Before the Subcommittee on Oversight and Investigations of the Committee on Financial Services U.S. House of Representatives

Testimony of
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Global Crossing

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We are pleased to submit this statement in connection with today's Subcommittee hearing and in response to the March 14, 2002, letter to us from the Committee on Financial Services. Initially, we want to thank the Subcommittee for calling this hearing to take a serious look at the difficult financial issues facing the telecommunications industry, generally, and Global Crossing, in particular. We believe that a thorough, well-considered discussion on these matters is timely and appropriate.

The Committee's letter asked that we address three sets of issues:

(1) First, how Global Crossing, and other companies with fiber optic networks, accounted for relatively contemporaneous purchases and sales of fiber optic capacity from the same counterparty, and the transparency given to public investors of those transactions.

(2) Second, whether the accounting model followed by the telecommunications industry and assumptions respecting its growth served as the trigger for the rolling deflation we have seen in this sector of our economy.

(3) Third, what can the Committee on Financial Services and the Congress of the United States do to ensure that this industry is preserved and that investor confidence can be regained.

In this statement, we will address these topics. If appropriate, we will provide supplemental written testimony.

Before we begin, however, we want to emphasize that although we believe that there are important lessons to be learned from our experience at Global Crossing, we are not just looking back. Although it is important to put to rest all the questions that have been raised, we are also building for the future. Nearly all of our energies are focused on strengthening our Company, and continuing to provide global telecommunications to the world. We have a network that is unparalleled in scope and capability. We have dedicated and loyal employees. We have tens of thousands of customers who depend on us for their national and worldwide communications needs. We simply will not let them down.

We are moving aggressively to execute a turnaround plan that makes good sense. Our network is now complete. We are lowering all of our costs, both capital and operating expenditures. We are continuing to earn recurring service revenues, over $3 billion last year. We intend to emerge from Chapter 11 one way or another, and we hope that we will once again be able to share with you an American success story.

Background

Global Crossing and Its Unique Network

Global Crossing was launched in 1997 and became a publicly traded company in 1998. Since that time, Global Crossing has raised and invested billions of dollars to build the world's most extensive fiber optic network. No other telecommunications company in the world has an owned and controlled infrastructure – consisting of subsea and terrestrial cables, inter- and intrametropolitan city networks, and associated equipment and buildings – that is as extensive as that of Global Crossing. A map of the world showing Global Crossing's network is appended to this statement. This network, which is owned and managed by Global Crossing, provides a wide range of services to other carriers, companies large and small and consumers. The Global Crossing network also provides an essential backbone network for other major telecommunication carriers throughout the world that have purchased capacity on it and route large volumes of telecommunications traffic across it. Included in this group are the regional Bell operating companies, many major European carriers and significant Asian carriers.

This unique asset, with its unparalleled infrastructure, is invaluable because it literally connects the world as a global community. Multinational enterprises, across a spectrum of industries, can create, exchange, collaborate, and compete, all with greater ease and security.

The Global Crossing network creates opportunities every day. The network securely and reliably connects over 7,000 financial institutions, carries over $5 trillion in financial transactions per day, and counts as its customers over 85,000 corporations, governments and other organizations. Most recently, and among its many other accomplishments, Global Crossing carried the news feeds for the Olympic Games for NBC in Salt Lake City.

The Effects of a Weakening Economy

As a result of a softening economy and steep declines in demand, opportunities such as these have not come fast enough. With the over $7.2 billion in debt that it took to construct and operate Global's network, given the continued high cost of local access charges from which the incumbent telecommunications companies benefit and with an internal cost structure that could not be cut back fast enough to keep pace with the collapse in demand, Global Crossing had no alternative other than filing for Chapter 11 protection to ensure continued operation of our network while the balance sheet is restructured.

With the benefit of hindsight, we now see that, in 2000, the telecommunications industry experienced the first effects of consolidation as the capital markets closed and access to funding became limited. In the early months of 2001, investor confidence showed signs of weakening, resulting in significant contraction of debt and equity values. Certainly, by the third quarter of last year, the market valuation of nearly every major company in the telecom sector had deflated dramatically, prompted by a tumbling world economy, and the implosion of the dot-com phenomenon.

Ironically, it was at about this time that Global Crossing announced that it had completed its nearly 100,000-mile fiber optic network – a network connecting over 200 of the world's top business centers, designed for a new century of networked computing. In fact, the entire industry, fueled by optimistic market research – which forecasted a society where everyone had access to everything over communications networks – had built out ahead of demand.

At the end of the third quarter of last year, John Legere was recruited from Asia Global Crossing to serve as the Company's CEO. The Company needed to address an overwhelming debt load and design and implement a business model that would enable it to continue and compete. The leadership team immediately eliminated layers of management, implemented dramatic cost reductions, including a reduction in force of more than 20%, and put together a "SWAT" team of strategists to redesign the business and financial model – all by early November 2001.

Despite these immediate and serious measures, it became apparent that the cost of servicing the Company's debt, coupled with a realistic assessment of the market opportunity in the context of a slowing and uncertain economy, required Global Crossing to explore all its options. As a result, the Company accelerated discussions with banks and potential investors. As the pressure of loan obligations increased, and on the advice of financial and legal advisors, it became clear that the Company's situation called for measures more drastic than originally expected.

Bankruptcy and Potential Investors

Knowing that it had to do the right, if difficult, thing in order to preserve the Company and continue to operate the network on behalf of over 85,000 commercial and carrier customers around the world, Global Crossing prepared for the possibility of a Chapter 11 filing. Concurrently, the Company held negotiations with outside investors, which it pursued intensely. At the end of January, Global Crossing became the fourth largest company in history to declare bankruptcy.

At the same time, Global Crossing signed a letter of intent with Hutchison Whampoa and Singapore Technologies Telemedia for a $750 million cash investment following a successful restructuring. The potential investment, along with the financial restructuring, was designed to strengthen the balance sheet and reduce debt, enabling Global Crossing to build upon its global network and emerge a worldwide leader in networking services.

Since the bankruptcy filing, more than 40 investors have expressed interest in speaking with the Company – investors who the Company hopes will recognize the value of Global Crossing and its potential.

Global Crossing raised and expended billions of dollars to build the world's first and only seamless, global fiber optic network. This network is generating – and will continue to generate – billions of dollars of revenue a year. Unfortunately, a soft economy, difficulties in the telecommunications industry and the huge debt incurred over the past years to build this unique and valuable asset have placed Global Crossing in a "buyer's market." The Company is working very hard to structure a successful reorganization plan in the Chapter 11 proceeding so that it can bring in new investors, continue network operations uninterrupted and realize its extraordinary potential – and to ensure a future for thousands of employees around the world who have worked very hard to build the business, and who continue to work even through this extremely challenging period to make the business successful.

The Shadow of Enron

Shortly after it announced its plan to restructure, the Company, including its new CEO, came under the public spotlight at a time when other large bankruptcies of a different nature – most notably Enron – had aroused considerable public interest. Some may see *superficial* similarities between Enron and Global Crossing: a collapse in the stock price, questions about accounting practices, executive stock sales, questions about employee investments in 401(k) plans, two highly visible and wealthy chairmen and, of course, Andersen, the independent auditor. Perhaps not surprisingly, the SEC opened an investigation.

Let us be clear: Global Crossing is no Enron. Global Crossing built and owns the world's most advanced fiber optic network, spanning the globe and touching five continents. It is a very real asset, the value and significance of which is indisputable. Global Crossing provides services to 85,000 customers and has billions of dollars in revenues from providing much needed telecommunications services globally.

With respect to the superficial similarities, we will address them one by one.

Accounting Practices: Global Crossing consistently applied accounting policies that it developed in consultation with Andersen. These policies were derived from the applicable accounting literature. The policies and practices common to the industry, to which the Company adhered, were well understood and documented by the financial community and analysts who followed companies in this sector. Samples of analysts' reports discussing such policies and practices have been provided to the Staff of the Subcommittee.

Accounting Practices -- Employee Complaints: Former employees at Enron and Global

Crossing have alleged accounting improprieties. Although the Company cannot comment specifically on these matters as they are currently the subject of litigation, in the case of Global Crossing, following the receipt of a letter from a now-former employee, the Company did engage outside counsel to review the matter, and outside counsel found the allegations to be without merit. The Company's Board of Directors has engaged independent outside counsel and is currently reviewing these allegations.

Executive Stock Sales: Global Crossing's stock price rose rapidly over a very short period of time as the telecom industry expanded. Then, when the industry even more rapidly contracted, the stock price fell – although along a trajectory far less steep than Enron's. At its height, Global Crossing was one of the most heavily traded stocks in the market, in the top ten volume stocks on the New York Stock Exchange on almost a daily basis. The transactions by present and former Company officials are currently the subject of review by the SEC and the Company will be in a position to provide a further report on this subject at a later date. However, it must be added that many other investors profited greatly from Global Crossing stock. Unfortunately – but as is always the case – many investors also lost money because of when they bought or because they chose not to sell.

Governmental Investigations: The SEC and the U.S. Attorney's Office are conducting investigations and the Company is cooperating actively with them to enable their reviews to proceed as expeditiously as possible.

401(k) Issues: Following the purchase and sale of various businesses between late 1999 and June 2001, Global Crossing was left sponsoring three 401(k) plans for various active, retired and former employees. To reduce expenses, enhance service and provide uniform plan features to participants, the Company determined to consolidate the plans under a new record keeper, Fidelity Investments, effective January 1, 2002, which was the end of the plans' annual reporting and record-keeping cycle.

It is commonplace for administrators to request that such changes be made effective at the beginning of a plan year and to have a "blackout" period during which plan participants are restricted from making changes to their account. The idea is to "freeze" the plan data for a short period so that it can be transferred from the old record keeper to the new one.

In the case of Global Crossing, plan participants were given ample advance notice of the blackout period. The blackout for changing investment allocations began on December 14, 2001, and ended on January 18, 2002. All participants were first advised of that year-end blackout by an announcement mailed by Fidelity on October 2, 2001, which was followed by an internal email to U.S. employees on October 11, 2001. As the blackout drew near, a transaction brochure was mailed on December 4 to each plan participant specifying key blackout dates, followed by an internal email notice sent on December 11, 2001, again reminding employees of the blackout commencement date of December 14, 2001.

Significantly, more than two months elapsed between the Company's revised earnings announcement of October 4, 2001 and the blackout. During those ten weeks, participants remained free to re-allocate their investments. This contrasts with the situation involving Enron, where the accounting charges that caused Enron shares to plummet were announced *during* the blackout period itself.

Global Crossing's shares lost just $.13 a share during the blackout period, falling from $.67 a share on December 14 to $.54 a share on January 18, 2002. By contrast, in the 10 weeks preceding the start of the blackout, Global Crossing shares fell 65%, from $2.09 on October 3 to $.73 on December 13. Of course, the stock had steadily dropped from a 2001 high of $25.87 during the 11 months preceding the blackout.

Industry Woes: The Roles of Accounting Methods and Federal Telecommunications Policy

Both Global Crossing and Enron are audited by Andersen. As one of only five global accounting firms, Andersen necessarily audits a significant percentage of the companies whose operations are global. Like Enron, Global Crossing also made selected use of Andersen's well-regarded consulting practice. This is not at all unusual.

We do not believe that issues relating to accounting methods or procedures for sales of capacity in the form of Indefeasible Rights of Use, or IRUs, or the application of accounting principles to specific transactions, played a significant role in the current financial troubles confronting our industry. To begin with, the sale and acquisition of capacity via IRUs is an essential part of creating efficient networks. Transactions involving IRUs are legitimate and important to both buyers and sellers of capacity, and have been used for many years in the industry.

A number of our sales of IRUs were contemporaneous with purchases from our customers. Contrary to some popular misimpressions, during our Company's history, these contemporaneous transactions were not common: there were fewer than two dozen in 2000 and 2001. These transactions were entirely lawful, were reported in a manner in accordance with applicable accounting principles and were fully disclosed. Neither these transactions nor our accounting for them have anything to do with the telecommunication industry's – or our Company's – difficulties. Illustrating this point, many carriers that do not sell IRUs to any significant extent are also beset by today's financial woes. Moreover, most of our Company's revenues were derived *not* from sales of IRUs, let alone contemporaneous transactions, but from services.

The Committee has asked whether federal telecommunications policies played any meaningful role as a trigger to the industry's problems. Naturally, our company, like others, was born of deregulation and the competitive environment for telecommunications networks and services, both in this country and elsewhere. We applaud our Nation's trade negotiators, who have helped to open up so many foreign markets, where we can now land cables and provide services directly. These opportunities were attractive to us.

The federal government can play an ongoing role, however, in stimulating broadband infrastructure investment and creating an environment to encourage consumer demand for these services. Heightened consumer demand for bandwidth intensive services, coupled with infrastructure development at the local level, will create a more robust telecommunications market. Global Crossing and our carrier customers will compete vigorously to provide capacity and services to satisfy this demand.

Once broadband services are rolled out in meaningful numbers to every home in America, consumers will want to send and receive more data across our national telecommunications networks, to watch movies, download music and exchange information on an unprecedented scale. Congress, the FCC and the Administration are taking steps to encourage broadband deployment. We very much welcome those measures and hope that they can be accelerated. Conversely, to the extent that the government or others are taking actions that have the effect of impeding the delivery of new networks and services to the home, or are not moving rapidly enough on this front, there is a very significant risk that the installed capacity of Global Crossing and others may continue to not be used to its fullest potential.

IRUs and Contemporaneous Sales of Capacity

There has been considerable interest in the telecom industry's treatment of IRUs. In short, an IRU is a mechanism that allows a carrier to expand the scope of its network by purchasing a large block of capacity on another carrier's network, thereby creating enormous cost efficiencies for the industry and, by extension, for customers and end users around the world. The ability to buy – as well as build – capacity is critically important to Global Crossing and other carriers. For some carriers in some markets, buying capacity may be the most efficient way of building out or extending a network.

What is an IRU?

The terminology on this subject requires some explanation. IRUs have been used for many decades to sell capacity on carrier networks. An IRU itself is merely a right that a carrier conveys, typically by means of a long-term lease, to a fixed amount of communications capacity for a defined period of time. The capacity may be in the form of an identified physical asset – such as a specific strand of fiber optic cable or a specified wavelength on a strand – or capacity on one or more parts of a carrier's network. For example, one carrier might purchase an IRU giving it the right to use a wavelength for a certain number of years, or might purchase the right to use 2 fibers on one cable in Global Crossing's global network for 20 years.

Carriers purchase IRUs to fill gaps in their own networks, to ensure that sufficient capacity is available on crowded routes to meet peak demand and projected future demand, and to provide diverse or redundant transmission paths to enhance the efficiency of their networks and to ensure continued services in the event of an outage. These long-term IRUs also enable carriers to obtain capacity, to plan and equip their networks for periods of time, while avoiding the capital expense required to build all or part of their networks. The sale of IRUs to carriers has always been and continues to be an important part of Global Crossing's business model as well as that of other major telecom carriers. In recent years, however, the Company has greatly increased its revenues from the sale of telecommunication services to carriers and business enterprises.

Accounting for IRUs

When a carrier, such as Global Crossing, sells an IRU via a lease, it generally is paid up front, in a single cash payment. As with most leasing activity, however, the proper accounting for transactions involving IRUs is not a simple matter. Leases of IRUs generally fall into one of two categories: sales-type leases and operating leases. To simplify greatly, in a sales-type lease, the ownership of the fiber optic capacity (e.g., a defined unit of capacity or a fiber optic strand or a wavelength on a fiber optic strand) that is leased ultimately may change hands and belong to the purchaser. If the terms and conditions of the lease are not consistent with those required by the accounting standards for a sales-type lease, then the lease will be treated as an operating lease. Where the lease is an "operating lease," ownership of the capacity stays with the seller.

The GAAP principles applicable to accounting for these two types of leases differ. Again simplifying greatly, although **both** leases typically involve a single up-front cash payment, only the revenue received on a sales-type lease may be recognized entirely in the year in which it is received. The revenue from an operating lease must be recognized over the life of the lease (e.g., on a 20-year operating lease, only 1/20th of the total revenue may be recognized in that first year, even though all of the cash was received in year one, and the remaining 19/20ths is deferred and is only recognized in 1/20th increments per year over the life of the lease).

Generally speaking, in response to changes in the applicable accounting rules as well as in our business model, after about mid-1999, Global Crossing was required to account for the majority of its IRU leases in which it sold capacity to other carriers as operating leases. Accordingly, Global Crossing recognized as GAAP revenue **only** the first increment of lease revenue in the year in which payment was received. It deferred the remainder of lease revenue – the far greater percentage of what it received from the purchase – over the succeeding years of the lease. We understand that not all telecom carriers may have treated the leases that they sold as operating leases. As noted earlier, based on their industry reports, the analysts who frequently wrote about Global Crossing and other carriers seemed to fully understand the manner in which the Company accounted for its lease revenue.

Disclosure Terminology

As indicated, these same financial analysts, along with various banks and other lenders, realized that Global Crossing generally did not record the up-front cash payments from sales of IRUs as GAAP revenue in the period in which they were received (and disclosed such revenue when it was recognized). As a result, Global Crossing also disclosed in its press releases and filings the cash portion of lease revenue that was deferred and, therefore, not recognized as current-year GAAP revenue in the Company's financial statements. The reason for this was to give the financial community a better sense of the cash flows, including cash spent on capital expenditures, that Global Crossing was actually experiencing in a given period, as these amounts were highly relevant to the Company's ability to service its debt load and build out its network, among other things.

To respond to this need on the part of the financial community, Global Crossing employed the term "Cash Revenue." Cash Revenue includes all of Global Crossing's GAAP revenue (e.g., the revenue Global Crossing receives each period from the sale of telecommunications services) plus the cash portion of the change in its GAAP deferred revenue (e.g., the totality of the IRU cash payments received by the Company during the period) for a particular reporting period (as well as other items that are not important in this context). The precise meaning of the term Cash Revenue, how it was derived and the fact that it was neither a GAAP term nor GAAP revenue, were fully disclosed in every press release and periodic filing where the term was used. A related concept, which again was not a GAAP reporting term, "Adjusted EBITDA," was also used; the definition, components and non-GAAP nature of this term were also fully disclosed. Adjusted EBITDA is a concept that Global Crossing's lenders use in their loan covenants with the Company. Our releases and filings reconciled Cash Revenue and Adjusted EBITDA with GAAP numbers.

In short, although there has been some confusion as a result of inaccurate reporting by the media, Global Crossing accounted for the revenue it received from IRU leases in accordance with GAAP. Although the cash payments for such leases were typically received in a single up-front payment, the Company recorded as GAAP revenue only a fraction of such payments when received, deferring the far larger remainder over the life of the lease. The Company did advise the public and, in particular, the financial community that needed to know such information, as to the total amount of cash it received from such leases through the use of the term Cash Revenue, which was always reported concurrently with the much smaller GAAP revenue number.

Contemporaneous Sales of Capacity

No one disputes that the sale of IRUs is a legitimate and appropriate business for telecommunications companies. However, questions have been raised with respect to business motives when two companies sell each other IRUs at approximately the same time. The applicable and generally accepted accounting model permits the seller of an IRU to record the revenue it receives as current revenue (an income statement item) or deferred revenue (a balance sheet item). The cost of purchasing an IRU is properly treated as a capital expense and is disclosed in the purchaser's statements of cash flows. There is now a debate as to whether the disclosures concerning these transactions may in some fashion have misled the market.

To promote transparency, Global Crossing disclosed these transactions in the Company's press releases and periodic filings in a manner that is accurate, complete and clear, and which discusses their business purpose. Thus, for instance, in the press release for the second quarter of 2001, dated August 1, 2001, Global Crossing stated that:

> Cash Revenue from the sale of capacity in the form of IRU's was $567 million for the quarter, an increase of 38% from the second quarter of 2000 and flat sequentially.

> Included in this amount, and in Recurring Adjusted EBITDA, was *$345 million received from significant carrier customers who signed contracts during the quarter* to purchase $381 million of capacity on the Global Crossing Network, and to whom Global Crossing made substantial cash commitments during the quarter (see "Network and Capital Plan" below).
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> **Network and Capital Plan**
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> During the quarter, *Global Crossing entered into several agreements with various carrier customers for the purchase or lease of capacity* and co-location space. The transactions were implemented in order to acquire cost-effective local network expansions; to provide for cost-effective alternatives to new construction in certain markets in which the Company anticipates shortages of capacity; and to provide additional levels of physical diversity in the network as the Company implements its global mesh architecture. *The new cash commitments totaled approximately $358 million.*

(emphasis added).

As noted, Global Crossing entered into a relatively small number of transactions – compared to all of its capacity sales to carriers – in which it sold IRUs or other capacity or services to a company from which it purchased capacity or services at approximately the same time. Given the recent allegations, the Company's Board is currently examining these transactions with independent counsel and auditors, including their business justification as well as the manner in which revenue and expenses were recorded and disclosed.

Global Crossing and the Future

Global Crossing was created by visionaries who saw a need in the marketplace for a high capacity global network. The founders of the Company successfully raised substantial amounts of capital, which was essential both because of the huge companies (such as AT&T) against which Global Crossing would have to compete and the staggering costs associated with virtually encircling the planet with fiber optic cable. Based on the power of this business idea, the capital was raised quickly, and construction was completed in record time.

Global Crossing is very much a real company, with real tangible assets and a real vision. The Company's assets are its customers, its employees and its network, which is the most advanced, most secure fiber optic network in the world, and which reaches the top 200 cities in 27 countries. The size and security of the network has attracted some of the world's most important companies, financial institutions and governments as customers, and the network is utilized as a backbone network by other major telecommunications carriers throughout the world.

The Company has continued to win business this year, even after its Chapter 11 filing. That Global Crossing, even in this economic climate, has investors ready to sign on and infuse cash validates the vision of Global Crossing's founders. Unlike other companies without substantial hard assets or the ability to deliver much-needed services, Global Crossing has intellectual, creative and physical capital – despite the fact that its financial capital is restrained until the economy improves and demand increases once again.

Pending Legislative Proposals

Finally, we are aware that the Committee has before it various legislative proposals regarding auditing accountability, including H.R. 3763, "The Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002." In response to the Committee's request, though not necessarily grounded in the Global Crossing experience, we have three observations and suggestions in connection with these proposals: (1) outside directors need to be fully informed with respect to the nature and scope of non-auditing services provided by a company's auditors; (2) auditors should institute a partner review policy with respect to all significant accounting judgments; and (3) the SEC needs to act, proactively and decisively, when an industry is experiencing revolutionary change at a pace that outstrips the ability of industry and private-sector standard setters to develop appropriate accounting standards in a timely fashion.

Outside Director Assessment of Non-Auditing Services

One lesson to be learned from many of the spectacular business failures of the past several years is that outside directors of publicly traded companies must be equipped with sufficient information to enable them to assess whether the company's independent auditor is truly independent and, therefore, capable of requiring that corrective action be taken when needed with respect to a company's internal controls or accounting practices. Clearly, the auditor will not be truly independent in this sense unless it is fully prepared, if necessary, to refuse to certify a company's financial statements under GAAP. To be in a position to assess auditor independence, the outside directors must have an intimate familiarity with the nature and scope of the non-auditing services provided by the auditor. The outside directors must be presented with information concerning the non-auditing services that the auditor proposes to render **before** they are rendered and these directors must then make a disinterested determination as to whether the cost, nature or scope of such services will compromise the independence of the auditors. This kind of evaluative involvement by the directors should prove more useful, and would certainly be more flexible and adaptable in rapidly changing industries, than a proscriptive approach, in which identified practices are simply prohibited.

Second Partner Review of Accounting Judgments

Another lesson from the recent past is that it can be difficult for the principal partner on an audit engagement to consistently exercise independent, unbiased judgment in difficult or novel areas with respect to that partner's significant audit clients. The reasons for this run the gamut from not wishing to endanger a relationship that produces pecuniary benefit, to being too close to the matters in question to be able to think critically, to not being able to deal at arm's length with company accounting professionals with whom the audit partner has developed a close working relationship over a substantial period of time. One potential solution for this problem is to require the involvement of at least one additional partner from a geographically distant office of the audit firm, who will receive no pecuniary benefit and who has no professional or other relationship with the finance or accounting personnel at the company in question. The province of this review partner would be to review, both critically and before any certification is provided, and perhaps anonymously (at least vis-a-vis the engagement partner), each significant accounting judgment made in connection with the audit of the company's financial statements. The concurrence of this review partner would be required in connection with the judgments made as to each matter reviewed. This internal check would thus insert the judgment of a comparatively disinterested auditor into the audit process, without unduly lengthening the time required to complete the audit process.

The SEC Must Speak

The last decade has witnessed the emergence and growth of many new industries that present industry-specific accounting and disclosure issues. At the same time, other industries which have existed for decades have, like the telecommunications industry, experienced precipitous transformational changes. Our industry includes both new and old members, and its transformation, like that of other technology-driven industries, has been and continues to be dramatic. When the emergence or transformation of new and existing industries occurs quickly and is revolutionary, there is often the risk that the private sector standard setters will face uncertainty as they attempt to adapt existing accounting standards and principles to new practices, involving new products or services. As a result, the accounting profession may not be able to reach a considered consensus on which principles govern, or even which model applies, as quickly as companies require in order to report their earnings.

In these circumstances, appropriate regulatory bodies must play an **early** role in helping the industry to define and, if necessary, develop, the appropriate accounting standards. The alternative is for a patchwork of disparate accounting treatments, with varying degrees of transparency, to develop on a company-by-company basis, due in part to the presence of different auditing firms in that industry. Although there are accounting standards in place that can accommodate slower, more evolutionary changes within industries, there is no mechanism for requiring the federal agency charged with enforcement of laws relating to the adequacy of disclosure – the SEC – to take prompt, decisive and industry-wide action when circumstances, such as those in the telecommunications industry, so warrant.

We believe that a collective effort and shared commitment – among all those who have participated in a system of expectations, substantial growth and, regrettably, tremendous disappointment and loss – is essential. We call for cooperation from industry analysts, investment banks, financial analysts, accounting firms, elected officials and the media.

In closing, we wish to thank the Subcommittee for this opportunity to share our views and for your efforts to lay the benchmark for reforms.