

Statement of the Honorable Rahm Emanuel
U.S. House of Representatives
Committee on Financial Services
Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises
February 26, 2003

Mr. Chairman,

In the wake of the corporate scandals involving Enron, WorldCom, Tyco International, Sprint, Adelphia and many other public companies, we discovered that the interests of employees and shareholders had been disregarded by CEOs who viewed their companies as their own personal 'piggy banks'. The scope of corporate malfeasance was greater than anyone had anticipated. As these companies imploded, millions of investors lost money; thousands more lost their retirement savings because, encouraged by dishonest CEOs, they continued to purchase shares of their own companies as stock prices plummeted. At the same time, CEOs and other top managers were aggressively selling their shares. As investor confidence fell, so did the Dow Jones Industrial Average and the NASDAQ. Trillions of dollars of value were lost, and thousands more were laid off from their jobs. Investors in my home state were hit particularly hard. Illinois' pension funds estimate that they lost more than \$107 million because of the drop in the value of WorldCom stock after accounting irregularities were exposed. This was on top of the \$45 million these pensions lost in the Enron collapse. The Illinois State University Retirement System and Teachers' Retirement System, which invest retirement monies on behalf of hard-working teachers and municipal employees, suffered massive losses as a result of these corporate meltdowns.

The Sarbanes-Oxley Act was aimed at protecting average investors and restoring integrity to the capital markets. Sarbanes-Oxley imposed tough new requirements on auditors and company management, and represents a critical first step in changing the way Wall Street operates. The recent 'global settlement,' agreed to by the SEC, NASD, NYSE, New York Attorney General's office and the largest and best-known broker-dealers is another positive step. This agreement will help clean up the undue influence of investment banking interests on securities research and IPOs at brokerage firms.

However, the Securities and Exchange Commission and exchanges such as the NYSE and the NASD still face substantial challenges in making these reforms a reality. Until small investors see concrete evidence that public companies are being operated honestly, they will not invest their hard-earned money in the equity markets. I encourage SEC Chairman Donaldson to make it his first order of business to appoint a Chairman of the Public Accounting Oversight Board, and to move aggressively to restore the SEC's reputation for independence and effectiveness. The Administration and the Congress should move to fully fund the SEC, which faces a budget and staffing crisis as it attempts

to deal with ever more complicated corporate tax avoidance schemes, an increased number of corporate filings, and the implementation of Sarbanes-Oxley.

I commend Chairman Baker and my colleagues for their efforts to return unfairly lost money back into the hands of investors. Corporations and greedy corporate executives should be required to disgorge any of their ill-gotten gains. However, as the SEC stated in its report, the disgorgement process does not work well in all cases. Indeed, there are many instances where the investors' only opportunity for meaningful recourse is through a private right of action. The SEC has consistently maintained this position, and I agree that the FAIR program does not obviate the need in many cases for private lawsuits. I am very interested in hearing today from Steven Cutler, Director of the SEC's Enforcement Division, and I look forward to working with my colleagues on these critical issues.