust, which it is our duty to protect and strengthen.

We are pleased to have with us today a panel of most distinguished witnesses, to share their views on the current situation and to offer recommendations for minimizing the likelihood of similar problems in the future. I welcome Chairmen of the Securities and Exchange Commission from the last twenty-seven years:

- **Arthur Levitt**, Chairman from 1993-2000, who now serves as Senior Advisor to the Carlyle Group and a Director to Bloomberg and Newberger Berman (an asset management firm).
- **Richard Breeden**, Chairman from 1989-1993, who is CEO of Equivest Finance Inc. and former Chairman of the Worldwide Financial Services Practice of Coopers and Lybrand.
- **David Ruder**, Chairman from 1987-1989, who is Dean and William W. Gurley Memorial Professor of Law at the Northwestern University School of Law.
- **Harold Williams**, Chairman from 1977-1981, who is Of Counsel with the law firm of Skadden, Arps, Slate, Meagher and Flom, and who served as President and CEO of the J. Paul Getty Trust for nearly two decades (1981-1998).
- **Rod Hills**, Chairman from 1975-1977, who is the founder and partner in the law firm of Hills & Stern and a director of several corporations.

Of course John Shad, Chairman from 1981-1989, passed away in July, 1994 and is not with us.

Thank you for participating in the Committee's deliberations.