

OPENING STATEMENT OF CHAIRMAN PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
HEARING ON ASSESSING THE MADOFF PONZI SCHEME
AND REGULATORY FAILURES

FEBRUARY 4, 2009

Good morning. We meet today to continue our review of the \$50 billion Ponzi scheme allegedly perpetrated by Mr. Bernard Madoff. This is the second in our series of hearings on this topic. As my colleagues know, we are using the largest known instance of securities fraud as a case study to guide the work of the Financial Services Committee in reshaping and reforming our Nation's financial services regulatory system.

We preside at a critical moment in our history, and our work on these matters in the 111th Congress will influence the securities industry for generations to come. After all, the Congress last undertook a wholesale rewrite of these laws in the wake of the Great Depression. We have only periodically tinkered with that regulatory engine over the last 75 years. The world, however, has now changed and the motor is broken beyond repair. We therefore need to invent a new engine to ensure that the securities regulatory system reflects today's realities and can respond effectively to tomorrow's innovations.

The low-tide in our financial markets has exposed many individual frauds and many problems in our regulatory system. Since the Madoff scandal came to light in December, we have learned of other sizable schemes and frauds. Some of these cases, which are now under investigation, include the flight and capture of Arthur Nadel, a wayward hedge-fund adviser in Florida; the \$50 million con organized by Joseph Forte in Philadelphia; and the \$370 million scam of Nicholas Cosmo in Long Island who promised 48 percent annual returns.

During the last month, I have also heard from numerous victims of not only Mr. Madoff's swindle, but also many of these other cases. They want the help of their government. I have great sympathy for these individuals, including Mr. Allan Goldstein, who joined us at our last meeting. They expected regulators to perform their jobs effectively. The Securities and Exchange Commission, the Financial Industry Regulatory Authority, the Securities Investor Protection Corporation, the Internal Revenue Service, the Justice Department, state securities regulators, and other appropriate authorities therefore must move quickly and do all that they can to provide restitution, especially for retirees, charities, and pension funds.

Today, we will begin our proceedings by hearing from Mr. Harry Markopolos, an external whistleblower and conscientious citizen. We are pleased to welcome him to the Subcommittee. I also greatly appreciate the effort he has put into preparing his testimony.

Unlike many others who suspected that something was amiss in Mr. Madoff's operations, Mr. Markopolos took the extra step of alerting authorities at the Securities and Exchange Commission about his concerns. As we will learn from his testimony, Mr. Markopolos was justifiably relentless in ringing alarm bells. Unfortunately, our regulators failed to follow his roadmap and heed his warnings. As a result, thousands of investors were hurt.

With today's second panel, we will hear from the front-line regulators at the Securities and Exchange Commission and the current leader of the Financial Industry Regulatory Authority. These individuals will help us to identify the loopholes that allowed the Madoff Ponzi scheme and other securities frauds to take place and offer recommendations for reform. These experts will additionally respond to the concerns raised by the victims of the Ponzi scheme and the observations of Mr. Markopolos.

Going forward, the Committee has an enormous task ahead of itself. We need to pursue large-scale reforms like creating an effective method for monitoring systemic risk. While we have already begun work to craft wholesale regulatory reforms, I will also introduce legislation in the coming days that responds to one of the unique problems identified in the Madoff case: Specifically, my bill will close a legal loophole and permit the Public Company Accounting Oversight Board to conduct inspections and examinations of the auditors of broker-dealers.

In closing, I would like to welcome Scott Garrett as the Capital Markets Subcommittee's most senior Republican for the 111th Congress. I look forward to working with him to reach a bipartisan consensus and develop good public policy on the many matters under our jurisdiction.
