STATEMENT FOR FINANCIAL SERVICES COMMITTEE HEARING, "WRONG NUMBERS: THE ACCOUNTING PROBLEMS AT WORLDCOM"

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Mr. Chairman and Ranking Member LaFalce, I would like to commend you both for holding this timely and necessary hearing on the recent revelations of alleged accounting fraud at WorldCom.

Unfortunately, this type of hearing is becoming all too common in the Financial Services Committee. Beginning in December, and extending into February, the Capital Markets Subcommittee held a series of hearings on the collapse of Enron. In March, the Oversight and Investigations Subcommittee held a hearing examining the impact of Global Crossing's bankruptcy on investors, markets and employees. And now here we are in July, holding a hearing on yet another corporate meltdown at yet another former stock market darling.

The details of the WorldCom debacle are by now well known. During a period of several years, WorldCom's Chief Financial Officer Scott Sullivan improperly capitalized several billion dollars worth of expenses, allegedly in violation of generally accepted accounting principles [GAAP]. This potentially fraudulent activity reduced reported operating expenses and artificially inflated profits during 2001 and the first quarter of 2002. According to WorldCom's internal investigation of this matter, Mr. Sullivan may have inflated profits since the beginning of 1999. Not coincidentally, Mr. Sullivan's creative accounting allowed WorldCom to meet Wall Street analysts' profit expectations, and the company's profit margin goals, during the period in question. According to a June 28 *New York Times* article, federal investigators examining WorldCom's situation had found no records to support Mr. Sullivan's decision to capitalize several billion dollars in expenses that should have been accounted for as operating expenses under generally accepted accounting principles. As of this afternoon, I am not aware that investigators have found any records to support Mr. Sullivan's apparently arbitrary decisions.

The unfolding scandal at WorldCom, unlike the scandal at Enron, is stunning not for its complexity and layers of obfuscation, but rather for its ultimate simplicity. Perhaps not surprisingly, WorldCom's accounting firm, Arthur Andersen, found nothing unusual with Mr. Sullivan's accounting methods. I will be very interested to hear Mr. Dick's explanation of how WorldCom could allegedly have perpetrated the largest accounting fraud in American history without being detected by the company's auditors.

While there are important differences between the Enron and WorldCom scandals, there exists a common tie that binds these companies together – greed. Though it currently does not appear that Mr. Sullivan sought to enrich himself in the manner of several high-ranking Enron executives, I find it difficult to believe that he employed allegedly fraudulent accounting methods for entirely selfless reasons. Mr. Sullivan's actions warrant an updating of Gordon Gekko's infamous motto, "Greed is good." In the case of WorldCom, it appears that greed is good for some, and absolutely devastating for all the rest. Mr. Sullivan's actions would make Gordon Gekko himself blush with embarrassment. Within one week of WorldCom's announcement that it would need to restate earnings for 2001 and the first quarter of 2002, the company fired 17,000 of its employees, or approximately 20% of its workforce. Additionally, WorldCom's actions have rendered its stock worthless and jeopardized nearly $30 billion in WorldCom bonds. According to the *Wall Street Journal*, public pension funds, mutual funds and insurance companies in my home state of Texas hold approximately $870 million in WorldCom bonds that could be worth nothing more than the paper they are written on in the event of a Chapter 11 bankruptcy filing.

Further, WorldCom's financial situation, when considered in the context of other recent corporate accounting scandals, raises the troubling question of these scandals' immediate impact on investor confidence, and potentially long-term impact on investors' faith in the integrity of the capital markets. Access to accurate financial information is essential to the proper functioning of the markets, and as corporate America seems unwilling thus far to enact reasonable reforms, Congress and the administration must act to save corporate America from itself.

While Congress cannot legislate an end to greed, we can create and sustain an environment in which there exist sufficient checks on greed. This committee, and subsequently the full House, passed an accounting industry reform bill in April that would create a public regulatory organization to regulate auditors of public companies. This legislation is an important step in the right direction, and the other body needs to consider and pass accounting reform legislation this month. In the short term, Congress needs to send such legislation to the president for his signature on behalf of America's workers and investors. In the long term, Congress needs to continue to hold hearings and investigate possible corporate wrongdoing to ensure that our free market system functions accurately and effectively for generations to come.