Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Oversight and Investigations Subcommittee
The Effects of the Global Crossing Bankruptcy
on Investors, Markets, and Employees
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Good Morning. I want to take this opportunity to thank the Chairwoman of the Subcommittee on Oversight and Investigations, Congresswoman Sue Kelly, for holding this important and particularly timely hearing.

It seems that each day brings us new revelations about the use or misuse of complex accounting practices that hide the information needed by the markets to assess a company's health. When this happens to a healthy company during a period of growth, the company can work its way through it. But when the company is already experiencing a severe downturn in its business and then has its accounting questioned, as was the case with Global Crossing, it can be devastating.

There are two sets of victims who get burned in this cycle: Investors suddenly receive new and damaging information about the company and then lose confidence in it. And, worse yet, the employees then lose their jobs and their pensions when the business turns bad, and the capital markets freeze because the good news they had about the company was not necessarily true.

While the Enron bankruptcy first brought these issues to our attention, it appears that Global Crossing, which has also declared bankruptcy, and other telecom companies accounted for key activities in a way that raises serious concerns. Employees and investors need to know whether they engaged in swaps of capacity that had a legitimate business purpose or did not, and whether they were accounted for properly or in a way that just pumped up their projected cash flow and stock prices. Global Crossing entered into these capacity swaps with a number of companies, including Qwest, Cable and Wireless, WorldCom, at a time when the entire telecom world was experiencing an excess of capacity. We need to understand how the industry's overall problems intersected with the use of those swaps.

I want to thank the CEO and CFO of Global Crossing and executives of Qwest, WorldCom, and Cable and Wireless for agreeing to appear before us today to explain these issues to the American people.

It is only by investigating these practices that we can help investors to base their decisions upon a company's real financial condition, not just a projection released without an objective opinion by an independent party.

Just as important to my way of thinking is a desire to protect shareholders and employees from the kinds of activities that are often characterized as "sweetheart" deals and might have an adverse impact on shareholder value. Some of these practices include special treatments for loans, bonuses, and pension payouts. We need to discuss the propriety of 401(k) blackout periods, wherein some employees are precluded from selling stock for specified periods of time.

This hearing will be of enormous assistance in assuring that H.R. 3763, the Corporate and Auditing Accountability, Responsibility and Transparency Act of 2002, or CARTA, is successful and effective. In order for our Nation's economy to remain on sound footing and to continue its recovery and anticipated growth, it is vital for the American investor to have access to the most recent, meaningful and accurate information possible. Good corporate governance is necessary for such an environment to exist, and that is one of the things we are seeking to accomplish by the introduction and implementation of the CARTA legislation.

That concludes my comments, and I will now yield to the gentlelady from New York, Mrs. Kelly, for what I anticipate will be a very interesting and illuminating hearing.

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