

Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Oversight and Investigations
Subcommittee on Capital Markets, Insurance and Government Sponsored
Enterprises

“The Enron Collapse: Impact on Investors and Financial Markets”

December 12, 2001

Good morning and thank you, Subcommittee Chairs Baker and Kelly, for holding this important hearing. Today we will begin the Committee's investigation of the facts and circumstances surrounding the largest corporate failure in history. Today we will hear about the dramatic collapse of Enron Corporation, the seventh largest company in the United States. Riding high as recently as six months ago, the company has since lost more than 99% of its market capitalization, and now trades below \$1.

Until all the facts are known, it is prudent for this Committee to avoid reaching sweeping conclusions about the causes and persons responsible for Enron's collapse. But that does not mean we should refrain from asking the difficult questions that demand answers.

We will ask the difficult questions. We will delve thoroughly into the facts and circumstances surrounding Enron's collapse. And we will get answers.

This Committee, and the Subcommittees on Capital Markets and Oversight, will vigorously pursue this matter to ensure that the Congress, and the American public, know who to hold accountable.

We need to learn whether millions of investors were intentionally misled by Enron's financial engineering and reluctance to disclose information.

We need to learn why financial statements that provided less than a complete picture of Enron's financial situation were certified.

We need to learn why almost all of the securities analysts following Enron failed to warn investors, and why exactly half of them continued to rate the company a "buy" or "strong buy", even after it had plunged below one dollar.

We need to learn whether the current reporting and financial disclosure system needs to be overhauled.

We need to learn why the accounting rules permit companies to keep important information off their balance sheets.

Above all, we need to reduce the likelihood that this will happen again.

The effects have been devastating - as one might expect when a \$75 billion company files for bankruptcy. Hit hardest by the meltdown, of course, were Enron's employees. Thousands have already lost their jobs, and more will undoubtedly follow. And the 11,000 employees who participated in the company's 401(k) plan have seen their retirement savings practically eliminated.

In addition, beyond the impact on Enron employees themselves, Enron's collapse has drained the investment savings of investors across the country who put their retirement and other investments into mutual funds, pension funds, and other vehicles that invested in Enron. Thankfully, at this point there does not seem to be a systemic threat to the financial markets as a result of Enron's collapse, but the damage the collapse has done to the financial position of thousands of Americans will be very difficult to quantify.

Some may use Enron's bankruptcy as a vehicle to make big-government arguments against electricity markets. But it wasn't the electricity consumer who was hurt by Enron's fall, it was the workers and investors.

Furthermore, Congress must pass the netting provisions of the bankruptcy reform legislation. Enron and its subsidiaries were party to tens if not hundreds of thousands of different financial contracts. The identification of these contracts and verification that they are eligible for netting will require vast expenditures of time and money and divert the attention of Enron and the court from the task of reorganizing. Meanwhile, creditors will remain uncertain as to the enforceability of their contracts and the ultimate status of their claims against Enron. Let's eliminate the uncertainty, the waste of valuable court time and estate funds, and allow institutions to eliminate exposure more efficiently.

We are pleased to welcome the distinguished Chief Accountant of the Securities and Exchange Commission, Bob Herdman, to the Committee to discuss the reporting and financial disclosure system mandated by the Federal securities laws. I am particularly pleased that Mr. Herdman is here today, as the central issues that the Enron collapse raises are issues of investor protection and accounting rules, about which there are few better experts than the Chief Accountant of the Commission on which to opine.

I would like to remind the members of the Committee that Enron, as well as Andersen, are the subjects of a formal investigation by the SEC, so Mr. Herdman

will not be able to provide any specific information about those investigations. Please phrase your questions accordingly.

On the third panel, we will hear from the chief executive of Arthur Andersen, which serves as Enron's auditor. We welcome back Chuck Hill to the Committee, to discuss the performance of Wall Street research analysts in this matter. And finally, we will hear from the AFL-CIO on the impact to investors.

Unfortunately, Enron's CEO, Kenneth Lay, was not able to testify before the Committee here today. I want to assure the members of the Committee, as well as the public, that I am confident that Mr. Lay, and Enron, will provide answers to us and to the public as the Committee continues its investigation into this matter.

I look forward to the testimony.

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