

**OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
HEARING ON THE ENRON COLLAPSE:
IMPACT ON INVESTORS AND FINANCIAL MARKETS
WEDNESDAY, DECEMBER 12, 2001**

Mr. Chairman, today's hearing will help us to understand at least some of the factors that contributed to the downfall of Enron Corporation, a once mighty international conglomerate that recently filed the largest corporate bankruptcy in American history. Our hearing will also help us to discern whether Congress needs to take steps to restore the faith and trust of investors in America's dynamic capital markets. Although I have not yet arrived at any conclusions about this disturbing downfall of a corporate icon, I have already identified a number of concerns that I expect we will address during our investigations.

First, I would like to learn more about the serious financial harm done to thousands of Enron's employees and the many others who owned Enron stock. Some press reports suggest that company rules blocked rank-and-file Enron employees from selling Enron stock in their 401(k) retirement plans in the days and weeks following the announcement that Enron had overstated its earnings by \$583 million in the past four years. These hard-working Americans had to watch helplessly as their savings shrank without any recourse, while Enron's executives could apparently sell their stock options and avoid the financial pain. That is wrong.

Second, I have concerns about whether the accounting industry experiences any conflicts of interest in serving its customers. In recent years, many have noted that an accounting firm's consulting fees from one company may exceed its auditing receipts from the same company. This practice calls into question whether shareholders can rely on earnings reports and other indicators of a company's health and its future stock price. In order to provide transparency for investors, auditors should actively work to limit potential conflicts.

Third, we will return today to the issue of analyst independence, a topic we have closely studied this year. From our past hearings, we have learned that an analyst working for a firm that handles investment banking for a company the analyst covers could receive a more favorable rating to attract new business. I am therefore interested in learning why of the fifteen analysts covering Enron on the day following the failed merger with Dynegy only one had a sell rating on the company's stock. These ratings misled investors.

Finally, in hindsight, it appears that Enron's board of directors failed to serve Enron's shareholders. Several news stories have detailed how gifts, contributions, and other activities may have compromised some members of Enron's board. I expect that as time goes on, we will learn that Enron is not the only company where these questions arise. Members of a corporate board must retain their independence and hold management accountable.

In closing, Mr. Chairman, I typically prefer private sector regulation to federal regulation. But if the private sector fails in its responsibilities and creates a vacuum, then the federal government has a duty to protect its citizens by addressing the market failure. More Americans than ever have their savings invested in the stock market, and we have an obligation to protect them from the conflicts of interest we are investigating in the Enron collapse.