



E. Joseph Hillings
*Vice President and General Manager
Federal Government Affairs*

Enron Corp.
*1775 Eye Street, NW, Suite 800
Washington, DC 20006-4607
(202) 466-9145
Fax (202) 828-3372
jhilling@enron.com*

TRANSMITTAL SHEET

TO: The Honorable Lawrence Summers
Secretary of Treasury
US Department of Treasury

FROM: Joe Hillings

DATED: December 8, 1999

RE: **Ken Lay's Speech – WTO Seattle Ministerial**

Enron Chairman Ken Lay recently addressed the Business Forum at the WTO Meeting in Seattle on energy services and the new economy.

I thought you would find the attached presentation to be of interest.

Sincerely,

A handwritten signature in black ink, appearing to be "JH", written in a cursive style.

Encl.



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Department of Treasury

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A handwritten signature in black ink, appearing to read "J Hillings", written in a cursive style.

Encl.

Natural gas. Electricity. Endless possibilities.™

0010000000266



Services & Energy in the New Economy

Dr. Kenneth L. Lay
Chairman & CEO, Enron

on behalf of the
**Coalition of Service Industries
Energy Services Coalition**

**3rd Ministerial Conference
World Trade Organization**

Seattle, Washington
December 2, 1999





Economic Change

Old Economy

- Supply-driven
- Mass production
- Monopoly franchises
- Technology slows speed to market
- Value in assets
- Geographical

New Economy

- Demand-driven
- Mass customization
- Competition
- Technology increases speed to market
- Value in people
- Global



New Economy Evolution

Phase 1

**Market
Liberalization**

**Falling
Information
Costs**

**Increased
Demand for
Services**

**Fluid
Venture
Capital**

Phase 2

**First-Mover
Businesses**

**Network
Economies**

**Mass
Customization**

Final Phase

**Open
Efficient
Markets**



Globalization of the World Economy 1970 - 1995

Billions 1996 \$ U.S.

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>1995</u>
World Exports	298	1921	3379	5080
World GNP	15,700	22,900	30,700	34,600
Percent	1.9%	8.4%	11.0%	14.7%

The world economy is becoming increasingly linked

Source: U.S. CIA

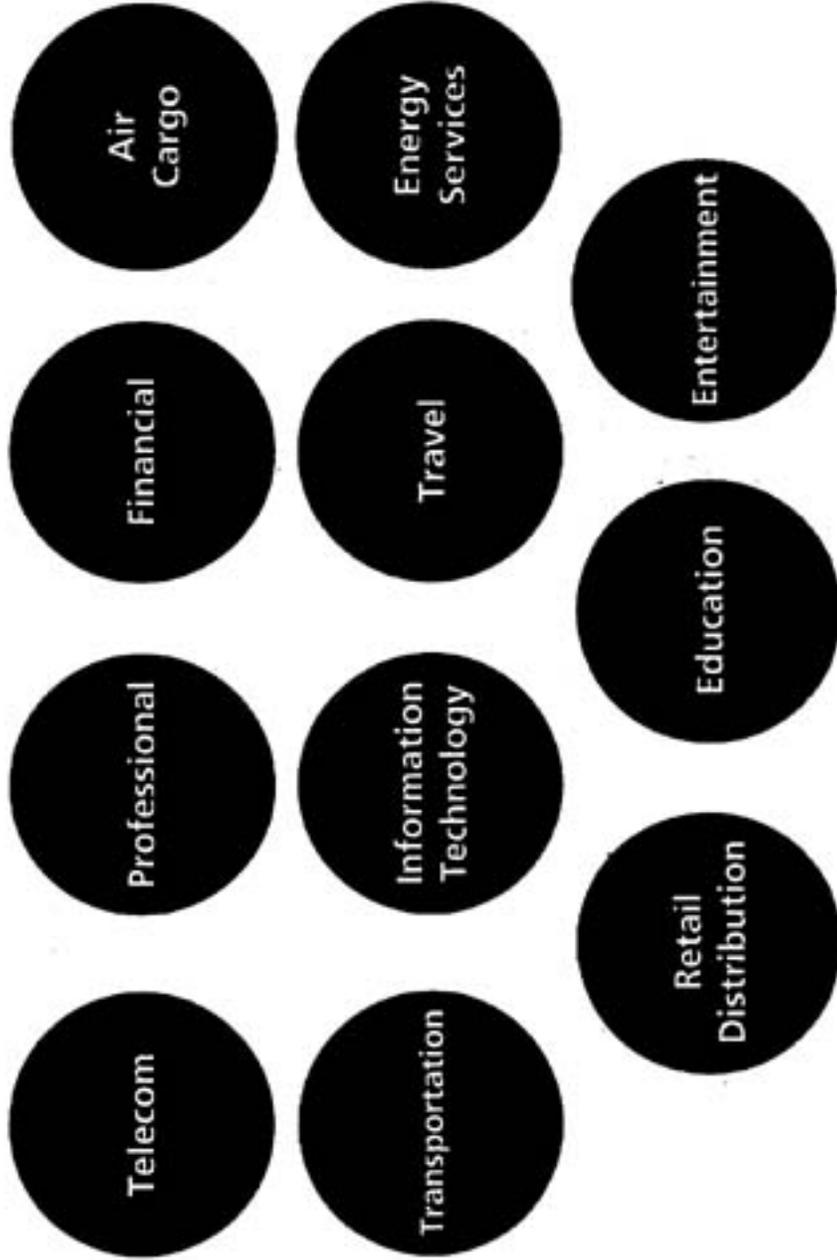


The Global Reach of Services





Coalition of Service Industries





Services Industry Accomplishments in WTO/GATS Process

Financial Services Agreement (1997)

Basic Telecommunications Agreement (1997)

Maintain existing levels of market openness

**Significant opportunities remain
for Services 2000 negotiations**



Definition of Energy Services

"Energy services are those services that comprise or are related to the exploration, development, extraction, production, generation, transportation, transmission, distribution, marketing, consumption management and efficiency of energy, energy products and fuels."

- Energy Services Coalition



Two Categories of Energy Services



Physical Infrastructure

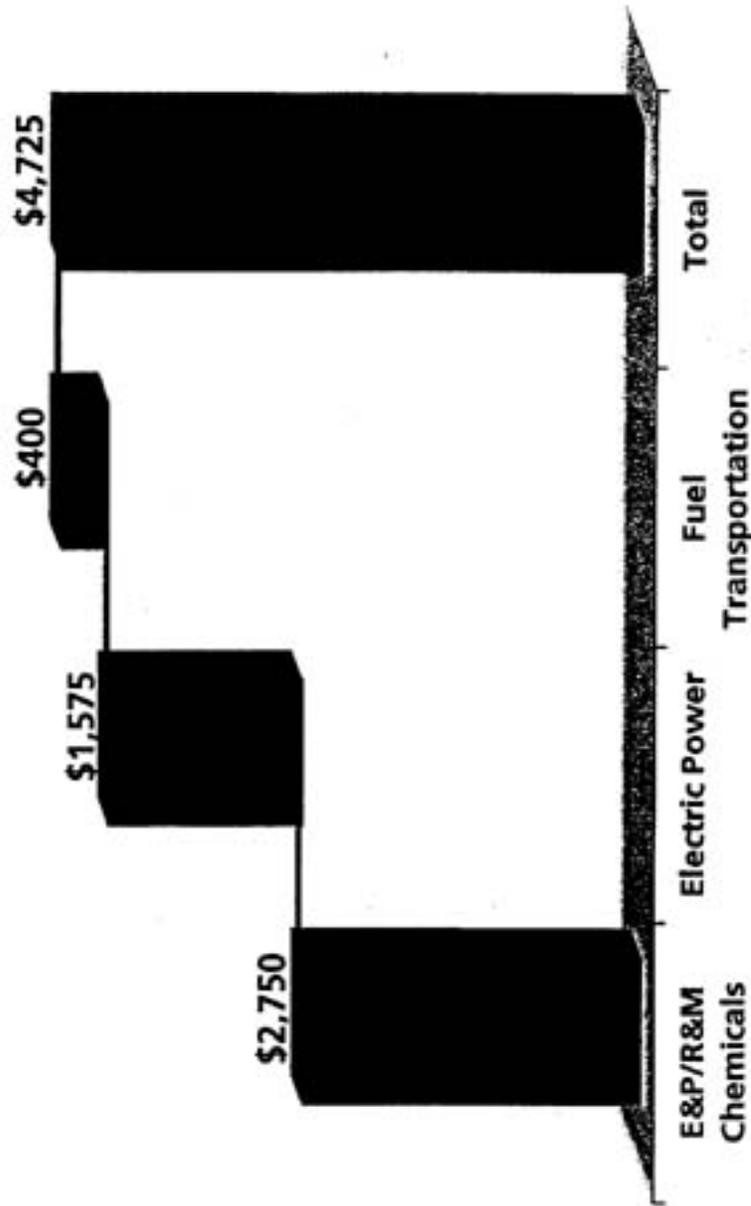


Value-Added Services



Global Energy Market Infrastructure Needs to 2010

(U.S. \$ Billions)



Source: J.S. Herolds, McGraw-Hill, OGI, Gas & Pipeline Journal, Hydrocarbon Processing, Enron



New Energy Services



- **Futures Trading**
- **Competitive Access**
- **Product Customization**
- **Internet Access**
- **Outsourcing**
- **Environmental**



Energy Futures Markets: U.S. and Europe

	<u>NYMEX</u>	<u>CBOT</u> <u>MGE</u>	<u>IPE</u>	<u>Nordpool</u>
Oil and Products	Heating Oil Unleaded Gasoline Light Sweet Crude		Brent Crude Futures Gas Oil Futures Brent Crude Options Gas Oil Options	

Coal	Central Appalachian
-------------	---------------------

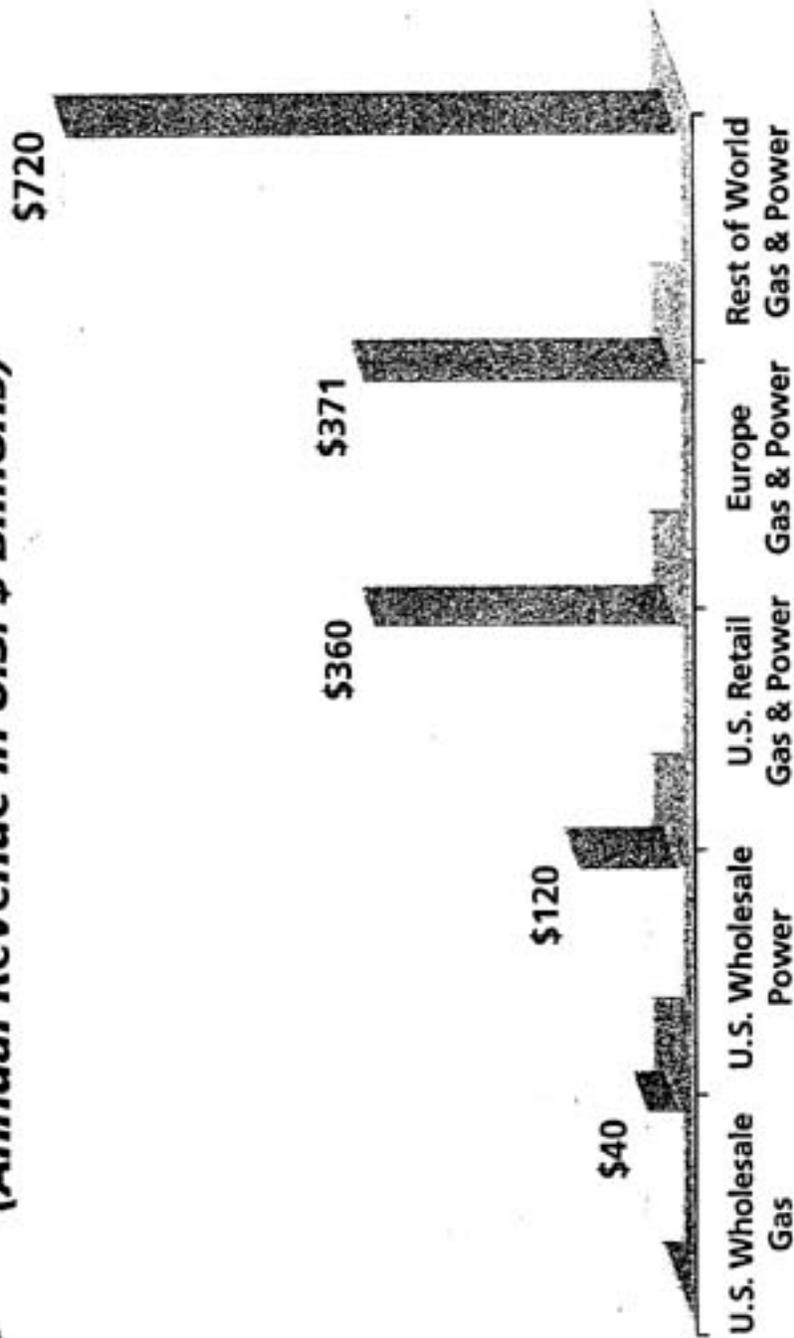
Natural Gas	Henry Hub Permian Basin Alberta, Canada	Gas Futures
--------------------	---	-------------

Electricity	CA/OR Border Palo Verde/AZ CInergy Entergy PANJ/MD (PJM)	Com Ed Twin Cities TVA	Electricity Spot Electricity Futures Electricity Options
--------------------	--	------------------------------	--



Potential Markets for Direct-Access Energy

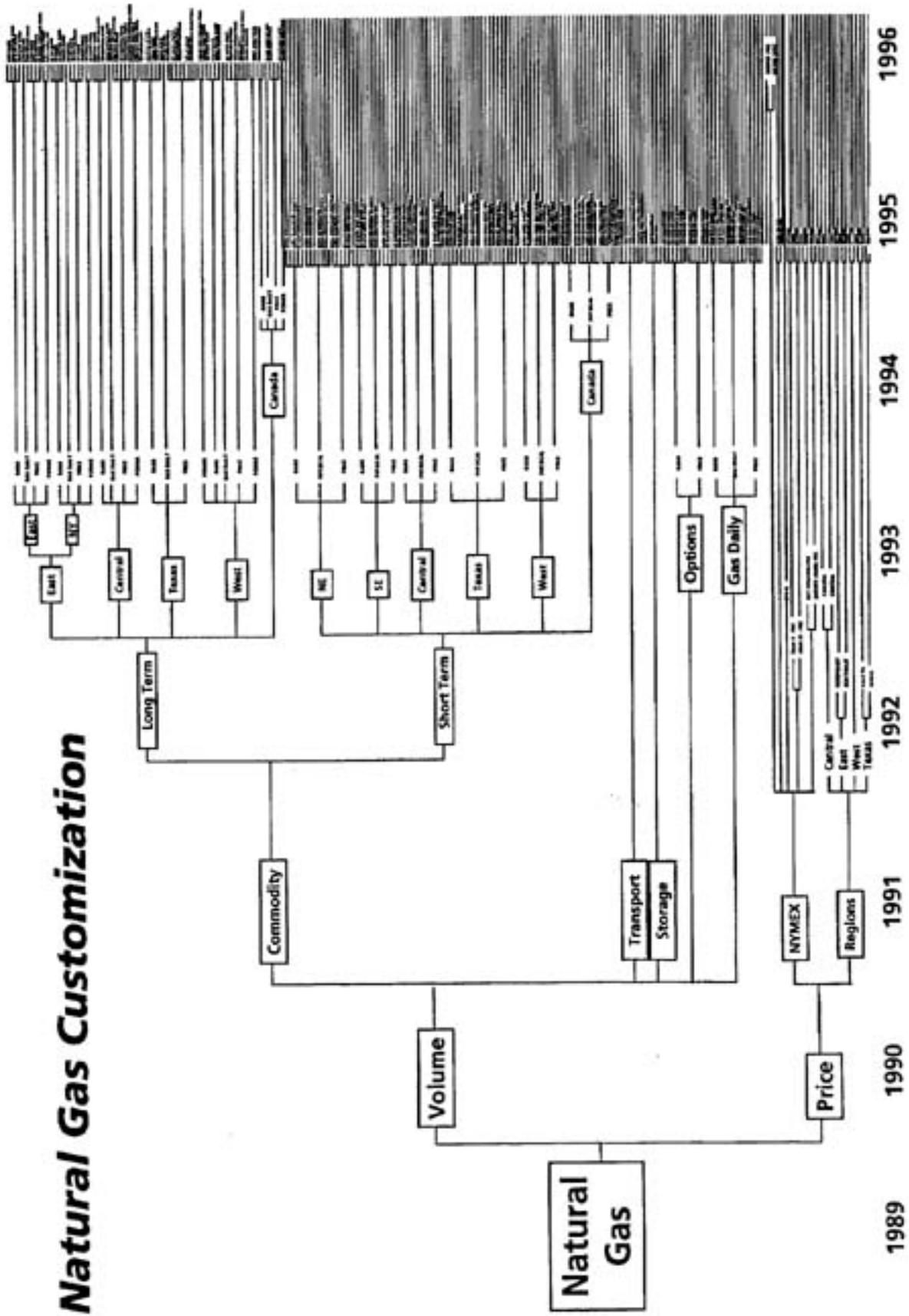
(Annual Revenue in U.S. \$ Billions)



\$1.6 Trillion Annual Market Size

Source: Enron

Natural Gas Customization



online

THE NEW YORK TIMES



TRADER & ORIGINATOR USGP KLEINLID
(From 1.0 November 1182)

Dutch Power
US Pulp

US Gas
Asian Cruise

US Power



Global Internet Quote Screen

▼ FILTERS		REFRESH PRODUCT ORDER	
UK Gas PHY Fwd	WD Tues p/TH	50000	1.90
UK Gas PHY Fwd	WE NBP p/TH	25000	9.00
UK Gas PHY Fwd	WD NBP p/TH	50000	9.75
UK Gas PHY Swing	DEC99 NBP p/TH 70/50	10000	49.53
UK Gas PHY Fwd	JAN00 NBP p/TH	25000	14.33
UK Gas FIN Swap	Q1 00 IPE p/TH	25000	12.6525
UK Power FIN Swap	EFA 03APR00-02JUL00 PPP BASE GBP/MWh	20	19.00
UK Gas PHY Fwd	APR-SEP00 NBP p/TH	25000	10.32
UK Power FIN Swap	EFA 02JUL00-01OCT00 PPP BASE GBP/MWh	20	16.65
UK Gas FIN Swap	Q2 01 IPE p/TH	25000	11.25
UK Gas PHY Fwd	APR-SEP01 NBP p/TH	25000	10.53
UK Gas PHY Fwd	Q3 01 NBP p/TH	29000	9.6825
UK Power FIN Swap	EFA 80M PPP BASE GBP/MWh	20	34.65
UK Gas PHY Fwd	Q4 00 NBP p/TH	25000	14.32
UK Gas PHY Fwd	Q3 00 NBP p/TH	50000	11.04
UK Gas PHY Fwd	Q1 01 NBP p/TH	29000	12.5825
UK Power FIN Swap	EFA EFA Dec99 PPP WD345 GBP/MWh	20	48.95
UK Gas PHY Fwd	Q2 00 NBP p/TH	20	26.85
UK Power FIN Swap	EFA EFA Nov99 PPP BASE GBP/MWh	20	36.40
UK Power FIN Swap	EFA DA PPP BASE GBP/MWh	20	36.90
▼ COMPOSITES			
1999-10-28 S	UK Gas PHY Fwd	Q2 00 NBP p/TH	11.42
1999-10-28 S	UK Gas PHY Fwd	WD NBP p/TH	9.8
1999-10-28 S	UK Gas PHY Fwd	WE NBP p/TH	9.05



Total Outsourcing for Energy Efficiency

Traditional Suppliers

- Utilities
- Software Vendors
- Controls Manufacturers
- Architects
- Engineers
- Equipment Manufacturers
- Mechanical Contractors
- Electrical Contractors
- HVAC Svc Companies
- Consultants
- Specialty Contractors
- Lenders
- Internal Treasury



Single Source Supplier

- Commodity Management
- Energy Information Management
- Energy Asset Management
- Facilities Management
- Capital Management

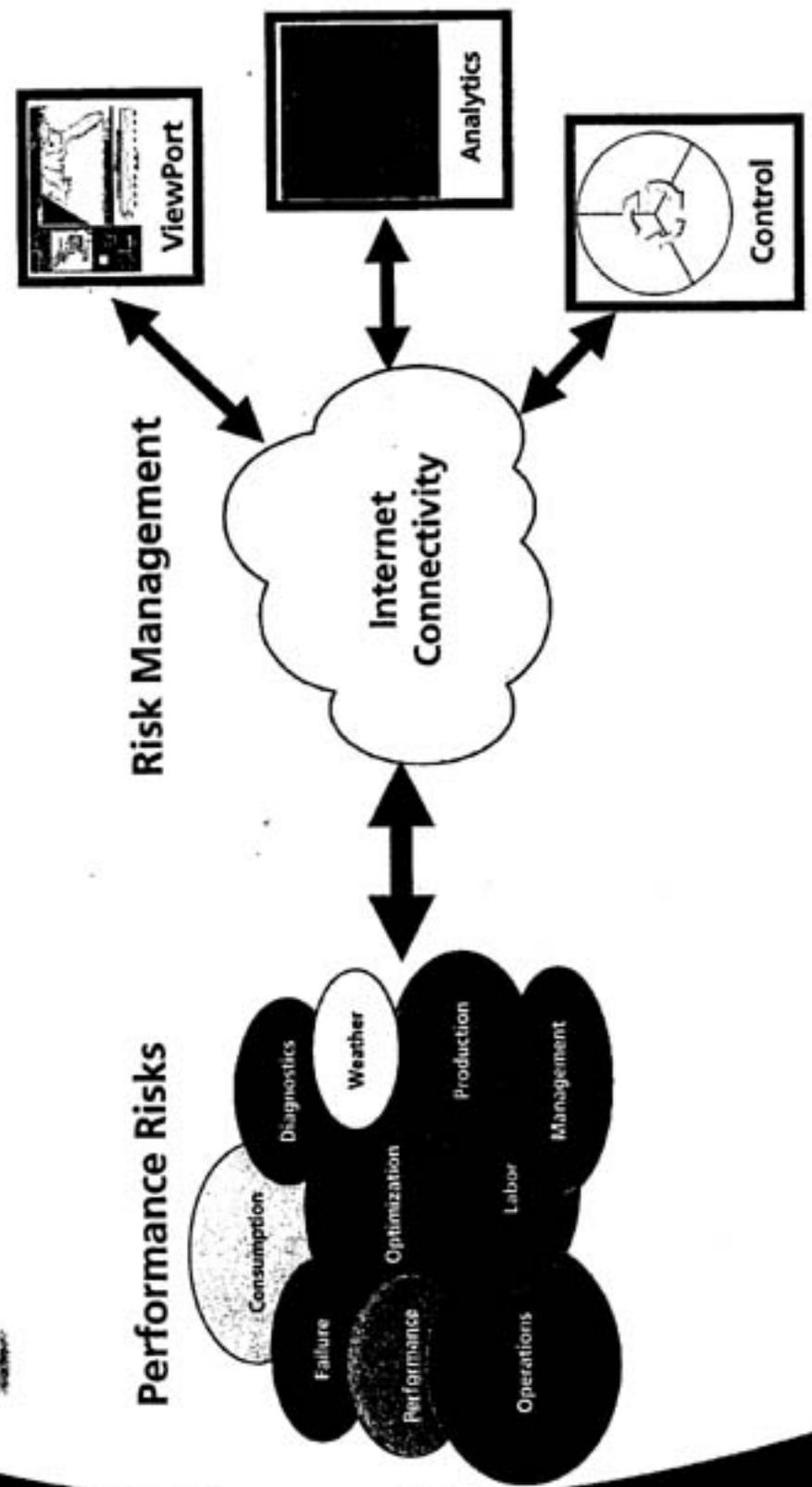


Customer Needs

- Light
- Conditioned Air
- Managed Facilities

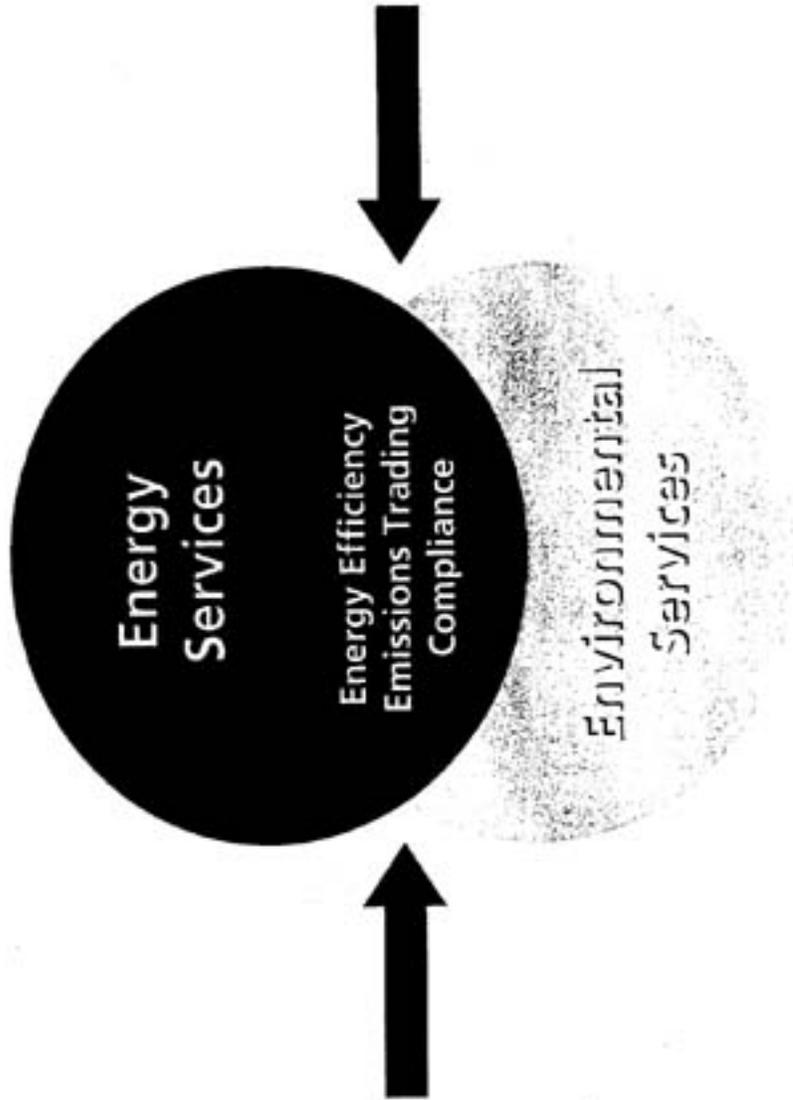


Information-Age Energy Management





Energy-Environmental Nexus





Benefits to Services from WTO Status in GATS Negotiation

Promote open trade and nondiscriminatory
treatment of foreign investment

Encourage "best practices" with privatization
and regulation to achieve transparency, equity
and efficiency

Facilitate the globalization of the latest
technologies for economic and environmental
benefits



Conclusions

Services is the largest and fastest growing segment of the global New Economy

The services market is information-driven, transparent, competitive, and global – government policies must adapt to these realities

Energy services is integral to the New Economy

WTO status is as imperative for energy services as for financial services, telecommunications, and other pillars of the service economy



1775 Eye Street, N.W., Suite 800, Washington, DC 20006

First Class

Address Correction Requested

To:

The Honorable Lawrence H. Summers
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220



0010000000288



1775 Eye Street, N.W., Suite 800, Washington, DC 20006

First Class

Address Correction Requested

To:

The Honorable Stu Eizenstat
Deputy Secretary of the Treasury
Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3326
Washington, DC 20220





Facsimile Cover Sheet

To: The Honorable Lawrence H.
Summers

Company: U.S. Department of Treasury

Phone: 202/622-1100

Fax: 202/622-0073

From: Rosalee Fleming for
Kenneth L. Lay

Company: Enron Corp.

Phone: 713/853-6088

Fax: 713/853-5313

Date: 10/08/99

Pages including this

cover page: 2

Comments:



Kenneth L. Lay
*Chairman and
Chief Executive Officer*

October 8, 1999

Enron Corp.
P. O. Box 1188
Houston, TX 77251-1188
(713) 853-6773
Fax: (713) 853-3313
klay@enron.com

The Honorable Lawrence H. Summers
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, D.C. 20220

Dear Larry:

I apologize that we have not been able to connect by telephone over the last 2 or 3 days. It appears that our respective schedules are totally out of sync.

The reason I was calling has to do with a matter that just recently came to my attention. Apparently at a conference of the National Economic Research Association held the week of July 5th this year, Treasury Department assistant general counsel John Yeutter made some comments concerning over-the-counter (OTC) derivatives regulation and Enron which were troubling. He apparently stated that the President's Working Group on Financial Markets in its pending study on Hedge Funds and Derivatives considered OTC derivatives regulation an "open issue", and it may recommend regulation of "otherwise unregulated entities, such as Enron".

As you would expect, we are troubled by being singled out, but even more troubled by the notion that financial regulators may be considering any regulation of OTC dealers, particularly in the energy field, where we believe derivatives are truly customer based risk management tools. Enron believes there is no need for any additional regulation of OTC derivatives dealers in as much as the OTC derivatives markets are functioning very smoothly today and, based on any information we have, there have been no problems in the energy derivatives market that warrant regulation. In fact, we believe that derivative products provide a useful and important risk management tool for our customers and the customers of many other dealers in the energy industry and many other business areas.

Larry, hopefully the comments made by John Yeutter were just a misunderstanding. However, if there is any serious thought of imposing regulation of OTC dealers, we would certainly like to have an opportunity to make our case as to why we think this is not warranted. I would very much appreciate receiving a call or note from you if in fact there is any reason that we should be concerned about this occurring.

I spent some time with Bob Ruben in Shanghai last week and he appears to be doing very well. I must say he looked more relaxed than I have seen him in years.

Warm regards,

Natural gas. Electricity. Endless possibilities.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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OUTSIDE THE LEGAL DIVISION

January 14, 2002

MEMORANDUM FOR DAVID D. AUFHAUSER
GENERAL COUNSEL

GEORGE WOLFE
DEPUTY GENERAL COUNSEL

FROM: ROBERTA K. McINERNEY 
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT: Weekly Report for the Week of January 7, 2002

*-- [OUTSIDE SCOPE , (b)(5)]

0020000000172

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

Attachments

cc: Jeff Berg
Walter Eccard
Ed Gronseth
Barbara Hammerle
Bob Foss
Debra Diener
Steve McHale
Russ Munk
Tom McGivern
Ken Schmalzbach



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

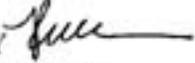
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OUTSIDE THE LEGAL DIVISION

November 9, 2001

MEMORANDUM FOR DAVID D. AUFHAUSER
GENERAL COUNSEL

GEORGE WOLFE
DEPUTY GENERAL COUNSEL

FROM:

ROBERTA K. McINERNEY 
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT:

Weekly Report for the Week of November 5, 2001.

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

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Steve McHale
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Ken Schmalzbach



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

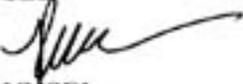
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January 14, 2002

MEMORANDUM FOR DAVID D. AUFHAUSER
GENERAL COUNSEL

GEORGE WOLFE
DEPUTY GENERAL COUNSEL

FROM:

ROBERTA K. McINERNEY 
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT:

Weekly Report for the Week of January 7, 2002

[OUTSIDE SCOPE , (b)(5)]

0020000000279

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[(b)(5) , (b)(2)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

Attachments

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Ed Gronseth
Barbara Hammerle
Bob Foss
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Ken Schmalzbach



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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January 4, 2002

MEMORANDUM FOR DAVID D. AUFHAUSER
GENERAL COUNSEL

GEORGE B. WOLFE
DEPUTY GENERAL COUNSEL

FROM:

ROBERTA K. McINERNEY 
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT:

Weekly Report for the Week of December 31, 2001

[OUTSIDE SCOPE , (b)(5)]

00200000000303

[OUTSIDE SCOPE , (b)(5)]

[(b)(2) , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

*** These matters may come to the attention of the Secretary or the Deputy Secretary.**

Attachments

cc: Jeff Berg
Walter Eccard
Ed Gronseth
Barbara Hammerle
Bob Foss
Debra Diener
Steve McHale
Russ Munk
Tom McGivern
Ken Schmalzbach



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

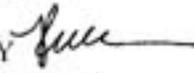
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November 9, 2001

MEMORANDUM FOR DAVID D. AUFHAUSER
GENERAL COUNSEL

GEORGE WOLFE
DEPUTY GENERAL COUNSEL

FROM:

ROBERTA K. McINERNEY 
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT:

Weekly Report for the Week of November 5, 2001.

[OUTSIDE SCOPE , (b)(5)]

00200000000331

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

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Barbara Hammerle
Bob Foss
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Steve McHale
Russ Munk
Tom McGivern
Ken Schmalzbach



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

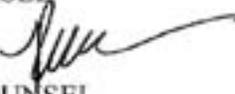
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[OUTSIDE SCOPE]

January 14, 2002

MEMORANDUM FOR DAVID D. AUFHAUSER
GENERAL COUNSEL

GEORGE WOLFE
DEPUTY GENERAL COUNSEL

FROM: ROBERTA K. McINERNEY 
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT: Weekly Report for the Week of January 7, 2002

[OUTSIDE SCOPE , (b)(5)]

00200000000373

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[(b)(5) , (b)(2)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

Attachments

cc: Jeff Berg
Walter Eccard
Ed Gronseth
Barbara Hammerle
Bob Foss
Debra Diener
Steve McHale
Russ Munk
Tom McGivern
Ken Schmalzbach



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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January 4, 2002

MEMORANDUM FOR DAVID D. AUFHAUSER
GENERAL COUNSEL

GEORGE B. WOLFE
DEPUTY GENERAL COUNSEL

FROM: ROBERTA K. McINERNEY 
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT: Weekly Report for the Week of December 31, 2001

[OUTSIDE SCOPE , (b)(5)]

[(b)(5) , (b)(2)]

[OUTSIDE SCOPE , (b)(5)]

Attachments

cc: Jeff Berg
Walter Eccard
Ed Gronseth
Barbara Hammerle
Bob Foss
Debra Diener
Steve McHale
Russ Munk
Tom McGivern
Ken Schmalzbach



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

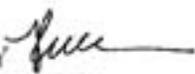
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November 9, 2001

MEMORANDUM FOR DAVID D. AUFHAUSER
GENERAL COUNSEL

GEORGE WOLFE
DEPUTY GENERAL COUNSEL

FROM:

ROBERTA K. McINERNEY 
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT:

Weekly Report for the Week of November 5, 2001.

[OUTSIDE SCOPE , (b)(5)]

0020000000425

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[(b)(2) , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

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Barbara Hammerle
Bob Foss
Debra Diener
Steve McHale
Russ Munk
Tom McGivern
Ken Schmalzbach



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

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October 15, 1999

INFORMATION

MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL

FROM: ROBERTA K. MCINERNEY *RM*
ASSISTANT GENERAL COUNSEL
(BANKING AND FINANCE)

SUBJECT: Weekly Report -- Office of the Assistant General
Counsel for Banking and Finance, October 11
through October 15, 1999

[OUTSIDE SCOPE , (b)(5)]

0020000000461

[OUTSIDE SCOPE , (b)(5)]

[(b)(5) , (b)(2)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

Attachments

cc: Ken Schmalzbach
Walter Eccard
Robert Foss
Debra Diener
Rochelle Granat
Rick Carro
Ed Gronseth
Bill Hoffman
Jeff Berg
Steve McHale
Russ Munk

From: José Gabilondo

Subject: Weekly Report (for week of 11/5/01)

[OUTSIDE SCOPE , (b)(5)]

00200000000557

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

From: José Gabilondo

Subject: Weekly Report (for week of 1/7/02)

[(b)(2) . (b)(5)]

[OUTSIDE SCOPE . (b)(5)]

From: José Gabilondo

Subject: Weekly Report (for week of 12/31/01)

[OUTSIDE SCOPE , (b)(5)]

[(b)(2) , (b)(5)]

00200000000560

El-Hindi, Jamal

From: Anderson, Donna
Sent: Tuesday, January 15, 2002 11:03 AM
To: Cottrell, Sheryl; El-Hindi, Jamal; Farrell, Adwoa; Galbraith, Cari; Hammerle, Barbara; Hutner, Susan; Monborne, Mark; Munro, Stevenson; Rosenthal, Victoria; Thornton, Sean; Tuchband, Matthew
Subject: Transcript: O'Neill on Enron Mess



FOXNews.com.htm

This was an interesting article if you would like to read it.



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Transcript: O'Neill on Enron Mess

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Sunday, January 13, 2002
FOX NEWS

WASHINGTON — TONY SNOW, HOST, FOX NEWS SUNDAY: In one year Enron went from the toast of Houston to just plain

toast. Executives walked off with millions of dollars, employees lost their life savings, and accountants shredded critical papers.

(BEGIN VIDEO CLIP)

GEORGE W. BUSH, PRESIDENT OF THE UNITED STATES: The administration is deeply concerned about its effects on the economy. We're also deeply concerned about its effects on the lives of our citizenry.

(END VIDEO CLIP)

SNOW: Did Enron executives break the law, bend the law or fall victim to bad luck? Will any politicians take a fall? We'll ask Treasury Secretary Paul O'Neill and two key congressional investigators, Representatives John Dingell and Tom Davis.

(NEWSBREAK)

SNOW: The top domestic story this morning: the collapse of Enron. Not long ago the company was the world's largest energy trader, worth \$70 billion. But last fall the company acknowledged several hundred million dollars' worth of previously unreported liabilities, and its stock, already hit by a weakening economy, went into free-fall from a high of more than \$80 a share to less than 50 cents today.

A company that once boasted of never having had a bad quarter now has filed for the biggest bankruptcy in our nation's history. In the process, thousands of employees have seen their retirement savings vanish, while some company executives managed to sell stock then worth millions.

Adding to the intrigue, Arthur Andersen, the firm auditing Enron's books, claimed it didn't get some important records from the company and destroyed thousands of other pages of documents. The administration and at least four congressional committees have launched investigations, but the complex case may take years to resolve.

So is this a corporate scandal, a political scandal, both, neither? For answers we turn to the treasury secretary, Paul O'Neill.

Good morning.

PAUL O'NEILL, TREASURY SECRETARY: Good morning.

RELATED INFO

- Background
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 - 1/13/02: Trar Enron Mess
 - 1/13/02: Eric Ashcroft Spe
 - 1/8/02: White Cheney Mee
 - 1/5/02: Laid-1 Caught by Hi Glitch
 - 1/4/02: Dyna Enron Ppear
 - 1/2/02: Sana Subpoena Er
 - 12/27/01: En to Democrat
 - 12/12/02: 60t Employees C
 - 12/12/02: Lan Enron Execs
 - 12/12/02: Au Hid Critical Ir
 - 12/8/01: Laf They Have C Resolve
 - 12/4/01: Coll Enron Custic
 - 12/3/01: Enr Employees
 - 11/29/01: Err Bewildered A
 - 11/29/01: Ca Gloat Over E
 - 11/27/01: En Renegotiation
 - 11/13/01: Lan Earnings Res Decet
 - 10/25/01: En Amid Questic
 - 10/17/01: Ke chairman & C

Profile

- Winners and Demise

Timeline

- Enron Contril
- History of En

Fox Fast List

- Enron
- Dynagy

FOXNews.com content on cut.

Related Show



SNOW: Now, in October you received the first of three phone calls from Ken Lay, the chairman of Enron. In his first phone call to you, what did he say?

O'NEILL: He called to tell me that he thought it would be useful for our technical people to talk with his technical people to understand the complex derivative contracts they had, to assure ourselves that their problems were not going to get translated into larger problems for the U.S. and the world capital markets.

SNOW: So he did not seek direct help? He didn't ask for, at least at that juncture, any intervention with rating services or anything?

O'NEILL: Absolutely not. No, he just called me to alert me that he thought we ought to pay attention to the technical details.

SNOW: All right. And when you got that request from him, did any alarm bells go off? Did you say, this is an unusual request?

O'NEILL: No, I didn't think it was unusual at all. I get dozens of calls from people every day, and his call wasn't unusual.

SNOW: So you mean corporate executives will often call and ask for your advice about technical details of their derivatives trades?

O'NEILL: Well, they — well, you know, this is a very unusual case in the sense that Enron's the biggest energy — or was the biggest energy trader in the world. And so, in that sense, I didn't think it was unusual.

You know, I think one thing that's been missing through a lot of the conversation about this is a lack of understanding of what goes on in the world.

As the treasury secretary at the time that I had this call, I was working on the economic stimulus bill with the leadership of Congress. I was trying to get the Congress to pay attention to and pass a terrorist risk insurance proposal, which, unfortunately, they failed to do. I was working on pursuing terrorist financing all over the world.

So, you know, this is three, four-minute conversation in the midst of a sea of things going on in the world, and I didn't think it was unusual at all.

SNOW: So it wasn't a big deal. The following day he calls. What did he ask for then?

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I think what our records show is that I had two conversations with Ken, and I think the dates are the 28th of October and another one on the 8th or 9th of November.

And, you know, the second call that I had from Ken was to tell me that they were being looked at by the rating agencies. It was just a heads-up, and that was it.

SNOW: So, at this point, one of the questions a lot of people want to know is, why didn't you tell the president, why didn't anybody tell the



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president at this point?

O'NEILL: Well, again, you know, if you put this in the context of what's going on, the president's prosecuting the war against the terrorists — you know, I have been involved in big-league events for, I don't know, most of the last 40 years. I didn't think this was worthy of me running across the street and telling the president, I don't go across the street and tell the president every time somebody calls me.

SNOW: This is the seventh-largest corporation in America. When you got those phone calls, did it occur to you that Enron might very soon be bankrupt?

O'NEILL: I had no idea. You know, I had — I frankly think what Ken told me over the phone was not new news. You all had been reporting for weeks that Enron had problems, that they were in trouble and the rest of that. And, you know, it's part of the reason I didn't think there was any reason for me to talk to anybody else, because I thought what Ken said to me was public property. It was not new news.

SNOW: So were you surprised by the collapse of Enron's stock value?

O'NEILL: Well, not really. I guess, you know, I've watched lots of corporations come and go. It's an interesting fact that there are very few companies that have been around for 40 or 50 years or 100 years.

So, you know, in the broader scheme of things, not really. Companies come and go. It's — part of the genius of capitalism is, people get to make good decisions or bad decisions, and they get to pay the consequence or to enjoy the fruits of their decisions. That's the way the system works.

SNOW: Now, a few years ago, a company called Long-Term Capital got a bailout from the federal government as it was facing bankruptcy. At least one —

O'NEILL: I don't think that's...

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SNOW: OK. In that case...

O'NEILL: There was no bailout. There was no bailout.

SNOW: OK. Well — and there was no requested bailout here. There was a request for perhaps some aid in intervening with Moody's, which was doing corporate ratings.

O'NEILL: Not to me.

SNOW: OK. But to people under your jurisdiction, correct?

O'NEILL: According to accounts that I've read in the newspapers, that's

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You know, this thing has become a subject of lots of conversation. We have taken what I think are prudent steps, so that I've not spent any time talking to the undersecretary about the conversations he had with other people, to make sure that we do this correctly.

You know, I think we have done the right thing. We're going to continue to do the right thing.

The president has asked me to lead a couple of different groups, to see if there are lessons that we should learn, and possibly change law, rules or regulations to better protect individuals who have a stake in a 401(k) plan or a pension plan, to make sure that the people that are involved out there in companies are not disadvantaged by decisions that their leaders make.

SNOW: Now, is the philosophy of this administration that, when a company gets into a bind like this, it's on its own?

O'NEILL: Absolutely. You know, unless there's an issue related to the company that reaches to public responsibility, you know, in the American capitalist system, companies are responsible for their actions. And there is a broad scheme of laws and rules and regulations that instruct and tell companies what they're supposed to do. And so, of course, you know, we don't have an interest in individual companies, and that's it.

SNOW: So you're not talking to Peter Fisher, who's your undersecretary working on this. There seems to be almost a see-no-evil, speak-no-evil kind of atmosphere. You're not talking to a guy who's working for you. You and Don Evans don't talk to the president until a meeting just very recently.

Surely there had to be some sense in your mind that these calls were inappropriate, or that there was something about them that you did not want to pass along to the president. Is that correct?

O'NEILL: No, it's not. I didn't think there was anything inappropriate about someone calling me to give me a heads-up that there were some technical things that we ought to pay attention to. I don't find that inappropriate. It seems to me it's exactly the right discharge of my duties to make sure that the public's not going to be hurt by some individual company action.

SNOW: Now, Henry Waxman is saying that this administration — well, let me read a quote from Congressman Waxman. He's going to be conducting an investigation; a lot of people are. He's making allegation about the way the White House has handled this. We're going to get it up on the screen here presently.

He said, "It is now clear that the White House had knowledge that Enron was likely to collapse but did nothing to protect innocent employees and shareholders who ultimately lost their life savings. I'm deeply troubled that the White House stood by and let this happen to thousands of families."

Your reaction?

O'NEILL: My reaction is, you know, it's just amazing to me to have this

kind of comment. What we knew, what I knew, I think what those of us in the administration knew was public property. Everyone knew from Enron's disclosures that they were struggling. We didn't know more than that.

The company had a duty to inform its shareholders and its employees about things that were going on inside the company. That's not a federal government responsibility.

And again, we didn't have any knowledge that wasn't general public property. You all in the television world and in print media were reporting on kind of a day-to-day basis what was going on in Enron. I didn't know anything more than you did.

SNOW: So when Ken Lay e-mailed employees in August saying he thinks the best times are ahead, do you think he was being straight with his employees?

O'NEILL: Well, I don't know. You know, that's something you need to ask Ken Lay. I don't know. I didn't have inside knowledge of what the company's prospects were. You know, having been a CEO, I often — I always communicated with my people what I thought was going on. And you need to ask Ken Lay what he had in his mind when he sent that e-mail.

SNOW: Do you think the federal government or Congress ought to do anything to try to make whole some of the shareholders, especially people who worked for Enron who've lost their life savings, or is that just the breaks?

O'NEILL: Well, again the second group the president asked me to lead is to look and see whether the laws and rules and regulations about disclosure are appropriate and whether something's been missing in the requirements for disclosure, especially in these areas that are so complicated.

I don't know whether you've ever spent any time trying to understand the derivatives business. I did, because when I was at Alcoa we ran a billion-dollar, multi-billion-dollar derivatives process in the 36 countries we were involved in around the world. And it's an enormously complicated subject.

The president's asked me to look at the rules and regulations and see whether we need to modify them in some way to assure that shareholders and employees are not disadvantaged because the disclosure rules are not strong enough.

SNOW: Mr. Secretary, final question. I'm going to read a Fox News Opinion Dynamics Poll question. We asked people about their optimism about the economy, whether they think things are going to get better or worse in the next year. And 74 percent said better; only 14 percent said worse.

Are they realistic or guilty of irrational exuberance?

O'NEILL: No, I think they're on the right track. I think — you know, I think the information we have so far in the data on economic performance is a mix but I think it's mixed toward the positive side, and I'm optimistic we're going to return to a good rates of real growth.

SNOW: With or without a stimulus package?

O'NEILL: Well, the stimulus package, I still believe, would hasten the movement out of a slow economic period. It would help people who were directly affected by the events of September 11.

The president said over and over again, every person who has a prospect of losing their job or who has lost their job, we should care about them and therefore, yes, we should do the stimulus package.

I'm hoping the Congress will come back informed by their constituents that they, the constituents, want a stimulus package and that we'll finally get a vote in the Senate. We already passed two bills in the House. Hopefully the Senate's going to be responsive, and we're going to do something in the next few weeks.

SNOW: All right. Secretary O'Neill, thanks for joining us.

O'NEILL: My pleasure.

SNOW: Up next, Congress takes a look at the Enron mess. (BEGIN VIDEO CLIP)

BUSH: This administration will fully investigate issues such as the Enron bankruptcy to make sure that workers are protected.

(BEGIN VIDEO CLIP)

(COMMERCIAL BREAK)

SNOW: Continuing our discussion of the Enron collapse, we welcome two key players from the House of Representatives: Democrat John Dingell, ranking member of the House Energy and Commerce Committee; and Republican Tom Davis, chairman of his party's National Congressional Committee.

Also here with questions, Brit Hume, Washington managing editor of Fox News.

Representative Dingell, based on what you've seen so far, is there any case for political hanky panky so far in Enron?

U.S. REPRESENTATIVE JOHN DINGELL, D-MICH.: I think it's too early to say. I think what we have to do is have a thorough investigation, get all the facts, and then make the necessary judgment.

Certainly Enron's behavior, Andersen's behavior, have raised questions. And certainly the fact that the administration would not reveal the matters that went on with regard to the vice president's panel on energy and Enron's part in it raises some questions.

BRIT HUME, FOX NEWS: Well, let me just ask a follow up on that if I can, Congressman. What link do you see between the discussions the administration had on energy policy and the financial collapse of this company? Is there any connection?

DINGELL: Well, there's no connection there, but there is a connection which is even more important, and that is what energy policy was put.

Remember, Enron was pushing very, very hard to have total deregulation of energy, particularly electrical utility energy sales that had a particular effect upon California and which caused huge disasters to the people of California with regard to energy. Plus...

HUME: Well, how many investigations are you talking about here, Congressman? Are you talking about one about the financial collapse of Enron, or are you talking about two, including a separate investigation of energy policy, California's predicament, Enron's discussion with the vice president on that matter?

DINGELL: All this ties together.

HUME: How?

DINGELL: Enron was busy doing many things including stripping its employees of their 401(k) benefits, including possible insider trading, including filing false reports with the SEC, the 10-Ks, the 10-Qs and annual reports, and they were also tied up in a peculiar relationship with Andersen, their auditor.

SNOW: OK, Representative Davis, what do you think? I want to get your response to what Representative Dingell said.

U.S. REPRESENTATIVE TOM DAVIS, R-VA.: First of all, I think a lot of what Representative Dingell says goes to what the *Post* says this morning.

SNOW: That's *The Washington Post*.

DAVIS: *The Washington Post*, it's: "Poll finds bad news for Democrats looking for a traditional mid-term election edge."

Of course we ought to investigate the collapse of Enron and what happened to the employees and how some of the largest owners of this and the CEO were able to cash out while forbidding their own employees to do that. We ought to take a look at the financial accounting standards on this. We ought to see if new rules and regulations ought to come forward.

But taking a look at these overall policies, just this politics, there's absolutely no evidence to date that the administration did anything improperly. And we know that Enron gave a lot of money to a lot of players in Washington on both sides.

SNOW: Carl Levin, who is going to be running an investigation on the Senate side, has said on another broadcast that he thinks that Ken Lay, in fact, was asking over the phone for inappropriate favors from the administration. Do you see any evidence of that?

DAVIS: Well, we know he was on the phone. We know that they had Bob Rubin, who was President Clinton's Cabinet secretary, call up on their behalf. And we don't know all those answers yet.

What we do know so far is we found no indication that the administration, in any way, did anything improper or answered any calls that might have come forward.

HUME: But you are, as the head of the National Republican Congressional Committee, in the process of returning campaign contributions.

DAVIS: Absolutely.

HUME: Well, if there's nothing improper here, why return the money?

DAVIS: Well, I'll tell you why, because they gave \$100,000 in corporate dollars, it could go back and help those employees, help fund their pension plans. And, frankly, I think that is a better use of \$100,000 at this point.

SNOW: Representative Dingell, you also got some money over the years from Enron. Did anybody at Enron try to contact you?

DINGELL: Well, Enron talks to everybody. And I've told them no at almost everything they've said...

(LAUGHTER)

... and that includes deregulation of electrical utility sales and things of that kind.

SNOW: But during this period when Enron officials were contacting the treasury secretary, the commerce secretary and the undersecretary of treasury, did anybody call you and say, we want you to take a look into rating services or we want you to give us some help?

DINGELL: No, they did not, and I would not have done so.

And by the way, Tony, they gave me \$10,500, and we're going to give that money — I've already instructed my campaign treasurer — to the funds that have been set up to help the employees, and I urge everybody to do the same thing.

HUME: Well, just to follow that up for a second, Tony's questions, when did they contact you, how often and about what?

DINGELL: Well, they were usually contacting me about deregulating electrical utility sales, and we always told them no.

HUME: When was the last time? When did that happen last?

DINGELL: Oh, over a period of some time, and we told them no.

HUME: What? Last year, last six months, last month, when?

DINGELL: Oh, over a long period of time. They contacted us about that. We told them no. I opposed the proposal. I think it was the right thing to do.

HUME: Sounds like the \$10,500 was a bad investment.

DINGELL: Well, if they regard it as an investment, they lost their shirt. But what we're going to do with that money is give that to the employees' funds to try and help make whole from the fact that so many of their em

employees lost everything in the process of the collapse because Enron would not let them cash out their 401(k)s.

HUME: Congressman Dingell, when the hearings get under way, will you be wanting to have Bob Rubin among those testify about attempts to gain influence or bailout for Enron?

DINGELL: If you watched me when I ran investigations, and I ran a lot of them, and they were very, very effective, we had everybody in. And we saw to it that we got all the facts.

HUME: That would be a yes?

DINGELL: And that's what I want of these investigations in the Senate and the House.

HUME: Would that be a yes then?

DINGELL: That means absolutely yes.

SNOW: Representative Davis, I've heard you talk about returning contributions, Representative Dingell talk about returning contributions. If you returned everybody's contributions, you probably would be able to save one or two of the people who worked. You've got thousands at Enron. This is token help.

Now, is there going to be some move on Capitol Hill to make these people whole? And if so, shouldn't other people who have been the victim of bad business practices and had their portfolios hampered, shouldn't they also expect help from Capitol Hill?

DAVIS: Well, I don't know that they can expect a government bailout at this point.

But, look, I agree with Congressman Dingell. We need to get to the bottom of this matter. We have a criminal probe going on from the Justice Department. I think that's appropriate.

But I think on Capitol Hill, we need to look at why the seventh-largest corporation in America fell so quickly, why their corporate executives were cashing out and their ordinary employees that had grown the company were not able to do that and lost their pension funds.

SNOW: Is it your suspicion that corporate executives deliberately misled employees and told them everything was going to be fine, meanwhile, they cashed out while the employees were left holding the bag?

DAVIS: That's the appearance is. I think we need to nail that down, but that is the appearance.

And the question then is, were they acting illegally, improperly, and do we need to put in new rules and regulations to stop this in the future?

SNOW: Representative Dingell, getting back to the investigations, Attorney General John Ashcroft, who received money just last year from Enron in a failed Senate bid in Missouri, said he's going to recuse himself from the case.

Do you think anybody who's received money from Enron over the years should recuse themselves from the investigations? And that would include you.

DINGELL: I think there's a judgment that should be made.

Well, Tony, I'm just going to tell you, I've opposed Enron at every turn. And I intend to — with regard to deregulation and questions that they regard important and contacted me on, and I intend to continue that practice.

No, I'll give Enron an honest investigation. We'll look and see what kind of rascality went on.

Remember, there's plenty here to look into. There's the fact that Enron, apparently, made false representations in connection with their annual reports, their 10-Ks and their 10-Qs. They, either alone or together with their accountant, misrepresented facts. Their accountant also destroyed large volumes of papers.

I don't think you can find anybody in the country who doesn't want to get to the bottom of this. That includes me and every other member of Congress.

SNOW: Representative Davis, do you think either political party is going to be able to gain political advantage out of this Enron scandal?

DAVIS: Well, right now there is absolutely no evidence that anyone in elected office or in the administration acted improperly. So at this point, I don't see any advantage. I see people — they're jockeying for it, when you look at the polls and how these have been used in the past. But I can assure you, we'll have a fair hearing on the House side.

SNOW: All right, Representative Dingell, very quickly, either side getting an advantage? We'll get 10 seconds.

DINGELL: Well, Tony, I want to see a fair, thorough and complete investigation.

SNOW: All right.

DINGELL: I don't think we ought to make a partisan issue out of this. I think we ought to get to the facts.

SNOW: All right. Representative Dingell, Representative Davis, thank you both.

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05042

Tuchband, Matthew

From: Anderson, Donna
Sent: Tuesday, January 15, 2002 11:03 AM
To: Cottrell, Sheryl; El-Hindi, Jamal; Farrell, Adwoa; Gaibraith, Cari; Hammerle, Barbara; Hutner, Susan; Monborne, Mark; Munro, Stevenson; Rosenthal, Victoria; Thornton, Sean; Tuchband, Matthew
Subject: Transcript: O'Neill on Enron Mess



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Transcript: O'Neill on Enron Mess

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Sunday, January 13, 2002
FOX NEWS

WASHINGTON — TONY SNOW, HOST, FOX NEWS SUNDAY: In one year Enron went from the toast of Houston to just plain

toast. Executives walked off with millions of dollars, employees lost their life savings, and accountants shredded critical papers.

(BEGIN VIDEO CLIP)

GEORGE W. BUSH, PRESIDENT OF THE UNITED STATES: The administration is deeply concerned about its effects on the economy. We're also deeply concerned about its effects on the lives of our citizenry.

(END VIDEO CLIP)

SNOW: Did Enron executives break the law, bend the law or fall victim to bad luck? Will any politicians take a fall? We'll ask Treasury Secretary Paul O'Neill and two key congressional investigators, Representatives John Dingell and Tom Davis.

(NEWSBREAK)

SNOW: The top domestic story this morning: the collapse of Enron. Not long ago the company was the world's largest energy trader, worth \$70 billion. But last fall the company acknowledged several hundred million dollars' worth of previously unreported liabilities, and its stock, already hit by a weakening economy, went into free-fall from a high of more than \$80 a share to less than 50 cents today.

A company that once boasted of never having had a bad quarter now has filed for the biggest bankruptcy in our nation's history. In the process, thousands of employees have seen their retirement savings vanish, while some company executives managed to sell stock then worth millions.

Adding to the intrigue, Arthur Andersen, the firm auditing Enron's books, claimed it didn't get some important records from the company and destroyed thousands of other pages of documents. The administration and at least four congressional committees have launched investigations, but the complex case may take years to resolve.

So is this a corporate scandal, a political scandal, both, neither? For answers we turn to the treasury secretary, Paul O'Neill.

Good morning.

PAUL O'NEILL, TREASURY SECRETARY: Good morning.

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SNOW: So he did not seek direct help? He didn't ask for, at least at that juncture, any intervention with rating services or anything?

O'NEILL: Absolutely not. No, he just called me to alert me that he thought we ought to pay attention to the technical details.

SNOW: All right. And when you got that request from him, did any alarm bells go off? Did you say, this is an unusual request?

O'NEILL: No, I didn't think it was unusual at all. I get dozens of calls from people every day, and his call wasn't unusual.

SNOW: So you mean corporate executives will often call and ask for your advice about technical details of their derivatives trades?

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You know, I think one thing that's been missing through a lot of the conversation about this is a lack of understanding of what goes on in the world.

As the treasury secretary at the time that I had this call, I was working on the economic stimulus bill with the leadership of Congress. I was trying to get the Congress to pay attention to and pass a terrorist risk insurance proposal, which, unfortunately, they failed to do. I was working on pursuing terrorist financing all over the world.

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SNOW: So it wasn't a big deal. The following day he calls. What did he ask for then?

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SNOW: So, at this point, one of the questions a lot of people want to know is, why didn't you tell the president, why didn't anybody tell the



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president at this point?

O'NEILL: Well, again, you know, if you put this in the context of what's going on, the president's prosecuting the war against the terrorists — you know, I have been involved in big-league events for, I don't know, most of the last 40 years. I didn't think this was worthy of me running across the street and telling the president. I don't go across the street and tell the president every time somebody calls me.

SNOW: This is the seventh-largest corporation in America. When you got those phone calls, did it occur to you that Enron might very soon be bankrupt?

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SNOW: OK. In that case...

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The president has asked me to lead a couple of different groups, to see if there are lessons that we should learn, and possibly change law, rules or regulations to better protect individuals who have a stake in a 401(k) plan or a pension plan, to make sure that the people that are involved out there in companies are not disadvantaged by decisions that their leaders make.

SNOW: Now, is the philosophy of this administration that, when a company gets into a bind like this, it's on its own?

O'NEILL: Absolutely. You know, unless there's an issue related to the company that reaches to public responsibility, you know, in the American capitalist system, companies are responsible for their actions. And there is a broad scheme of laws and rules and regulations that instruct and tell companies what they're supposed to do. And so, of course, you know, we don't have an interest in individual companies, and that's it.

SNOW: So you're not talking to Peter Fisher, who's your undersecretary working on this. There seems to be almost a see-no-evil, speak-no-evil kind of atmosphere. You're not talking to a guy who's working for you. You and Don Evans don't talk to the president until a meeting just very recently.

Surely there had to be some sense in your mind that these calls were inappropriate, or that there was something about them that you did not want to pass along to the president. Is that correct?

O'NEILL: No, it's not. I didn't think there was anything inappropriate about someone calling me to give me a heads-up that there were some technical things that we ought to pay attention to. I don't find that inappropriate. It seems to me it's exactly the right discharge of my duties to make sure that the public's not going to be hurt by some individual company action.

SNOW: Now, Henry Waxman is saying that this administration — well, let me read a quote from Congressman Waxman. He's going to be conducting an investigation; a lot of people are. He's making allegation about the way the White House has handled this. We're going to get it up on the screen here presently.

He said, "It is now clear that the White House had knowledge that Enron was likely to collapse but did nothing to protect innocent employees and shareholders who ultimately lost their life savings. I'm deeply troubled that the White House stood by and let this happen to thousands of families."

Your reaction?

O'NEILL: My reaction is, you know, it's just amazing to me to have this

kind of comment. What we knew, what I knew, I think what those of us in the administration knew was public property. Everyone knew from Enron's disclosures that they were struggling. We didn't know more than that.

The company had a duty to inform its shareholders and its employees about things that were going on inside the company. That's not a federal government responsibility.

And again, we didn't have any knowledge that wasn't general public property. You all in the television world and in print media were reporting on kind of a day-to-day basis what was going on in Enron. I didn't know anything more than you did.

SNOW: So when Ken Lay e-mailed employees in August saying he thinks the best times are ahead, do you think he was being straight with his employees?

O'NEILL: Well, I don't know. You know, that's something you need to ask Ken Lay. I don't know. I didn't have inside knowledge of what the company's prospects were. You know, having been a CEO, I often — I always communicated with my people what I thought was going on. And you need to ask Ken Lay what he had in his mind when he sent that e-mail.

SNOW: Do you think the federal government or Congress ought to do anything to try to make whole some of the shareholders, especially people who worked for Enron who've lost their life savings, or is that just the breaks?

O'NEILL: Well, again the second group the president asked me to lead is to look and see whether the laws and rules and regulations about disclosure are appropriate and whether something's been missing in the requirements for disclosure, especially in these areas that are so complicated.

I don't know whether you've ever spent any time trying to understand the derivatives business. I did, because when I was at Alcoa we ran a billion-dollar, multi-billion-dollar derivatives process in the 36 countries we were involved in around the world. And it's an enormously complicated subject.

The president's asked me to look at the rules and regulations and see whether we need to modify them in some way to assure that shareholders and employees are not disadvantaged because the disclosure rules are not strong enough.

SNOW: Mr. Secretary, final question. I'm going to read a Fox News Opinion Dynamics Poll question. We asked people about their optimism about the economy, whether they think things are going to get better or worse in the next year. And 74 percent said better; only 14 percent said worse.

Are they realistic or guilty of irrational exuberance?

O'NEILL: No, I think they're on the right track. I think — you know, I think the information we have so far in the data on economic performance is a mix but I think it's mixed toward the positive side, and I'm optimistic we're going to return to a good rates of real growth.

SNOW: With or without a stimulus package?

O'NEILL: Well, the stimulus package, I still believe, would hasten the movement out of a slow economic period. It would help people who were directly affected by the events of September 11.

The president said over and over again, every person who has a prospect of losing their job or who has lost their job, we should care about them and therefore, yes, we should do the stimulus package.

I'm hoping the Congress will come back informed by their constituents that they, the constituents, want a stimulus package and that we'll finally get a vote in the Senate. We already passed two bills in the House. Hopefully the Senate's going to be responsive, and we're going to do something in the next few weeks.

SNOW: All right. Secretary O'Neill, thanks for joining us.

O'NEILL: My pleasure.

SNOW: Up next, Congress takes a look at the Enron mess. (BEGIN VIDEO CLIP)

BUSH: This administration will fully investigate issues such as the Enron bankruptcy to make sure that workers are protected.

(BEGIN VIDEO CLIP)

(COMMERCIAL BREAK)

SNOW: Continuing our discussion of the Enron collapse, we welcome two key players from the House of Representatives: Democrat John Dingell, ranking member of the House Energy and Commerce Committee; and Republican Tom Davis, chairman of his party's National Congressional Committee.

Also here with questions, Brit Hume, Washington managing editor of Fox News.

Representative Dingell, based on what you've seen so far, is there any case for political hanky panky so far in Enron?

U.S. REPRESENTATIVE JOHN DINGELL, D-MICH.: I think it's too early to say. I think what we have to do is have a thorough investigation, get all the facts, and then make the necessary judgment.

Certainly Enron's behavior, Andersen's behavior, have raised questions. And certainly the fact that the administration would not reveal the matters that went on with regard to the vice president's panel on energy and Enron's part in it raises some questions.

BRIT HUME, FOX NEWS: Well, let me just ask a follow up on that if I can, Congressman. What link do you see between the discussions the administration had on energy policy and the financial collapse of this company? Is there any connection?

DINGELL: Well, there's no connection there, but there is a connection which is even more important, and that is what energy policy was put.

Remember, Enron was pushing very, very hard to have total deregulation of energy, particularly electrical utility energy sales that had a particular effect upon California and which caused huge disasters to the people of California with regard to energy. Plus...

HUME: Well, how many investigations are you talking about here, Congressman? Are you talking about one about the financial collapse of Enron, or are you talking about two, including a separate investigation of energy policy, California's predicament, Enron's discussion with the vice president on that matter?

DINGELL: All this ties together.

HUME: How?

DINGELL: Enron was busy doing many things including stripping its employees of their 401(k) benefits, including possible insider trading, including filing false reports with the SEC, the 10-Ks, the 10-Qs and annual reports, and they were also tied up in a peculiar relationship with Andersen, their auditor.

SNOW: OK, Representative Davis, what do you think? I want to get your response to what Representative Dingell said.

U.S. REPRESENTATIVE TOM DAVIS, R-VA.: First of all, I think a lot of what Representative Dingell says goes to what the *Post* says this morning.

SNOW: That's *The Washington Post*.

DAVIS: *The Washington Post*, it's: "Poll finds bad news for Democrats looking for a traditional mid-term election edge."

Of course we ought to investigate the collapse of Enron and what happened to the employees and how some of the largest owners of this and the CEO were able to cash out while forbidding their own employees to do that. We ought to take a look at the financial accounting standards on this. We ought to see if new rules and regulations ought to come forward.

But taking a look at these overall policies, just this politics, there's absolutely no evidence to date that the administration did anything improperly. And we know that Enron gave a lot of money to a lot of players in Washington on both sides.

SNOW: Carl Levin, who is going to be running an investigation on the Senate side, has said on another broadcast that he thinks that Ken Lay, in fact, was asking over the phone for inappropriate favors from the administration. Do you see any evidence of that?

DAVIS: Well, we know he was on the phone. We know that they had Bob Rubin, who was President Clinton's Cabinet secretary, call up on their behalf. And we don't know all those answers yet.

What we do know so far is we found no indication that the administration, in any way, did anything improper or answered any calls that might have come forward.

HUME: But you are, as the head of the National Republican Congressional Committee, in the process of returning campaign contributions.

DAVIS: Absolutely.

HUME: Well, if there's nothing improper here, why return the money?

DAVIS: Well, I'll tell you why, because they gave \$100,000 in corporate dollars, it could go back and help those employees, help fund their pension plans. And, frankly, I think that is a better use of \$100,000 at this point.

SNOW: Representative Dingell, you also got some money over the years from Enron. Did anybody at Enron try to contact you?

DINGELL: Well, Enron talks to everybody. And I've told them no at almost everything they've said...

(LAUGHTER)

... and that includes deregulation of electrical utility sales and things of that kind.

SNOW: But during this period when Enron officials were contacting the treasury secretary, the commerce secretary and the undersecretary of treasury, did anybody call you and say, we want you to take a look into rating services or we want you to give us some help?

DINGELL: No, they did not, and I would not have done so.

And by the way, Tony, they gave me \$10,500, and we're going to give that money — I've already instructed my campaign treasurer — to the funds that have been set up to help the employees, and I urge everybody to do the same thing.

HUME: Well, just to follow that up for a second, Tony's questions, when did they contact you, how often and about what?

DINGELL: Well, they were usually contacting me about deregulating electrical utility sales, and we always told them no.

HUME: When was the last time? When did that happen last?

DINGELL: Oh, over a period of some time, and we told them no.

HUME: What? Last year, last six months, last month, when?

DINGELL: Oh, over a long period of time. They contacted us about that. We told them no. I opposed the proposal, I think it was the right thing to do.

HUME: Sounds like the \$10,500 was a bad investment.

DINGELL: Well, if they regard it as an investment, they lost their shirt. But what we're going to do with that money is give that to the employees' funds to try and help make whole from the fact that so many of their em

ployees lost everything in the process of the collapse because Enron would not let them cash out their 401(k)s.

HUME: Congressman Dingell, when the hearings get under way, will you be wanting to have Bob Rubin among those testify about attempts to gain influence or bailout for Enron?

DINGELL: If you watched me when I ran investigations, and I ran a lot of them, and they were very, very effective, we had everybody in. And we saw to it that we got all the facts.

HUME: That would be a yes?

DINGELL: And that's what I want of these investigations in the Senate and the House.

HUME: Would that be a yes then?

DINGELL: That means absolutely yes.

SNOW: Representative Davis, I've heard you talk about returning contributions, Representative Dingell talk about returning contributions. If you returned everybody's contributions, you probably would be able to save one or two of the people who worked. You've got thousands at Enron. This is token help.

Now, is there going to be some move on Capitol Hill to make these people whole? And if so, shouldn't other people who have been the victim of bad business practices and had their portfolios hampered, shouldn't they also expect help from Capitol Hill?

DAVIS: Well, I don't know that they can expect a government bailout at this point.

But, look, I agree with Congressman Dingell. We need to get to the bottom of this matter. We have a criminal probe going on from the Justice Department. I think that's appropriate.

But I think on Capitol Hill, we need to look at why the seventh-largest corporation in America fell so quickly, why their corporate executives were cashing out and their ordinary employees that had grown the company were not able to do that and lost their pension funds.

SNOW: Is it your suspicion that corporate executives deliberately misled employees and told them everything was going to be fine, meanwhile, they cashed out while the employees were left holding the bag?

DAVIS: That's the appearance is. I think we need to nail that down, but that is the appearance.

And the question then is, were they acting illegally, improperly, and do we need to put in new rules and regulations to stop this in the future?

SNOW: Representative Dingell, getting back to the investigations, Attorney General John Ashcroft, who received money just last year from Enron in a failed Senate bid in Missouri, said he's going to recuse himself from the case.

Do you think anybody who's received money from Enron over the years should recuse themselves from the investigations? And that would include you.

DINGELL: I think there's a judgment that should be made.

Well, Tony, I'm just going to tell you, I've opposed Enron at every turn. And I intend to — with regard to deregulation and questions that they regard important and contacted me on, and I intend to continue that practice.

No, I'll give Enron an honest investigation. We'll look and see what kind of rascality went on.

Remember, there's plenty here to look into. There's the fact that Enron, apparently, made false representations in connection with their annual reports, their 10-Ks and their 10-Qs. They, either alone or together with their accountant, misrepresented facts. Their accountant also destroyed large volumes of papers.

I don't think you can find anybody in the country who doesn't want to get to the bottom of this. That includes me and every other member of Congress.

SNOW: Representative Davis, do you think either political party is going to be able to gain political advantage out of this Enron scandal?

DAVIS: Well, right now there is absolutely no evidence that anyone in elected office or in the administration acted improperly. So at this point, I don't see any advantage. I see people — they're jockeying for it, when you look at the polls and how these have been used in the past. But I can assure you, we'll have a fair hearing on the House side.

SNOW: All right, Representative Dingell, very quickly, either side getting an advantage? We'll get 10 seconds.

DINGELL: Well, Tony, I want to see a fair, thorough and complete investigation.

SNOW: All right.

DINGELL: I don't think we ought to make a partisan issue out of this. I think we ought to get to the facts.

SNOW: All right. Representative Dingell, Representative Davis, thank you both.

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only



DEPARTMENT OF THE TREASURY
WASHINGTON

November 12, 1999

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**MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL**

FROM: Richard S. Carro *le*
Associate General Counsel

SUBJECT: Weekly Report: November 8 - 12, 1999

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]



DEPARTMENT OF THE TREASURY
WASHINGTON

November 5, 1999

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**MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL**

FROM: Richard S. Carro 
Associate General Counsel

SUBJECT: Weekly Report: November 1 - 5, 1999

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

0100000001290

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

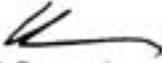


DEPARTMENT OF THE TREASURY

WASHINGTON
October 8, 1999

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**MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL**

FROM: Richard S. Carro 
Associate General Counsel

SUBJECT: Weekly Report: October 4-8, 1999

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

0100000001297

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]



DEPARTMENT OF THE TREASURY
WASHINGTON

September 17, 1999

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**MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL**

FROM: Richard S. Carro 
Associate General Counsel

SUBJECT: Weekly Report: September 13 - 17, 1999

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

0100000001305

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

0100000001308

[OUTSIDE SCOPE , (b)(5)]

01000000001309

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]



DEPARTMENT OF THE TREASURY
WASHINGTON

July 9, 1999

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MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL

FROM: Richard S. Carro 
Associate General Counsel

SUBJECT: Weekly Report: July 5 - 9, 1999

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

0100000001313

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]



DEPARTMENT OF THE TREASURY
WASHINGTON

July 2, 1999

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MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL

FROM: Richard S. Carro 
Associate General Counsel

SUBJECT: Weekly Report: June 28 - July 2, 1999

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

0100000001318

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

June 18, 1999

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**MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL**

**FROM: Thomas M. McGivern
Deputy Associate General Counsel**

SUBJECT: Weekly Report: June 14 - 18, 1999

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

0100000001325

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE . (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

June 25, 1999

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**MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL**

**FROM: Thomas M. McGivern
Deputy Associate General Counsel**

SUBJECT: Weekly Report: June 21 - 25, 1999

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

0100000001332

[OUTSIDE SCOPE , (b)(5)]

June 30, 1999

**MEMORANDUM FOR SECRETARY RUBIN
DEPUTY SECRETARY SUMMERS**

**FROM: NEAL S. WOLIN
ACTING GENERAL COUNSEL**

SUBJECT: Weekly Report for the Week of June 28, 1999

HOT ISSUES

[OUTSIDE SCOPE]

KEY GENERAL COUNSEL NEWS

[OUTSIDE SCOPE , (b)(5)]

0100000001340

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

September 21, 1999

**CONTAINS INFORMATION PROTECTED BY ATTORNEY-CLIENT
AND ATTORNEY WORK PRODUCT PRIVILEGES**

**MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT**

**FROM: NEAL S. WOLIN
ACTING GENERAL COUNSEL**

SUBJECT: Weekly Report for the Week of September 20, 1999

HOT ISSUES

[OUTSIDE SCOPE]

KEY GENERAL COUNSEL NEWS

[OUTSIDE SCOPE , (b)(5)]

0100000001343

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

October 8, 1999

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**MEMORANDUM FOR NEAL S. WOLIN
ACTING GENERAL COUNSEL**

**FROM: Richard S. Carro
Associate General Counsel**

SUBJECT: Weekly Report: October 4-8, 1999

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

0100000001347

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

0100000001348

OTHER MATTERS

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

1
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1
1

[OUTSIDE SCOPE , (b)(5)]

1
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[OUTSIDE SCOPE , (b)(5)]

October 15, 1999

**CONTAINS INFORMATION PROTECTED BY ATTORNEY-CLIENT
AND ATTORNEY WORK PRODUCT PRIVILEGES**

**MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT**

**FROM: NEAL S. WOLIN
ACTING GENERAL COUNSEL**

SUBJECT: Weekly Report for the Week of October 11, 1999

HOT ISSUES

[OUTSIDE SCOPE]

KEY GENERAL COUNSEL NEWS

[OUTSIDE SCOPE , (b)(5)]

0100000001355

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

November , 1999

**CONTAINS INFORMATION PROTECTED BY ATTORNEY-CLIENT
AND ATTORNEY WORK PRODUCT PRIVILEGES**

**MEMORANDUM FOR SECRETARY SUMMERS
DEPUTY SECRETARY EIZENSTAT**

**FROM: NEAL S. WOLIN
ACTING GENERAL COUNSEL**

SUBJECT: Weekly Report for the Week of November 1, 1999

HOT ISSUES

[OUTSIDE SCOPE]

KEY GENERAL COUNSEL NEWS

[OUTSIDE SCOPE , (b)(5)]

0100000001360

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

[OUTSIDE SCOPE , (b)(5)]

March 24, 2000

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**MEMORANDUM FOR NEAL S. WOLIN
GENERAL COUNSEL**

**FROM: Thomas M. McGivern
Counselor to the General Counsel**

SUBJECT: Weekly Report for March 24, 2000

HIGHLIGHTS

[OUTSIDE SCOPE , (b)(5)]

OTHER MATTERS

[(b)(5)]

0100000001364

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

cc: Joan Donoghue
Lexa Edsall

David Cohen
Marty Moe

ec: AGCs
CGC staff
Barbara Hammerle

DAGCs
Bill Hoffman

Hammond, Donald

From: Carr, Pamela
Sent: Wednesday, January 16, 2002 1:08 PM
To: Bezdek, Roger; Carrington, Wanda; Cheeks, Druessilla; Davis, Ann; Davis, Crystal; Decena, Dan; Green, Kenneth Jr.; Hammond, Donald; Ho-Yen, Monique (OCDM); Johnson, Michael; Koteinicki, Donna; Kubeluis, Christopher; Lebryk, David; Maryott, Carl; Michaux, Diane; Monroe, David; Reid, Robert; Santiago, Priscilla; Seward, Lachlan; Smith-Gorham, Tynia; Stroupe, MaryEllen; Wiss, Barbara
Subject: FW: January 11, 2002



Etroon-Comments to
Draft Memo v...

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From: Pringle, Veronica
Sent: Monday, January 14, 2002 3:31 PM
To: Dam, Ken; Adams, Tim; Kupfer, Jeffrey; Fisher, Peter; Gurulé, Jimmy; Taylor, John; Clarida, Richard; Davis, Michele; Duncan, John; Flyzik, Jim; Weinberger, Mark; Munk, Russell; Schmalzbach, Kenneth; McInerney, Roberta; Schmitz, Michael
Cc: Harvey, Reavie; Valentic, Marsha; Gathers, Shirley; Hart, Anna; Wittenhagen, Linda; Cully, Lenora; Flanagan, Rosemary; Strickler, Marie; Jones, Janet; Baker, Ros; Jacobs, Ethel; Craven, Leone; Kinard, Yvette; Bouslough, Terry; Pringle, Veronica
Subject: January 11, 2002

Carleton, Norman

From: Lori.Santamorena@bpd.treas.gov
Sent: Friday, December 07, 2001 1:47 PM
To: norman.carleton@do.treas.gov
Subject: 1BN) Derivatives Dealers Fret as Bankruptcy Overhaul

you may have already seen this...

— Forwarded by Lori Santamorena/BPD on 12/07/01 01:47 PM —

"PUBLIC DEBT, US DEPT OF TREASURY" <GSR@bloomberg.net>

12/07/01 01:42 PM

To: LSANTAMORENA@BPD.TREAS.GOV

cc:

Subject: 1BN) Derivatives Dealers Fret as Bankruptcy Overhaul Lags

Derivatives Dealers Fret as Bankruptcy Overhaul Lags (Update1)
 2001-12-07 13:03 (New York)

Derivatives Dealers Fret as Bankruptcy Overhaul Lags (Update1)

(Add Enron comment in 12th paragraph.)

Washington, Dec. 7 (Bloomberg) -- J.P. Morgan Chase & Co., Merrill Lynch & Co. and other securities firms are trying to persuade Congress that failure to change bankruptcy rules by year's end will disrupt the market for the products companies use to hedge against fluctuations in interest rates and currencies.

The banks want Congress to require that a company's holdings of derivatives be considered as a whole if it goes broke. That way, bankruptcy trustees can't cash in some derivatives that settle in the company's favor and void others on which the company owes the bank. Federal Reserve Board Chairman Alan Greenspan and Treasury Secretary Paul O'Neill support the concept.

The change is something derivatives dealers have wanted for years. They say the need is more pressing now because the economy's slump has driven record numbers of companies into bankruptcy. Otherwise, banks will hesitate to deal in derivatives without the guarantee that they'll be paid, thus denying businesses of all kinds a key tool to pin down future costs.

"We are fearful that in the current negative economic climate, these products are going to be tested in a way that they have not been tested," said Stacy Carey, a lobbyist for the International Swaps and Derivatives Association.

Legislation requiring derivatives to be dealt with as a net asset is tucked into a larger bankruptcy overhaul bill, the thrust of which would make it harder for consumers to escape all of their credit card and other unsecured debt when filing for bankruptcy.

'Cherry-Picking'

Action on the bankruptcy measure has stalled for a fourth consecutive year over disputes unrelated to the derivatives "netting" provisions, which have drawn no opposition. Dealers want Congress to move the derivatives proposal as separate legislation.

Derivatives are designed to protect from wild swings in prices or interest rates; a company buys contracts that will produce gains if other assets yield losses. Almost inevitably, a large holding of derivatives will contain winners and losers.

Under bankruptcy law, bankrupt companies may cancel obligations and contracts that are onerous to them and cash those with favorable returns to pay creditors. Canceling losing contracts and keeping winning ones is unfair, dealers say.

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1/17/02

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This "cherry-picking" by bankrupt companies has been an occasional problem in the past, said Philip McBride Johnson, a lawyer who was chairman of the Commodity Futures Trading Commission in the early 1980s.

"It's very troublesome," Johnson said. "You just expected it to happen."

Enron in the Dock

Enron Corp., the energy trader that filed the largest bankruptcy case in U.S. history early this month, is the type of company to have many derivatives contracts among its assets to hedge against changes in energy prices and interest rates.

"At this time, we know the national banks we regulate are not overly exposed to credit risk from Enron," said Michael Brosnan, deputy comptroller of the Office of the Comptroller of the Currency.

Derivatives include swaps, security contracts, repurchase agreements and forward contracts. Forward delivery contracts in the currency markets, for example, allow traders to lock in current prices when buying or selling currencies for future delivery.

By netting derivatives contracts, companies can take what they owe each other on several contracts and offset those figures to come up with a single amount for payment by one of the companies. For example, if one company owes others \$12 million if interest rates go up on various contracts and is owed \$15 million if interest rates go down, the accounting would be simplified to stipulate that it gets \$3 million.

Goldman, Sachs & Co., Bank of America, Bear Stearns & Co. and Credit Suisse First Boston are among the other major financial firms that deal in derivatives.

Greenspan's Backing

Greenspan and the heads of the federal regulatory agencies for banks, commodities dealers and securities firms sent a letter to congressional leaders urging them to speed enactment of the bankruptcy bill's netting provisions if the broader legislation remains stalled.

"We believe that failure to enact these financial contract netting provisions would unnecessarily place the financial system at greater risk," the regulators' letter said.

Brosnan today urged Congress to pass the legislation. "What this legislation will do is enhance the legal certainty we have," he said.

Representative Patrick Toomey, a Pennsylvania Republican who's introduced the mandatory netting requirements as separate legislation, said "a cloud of legal uncertainty" now surrounds the way derivatives contracts are handled during bankruptcy proceedings.

"It's in everybody's interest to eliminate that legal uncertainty," Toomey said.

Memories of LTCM

Supporters say the provision will help prevent confusion from rolling global financial markets in case a major derivatives holder goes bust -- as almost happened in 1998 when Long-Term Capital Management LP, one of the biggest U.S. hedge funds, almost collapsed. Long-Term Capital lost more than \$4 billion in a complex investment strategy that involved 60,000 trades with 75 banks and securities firms.

A record 224 publicly traded companies with more than \$180 billion in assets filed for bankruptcy this year, according to BankruptcyData.com, a Boston-based Web site that tracks such filings.

House and Senate negotiators are working on a final version of the broader bankruptcy legislation and President George W. Bush has indicated he would sign it. The chances of that happening during the rest of this year or early next year are slim.

"It's going to be very difficult to get a bankruptcy bill done," Toomey said. "It just seems to me that it's bogged down and it's likely to remain bogged down."

'Any Train'

As a backup plan, Carey of the International Swaps and Derivatives Association said financial service companies are pushing for Congress to attach Toomey's bill to "any train that's

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leaving the station.

''There's too much at risk to be denied the chance to get this done separately,'' Carey said.

Republican leaders in the House have yet to schedule the bill for a vote. Carey said that the bankruptcy bill's sponsors have told lobbyists that they oppose breaking sections out of the bill because the bigger effort may lose momentum.

--Bob Gravely in Washington (202) 624-1966 /shg/*rdm/shg

Story illustration: To see more stories about Chapter 11 bankruptcy filings, type, (NI BCY <GO>)

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Carleton, Norman

From: Bitsberger, Timothy
Sent: Tuesday, December 18, 2001 5:22 PM
To: Carleton, Norman
Subject: RE: DJ: Senators Aim To Prevent Future Enron-Type 401(k) Problems

this is exactly the background we will need!

-----Original Message-----

From: Carleton, Norman
Sent: Tuesday, December 18, 2001 5:20 PM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gablondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidi Lynne; Whaley, Jean; Wiedman, Mark
Subject: DJ: Senators Aim To Prevent Future Enron-Type 401(k) Problems

December 18, 2001

Senators Aim To Prevent Future Enron-Type 401(k) Problems

Dow Jones Newswires

WASHINGTON -- Two Senate Democrats unveiled legislation Tuesday that would limit the amount of company stock employees can hold as part of their 401(k) retirement plans.

The legislation is a response to the financial collapse of **Enron Corp.** (ENE), whose employees lost millions because they had concentrated their 401(k) plan holdings in company stock.

The legislation was announced by senators Barbara Boxer of California and Jon Corzine of New Jersey.

Boxer described the legislation during a Senate Commerce Committee panel hearing Tuesday featuring testimony from a handful of **Enron** employees who lost hundreds of thousands of dollars because their 401(k) plans were primarily invested in **Enron** stock.

Enron entered into bankruptcy protection Dec. 2 after questionable accounting practices led to a historic crash in the company's equity value. Shares that sold a year ago for more than \$80 are today worth less than a dollar.

Enron's shares had slid to the \$20s in October, when the company's 401(k) plan administrator "locked down" the program, keeping employees from divesting their **Enron** holdings.

Witnesses at Tuesday's hearing described how the bulk of the remaining equity crash occurred during the monthlong lockdown, causing them to lose more money than they would have had their accounts been unfrozen and they'd been able to sell their holdings.

Sen. Ron Wyden, D-Ore., likened the events to the sinking of the Titanic. **Enron** "locked the workers in the boiler room" as the **Enron** ship sank, Wyden said.

Boxer said **Enron** may have violated a tax-law provision she authored in 1997 addressing diversification of 401(k) retirement funds.

The law prohibited companies from requiring employees to purchase company stock as part of 401(k) plan participation.

Boxer acknowledged that **Enron** workers willingly concentrated their investments in Enron's previously high-flying stock, but suggested that, through the plan lock-down, employees in effect were forced to buy the company's stock because they couldn't sell their holdings.

Boxer called for the Internal Revenue Service to redirect the tax breaks **Enron Corp.** (ENE) obtained for its contributions to employee retirement accounts to partially reimburse employees who lost their retirement savings through the company's 401(k) program.

The legislation Boxer sponsored with Corzine would limit employee 401(k) investments in company stock to 20%, and it would limit to 90 days the period of time an employer can require its workers to hold a matching stock contribution before divesting it.

Further, the bill would reduce to 50% the tax deduction an employer can take for its matching stock contributions. Cash contributions would retain the 100% tax break, Boxer said.

Also, the bill would lower to 35 year of age, with at least five years of company service, the trigger allowing employees to diversify their investments in employee stock ownership plans.

-By Bryan Lee, Dow Jones Newswires; 202-862-6647;
Bryan.Lee@dowjones.com

Carleton, Norman

From: Nickoloff, Peter
Sent: Thursday, January 10, 2002 1:16 PM
To: Carleton, Norman; Schultheiss, Heldilynne
Subject: Enron Chairman Gave Warning to Bush Officials on Company's Collapse.htm



Enron Chairman Gave
Warning to...

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The New York Times
ON THE WEB

January 10, 2002

Enron Chairman Gave Warning to Bush Officials on Company's Collapse

By THE ASSOCIATED PRESS

Filed at 12:57 p.m. ET

WASHINGTON (AP) -- Enron (news/quote) Chairman Kenneth L. Lay reached out to two of President Bush's Cabinet officers when the energy company was collapsing, the White House disclosed Thursday as the Justice Department opened a criminal investigation of Enron's bankruptcy.

Bush, who received significant campaign contributions from Lay and other Enron executives, said he himself has never discussed Enron's financial problems with its embattled corporate chairman. The president said he last saw Lay in Texas at spring fund-raiser for former first lady Barbara Bush's literacy foundation.

Lay also was among a group of some 20 business leaders who came to the White House early in the Bush administration to discuss the state of the economy, Bush said.

Many Enron employees lost their life savings when the company filed for bankruptcy Dec. 2.

"What anybody's going to find out is that this administration will fully investigate issues such as the Enron bankruptcy, to make sure we can learn from the past and make sure workers are protected," Bush said.

But Lay did seek the ear of other top-level administration officials last fall.

According to White House press secretary Ari Fleischer, Lay telephoned Treasury Secretary Paul O'Neill amid Enron's collapse "to advise him about his concern about the obligations of Enron and whether they would be able to meet those obligations."

Lay also told O'Neill that Enron "was heading to bankruptcy," Fleischer said.

O'Neill received calls from Lay on Oct. 28 and Nov. 8, said Treasury spokeswoman Michele Davis. It was on Oct. 16 that Enron made its stunning disclosure of a \$638 million third-quarter loss.

In a separate phone call to Commerce Secretary Don Evans, Lay similarly worried that the company might have to default on its obligations. He brought to the secretary's attention "that he was having problems with his bond rating and he was worried about its impact on the energy sector," Fleischer said.

After that conversation, Evans spoke to O'Neill "and they both agreed no action should be taken to intervene with their bond holders," Fleischer said.

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Enron Chairman Gave Warning to Bush Officials on Company's Collapse

The spokesman had said Wednesday he did not know of anyone in the White House who discussed Enron's financial situation.

Fleischer also brushed aside talk of any conflict in the Justice Department investigation and said there was no reason to turn the probe over to a special counsel.

Lay gave \$25,000 to a leadership committee headed by then-senator and now Attorney General John Ashcroft, according to the Center for Public Integrity.

An attorney for Enron welcomed Ashcroft's inquiry, the latest in a series of governmental probes into the company's demise, saying the investigation would "bring light to the facts."

"We want to get to the bottom of this too," said Robert Bennett, a Washington attorney representing the Houston-based company. "A lot of decent and honorable people work at Enron and we should wait until the facts are out."

Bush ordered a separate review Thursday of pension and corporate disclosure rules that could jeopardize workers' savings. "There has been a wave of bankruptcies that have caused many workers to lose their pensions and that is deeply troubling to me," Bush said.

The Justice Department is forming a national task force to look into the company's dealings. The group will be headed by lawyers at the department's criminal division and include prosecutors in Houston, San Francisco, New York and several other cities, said a Justice Department official, speaking on condition of anonymity.

The official declined to say when the investigation began. Enron faces civil investigations by the Labor Department and the Securities and Exchange Commission and subpoenas from congressional committees.

All are looking into the energy trading company's collapse, the largest bankruptcy filing in U.S. history.

The failure hit employees and investors hard. Workers were prohibited from selling company stock from their Enron-heavy 401(k) retirement accounts as the company's stock plummeted. Many lost their life's savings.

Enron executives cashed out more than \$1 billion in stock when it was near its peak.

Former Enron chief executive Jeffrey Skilling, who left the helm nearly two months before the company's swift descent, welcomes the investigation, said spokeswoman Judy Leon. Skilling has said he had no idea, despite Enron's falling stock values, that the company was on the brink of failure.

Formed in 1985, Enron had 20,000 employees and was once the world's top buyer and seller of natural gas and the largest electricity marketer in the United States. It also marketed coal, pulp, paper, plastics, metals and fiber-optic bandwidth.

One likely focus of the Justice Department investigation is possible fraud based on Enron's heavy reliance on off-balance-sheet partnerships which took on Enron debt. The partnerships masked Enron's financial problems and left its credit ratings healthy so it could obtain the cash and credit crucial to running its trading business.

The Houston-based company went bankrupt after its credit collapsed and its main rival,

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Enron Chairman Gave Warning to Bush Officials on Company's Collapse

Dynegy Inc. ([news/quote](#)), backed out of an \$8.4 billion buyout plan late last year.

Just a year ago, stock of Enron, the nation's largest buyer and seller of natural gas, traded at \$85 per share. Today it is less than \$1.

Lay has close ties to Bush and his father, the former president. Lay was a top contributor to the younger Bush's 2000 presidential campaign.

The company played a key role earlier this year when a White House task force met with business executives and other interests to fashion a national energy policy. The task force was headed by Vice President Dick Cheney.

^-----

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Carleton, Norman

From: Carleton, Norman
Sent: Wednesday, January 09, 2002 1:45 PM
To: Schultheiss, Heidlynn; Nickoloff, Peter
Subject: FW: CFTC Daily Newsclips 01/09/02

Articles on retail swaps study, Enron, and Paul O'Neill.

-----Original Message-----

From: McCoy, Antoinette B. [mailto:amccoy@CFTC.gov]
Sent: Wednesday, January 09, 2002 10:45 AM
Subject: CFTC Daily Newsclips 01/09/02



nc010902.pdf

Tracking:	Recipient	Delivery	Read
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Daily



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*Farming Activist, Now Heads CFTC,
Clarion Ledger Reports, p2*

*Second Circuit Reviews Armstrong
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*Weather, Supply Talk Sink Crude;
Beans Rise Again; Silver Cools Off,
p 32*

January 8, 2002

Chief of panel has tie to Miss.

By Arnold Lindsay
Clarion-Ledger Staff Writer

A former Mississippi farming activist now heads the federal Commodity Futures Trading Commission.

James E. "Jim" Newsome, 41, was recently confirmed as chairman of the five-member commission charged with regulating commodity futures and option markets, including agricultural products, crude oil, natural gas and financial documents such as treasury bonds and securities.

In recent years, the commission has redirected its energies largely toward the financial market place, giving agriculture, which once took the majority of their efforts, less than 15 percent of their current focus, Newsome said.

Therefore, Newsome heads the agency through a period of refocusing that began in December 2000, with congressional passage of the Commodity Futures Modernization Act, which broadened the commission's responsibilities.

"What we're going to do is continue to build upon that same theme," Newsome said. "In addition to that, we're going to be involved in a restructuring of the commission itself."

Mississippi's Republican congressional delegation said Newsome's involvement has proven helpful.

"I am delighted with the elevation of Jim Newsome to the chairmanship of this important commission. He has been a steady influence for reasonable and practical supervision of commodity trading under the jurisdiction of the commission. And I am sure he will win high praise in this new role," said U.S. Sen. Thad Cochran, R-Mississippi.

Mississippi cattleman Fred Stokes of Poplarville, president of the Lincoln, Neb.-based, Organization for Competitive Markets, agreed Newsome's appointment spoke highly for the state. Stokes said he considers Newsome, a Plant City, Fla., native who spent three years in Mississippi, a friend.

"The futures market plays a major role on establishing cash prices for Mississippi farm commodities," Stokes said. "It is also used by many farmers and ranchers to hedge the price for their production and manage risk. There is always the danger that big traders will abuse the futures market to unduly enrich themselves or manipulate cash prices."

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U.S. Senate Minority Leader Trent Lott, agreed Newsome's background makes him perfect for the role.

Newsome's achievements include serving as former executive vice-president of the Mississippi Cattlemen's Association and Beef Council, former Chairman of the Mississippi Agribusiness Council, and a past president of the Association of Mississippi Agriculture Organizations, and past president of the Florida Future Farmers of America.

Newsome received his bachelor's degree in Food and Resource Economics from the University of Florida, and a master's degree and doctorate in Animal Science/Agricultural Economics from Mississippi State University. (end)

Securities Regulation & Law Report 01/07/02

Commodity Futures Trading Commission

Expedited Senate Vote Installs Newsome As Permanent CFTC Head; Hearing Bypassed

The Senate voted Dec. 20 to approve James Newsome as the new leader of the Commodity Futures Trading Commission, removing the "interim" label he has carried since taking over for his predecessor Jan. 19.

Newsome was nominated as chairman by President Bush Sept. 20 (33 SRLR 1379, 9/24/01). The Senate bypassed hearings on the confirmation, instead approving Newsome on the day it adjourned for the year.

The last-minute vote denied Newsome a trip to Capitol Hill to testify before the Senate Agriculture Committee, which has oversight of the CFTC. Newsome has testified publicly only once since taking over for former Chairman William Rainer, at which time he told the committee that pay parity for the CFTC staff and deregulation of the commission were top priorities for his administration (33 SRLR 457, 3/26/01).

Free Markets. Newsome, 42, a Republican appointed to the CFTC by President Clinton in July 1998, already has had a busy year as the commission worked to implement an ambitious futures modernization bill passed by Congress at the end of Rainer's tenure in December 2000.

Newsome, who was a key ally as Democratic Rainer shepherded the sweeping bill through Congress, is an unabashed champion of free markets who favored the dramatic deregulation that resulted from the 2000 Commodity Futures Modernization Act (32 SRLR 1757, 12/25/00). He was unavailable for comment following his confirmation.

As a result of the legislation, Newsome has overseen the formulation of three new tiers of regulation—the most liberal of which permits almost no oversight over the trading done by so-called "sophisticated" traders of futures and options.

His tenure as the interim chairman also has included almost unprecedented cooperation between the CFTC and the Securities and Exchange Commission as the two regulators tried to create rules for the introduction of single stock futures. That effort is ongoing, with a target date for rules to allow trading of the new instruments having passed Dec. 21.

Newsome and SEC Chairman Harvey Pitt, who also was named to his post this year, issued a statement Dec. 21 pledging promptly to resolve the rulemaking issues that are delaying the the onset of retail trading in the products [See related report in this issue].

A CFTC official said a date for Newsome's swearing in has not been scheduled.

By RICHARD HILL

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2nd Circuit Reviews Armstrong Civil Contempt Case

By Mark Hamblett
New York Law Journal
January 7, 2002

The argument over the continued jailing of indicted financier Martin Armstrong for his failure to turn over gold bullion and other assets has come to resemble a merry-go-round that never stops.

For the second time in a year, the 2nd U.S. Circuit Court of Appeals pondered the limits of civil contempt, and debated at what point Mr. Armstrong's two-year incarceration for contempt turns into a criminal sanction. If the court finds his imprisonment is punitive in nature, it would order his immediate release.

"There is no doubt that, at some point, this morphs into [a criminal penalty]," Circuit Judge Dennis G. Jacobs said yesterday. He added that while the length of civil incarceration is one factor in the analysis, "We don't know what that point is."

The arguments before the Second Circuit came just shy of two years to the day that Southern District Judge Richard Owen sent Mr. Armstrong to the Metropolitan Correctional Center for refusing to disclose the whereabouts of \$14 million in assets. The assets, which include ancient coins, are being sought by a receiver appointed to protect the interests of Japanese investors allegedly bilked by Mr. Armstrong and his companies, Princeton Economics International and Princeton Global Management Ltd.

The government, and lawyers for plaintiffs in the civil case, charge that Mr. Armstrong raised hundreds of millions of dollars from Japanese corporate investors through the issuance of "Princeton Notes," and then, instead of following through on his promise to invest the money in bonds, made high-risk bets on derivatives and currencies.

Mr. Armstrong claims he has no access to the assets in question, but Judge Owen refuses to believe him. While Judge Owen and the 2nd Circuit state that there is some limit to confinement for civil contempt, no one knows what that limit is - and Mr. Armstrong's lawyer said yesterday it is time to end his incarceration.

"Mr. Armstrong will never comply to the satisfaction of Judge Owen," Bernard V. Kleinman told Judges Jacobs, Fred I. Parker and Sonia Sotomayor. "Judge Owen can refer the case to the U.S. Attorney and the U.S. Attorney can prosecute for criminal contempt."

But Martin Glenn of O'Melveny & Myers, who represents receiver Alan Cohen, said the time had yet to arrive when the court can consider Mr. Armstrong's incarceration a criminal sanction. With the bounds of civil incarceration being tested in the case, Mr. Glenn said that Mr. Armstrong is hoping to wait out Judge Owen and use the \$14 million for a comfortable retirement.

"Obviously, Mr. Armstrong has made an assumption that he is willing to sit in jail for a long time," Mr. Glenn said. "Hopefully the realities is

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starting to hit home."

But Judge Jacobs told Mr. Glenn, "Under your logic, he can be held until this matter is presented to judges still unborn."

Criminal Contempt

Judge Sotomayor asked how long Mr. Armstrong could serve in prison if he is successfully prosecuted for criminal contempt. She was told five years.

"If we keep this up, he's going to serve that much and more," Judge Sotomayor said.

One argument made by Mr. Kleinman was that the underlying rationale for Judge Owen's civil contempt order was that the assets were needed to compensate aggrieved investors. But that rationale became obsolete in December, Mr. Kleinman said, when Republic National Securities Corporation, which processed trades for Mr. Armstrong, pleaded guilty to commodities and securities fraud. As part of a plea agreement with the Southern District U.S. Attorney's Office, Republic's new owner agreed to pay \$606 million in restitution to the Japanese investors.

But Mr. Glenn and Mr. Cohen said following oral arguments that there is a "significant shortfall" between the amount of money to be paid to investors under the plea deal and their actual losses, and that there remains ample reason to hold Mr. Armstrong's feet to the fire.

The Second Circuit panel took the matter under advisement and did not issue a ruling in the case.

Date Received: January 07, 2002

Futures Regulation

Derivatives

Joint Regulators' Report Concludes Congress Should Refrain From Regulating Retail Swaps

A joint report from federal financial regulators delivered to Congress Dec. 20 said there currently is no need for lawmakers to create a legal structure to regulate financial products known as "retail swaps"—swaps for ordinary-income investors.

The report cited participants in the derivatives markets—mostly commercial and investment banks—as saying there is no interest in either selling or buying the products in the retail sector, and therefore no need to delve into creating regulation.

However, one member of the Commodity Futures Trading Commission—which participated in developing the report—dissented. He warned that if a regulatory system is not developed for retail swaps, retail investors will be left unprotected. Currently, retail swaps, like swaps traded by institutions, are unregulated.

The report, released by the Treasury Department Dec. 28, took its conclusions from interviews done in August with five commercial and investment banks as well as a derivatives trading system, a derivatives trade association, and a Fortune 500 company. "The Joint Report on Retail Swaps," which was mandated by the 2000 Commodity Futures Modernization Act and received by Congress the day it adjourned, was prepared by Treasury, the CFTC, the Securities and Exchange Commission, and the Federal Reserve Board of Governors.

Lack of Demand. "Lack of demand," said the report, "is apparently sufficient to preclude any desire on the part of these institutions to explore issuance of these instruments, thus obviating the need to analyze legal issues." Not only were the institutions nearly unanimous in the view that retail investors are not well positioned to benefit from the sophisticated swaps contracts, they also questioned the cost and efficacy of offering such products should interest in them rise.

Among its conclusions, the report stated that so-called retail customers—investors with total assets of less than \$10 million—generally are well-served by existing financial products and may be ill-suited for swaps. Investors that currently invest in swaps, which are unregulated contracts traded privately between two parties, often do so for the purposes of hedging and "synthetic exposure" to securities, the report noted, tactics that may not similarly benefit the smaller investor.

Using swaps to hedge, the report noted as an example, could trigger negative tax consequences, while using them for synthetic exposure would not be cost-effective or convenient for ordinary investors, it said. Because of these drawbacks, retail investors have not

clamored for the product, the report said, and likewise there has been no effort to sell customers on them.

Worries on Costs. At the same time, those interviewed, according to the report, also noted potential cost concerns in offering the products to traditional investors. "These (costs) include, for example, administrative issues associated with negotiating retail swaps, the potential credit risks of offering retail swaps to (non-sophisticated investors), and the need to implement sales practices for the offering of swap agreements to (non-sophisticated investors)," said the report.

Another issue raised by the participants was the potential for such swap agreements, which currently are individually tailored, to become more standardized if there is a big increase in demand for the instruments. "It appears that one challenge for firms in determining the feasibility of offering retail swaps," the report said, "is the potential tension between the desire to mitigate infrastructure costs by standardizing terms of retail swaps and the need to offer products that would meet the financial objectives of specific retail customers."

"Lack of demand is apparently sufficient to preclude any desire on the part of these institutions to explore issuance of these instruments, thus obviating the need to analyze legal issues."

JOINT REPORT ON RETAIL SWAPS

The report used as its sources Bank of America and JP Morgan Chase & Co. from the commercial banking sector; Goldman Sachs Inc., Lehman Brothers Inc., and Morgan Stanley Dean Witter from the investment banking sector; as well as derivatives trading system Blackbird Holdings, Inc., the International Swaps and Derivatives Association, and Enron Energy Services Inc.

Dissent. Thomas Erickson, a member of the CFTC, dissented from the recommendations of the report, saying he "cannot in good conscience agree to leave a legacy of legal uncertainty to the Commodity Futures Trading Commission."

Erickson termed it incumbent on the CFTC, as well as the other relevant agencies, to develop an oversight regime for the products. "To do anything less," he said, "would leave retail customers without recourse, for no federal financial regulator would have any measure of authority over this market."

He also criticized the scope and execution of the report, saying it does not live up to the standards requested by Congress. "This study neither identifies nor

MORE →

(continue.)

discusses any interest in these instruments on the part of the retail public; it simply surveys select entities interested in offering them to the public."

end)

The Hill January 9, 2002 Wednesday

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The Hill

January 9, 2002 Wednesday

SECTION: Pg. 1

HEADLINE: Corzine calls for probe of Enron failure

BYLINE: By Alexander Bolton

BODY:

Sen. Jon Corzine (D-N.J.) said Monday he will urge the chairman of the Senate Banking Committee to launch hearings on the collapse of the Enron Corp., and warned that failure to do so would amount to a dereliction of the panel's oversight responsibility.

Even though five other congressional committees are investigating the bankrupt Houston-based energy-trading giant, the Banking Committee so far has declined to take action.

Meanwhile, the Banking Committee's counterpart in the House, the Financial Services Committee, has already heard testimony from Enron's auditor, Arthur Andersen LLP, and has asked Enron CEO Kenneth Lay to appear before it. The Senate committee, which has primary jurisdiction over the Securities and Exchange Commission (SEC) and accounting practices - the two areas that are at the center of the controversial case - would have more justification than other Senate panels in conducting an investigation of the largest corporate bankruptcy in American history.

Senate sources suggested that Chairman Paul Sarbanes (D-Md.) is holding back because his panel's ranking member, Phil Gramm (R-Texas), is married to Wendy Lee Gramm, who sits on Enron's board of directors and is chairwoman of the board's audit committee.

Also, any investigation of Enron and the SEC oversight of its trading activities could quickly turn to focus on the role Sen. Gramm allegedly played to shield Enron from government regulation.

However, Corzine, a former co-chairman and co-CEO of Wall Street investment company Goldman Sachs who is well acquainted with the intricacies of corporate finance, says Gramm's connections to Enron should not deter the Banking Committee from taking action.

"I have complete confidence in the ability of Phil Gramm to arrive at his own views independent of his wife's position on the board," Corzine, who is a member of the committee, told The Hill.

But he added, "I think it would be a conflict if we didn't [look into this] because of that situation. Not to perform oversight function on a legitimate issue strikes me as stretched logic."

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While acknowledging that Sarbanes must decide whether to hold hearings, Corzine said he will push for action by the panel.

"Our jurisdiction and oversight of the SEC gives us a real reason to be with regard to exploring accounting issues that surround the role of the auditors," he said.

"We'd be remiss if we didn't pursue that for the protection of the markets so that investors have basic information to make sound investment decisions ... I don't understand how with the Banking Committee having primary oversight of the SEC and oversight of accounting we could afford not to be involved."

Congress curtailed oversight of Enron's trading practices by the **Commodity Futures Trading Commission (CFTC)** and SEC in December of 2000 when it passed the Commodity Futures Modernization Act as a legislative rider to the year-end catch-all spending bill, thanks in large part to Gramm.

According to a former **CFTC** official, Gramm helped exempt Enron trading practices from SEC oversight in the closing days of the 106th Congress, action hardly noticed at the time but now the subject of growing scrutiny in the wake of Enron's catastrophic collapse.

Michael Greenberger the one time director of **CFTC's** Trading and Markets Division, said the legislation had passed the House but became bogged down in the Senate after numerous lawmakers voiced their objections to what they considered sweeping changes in the bill.

"Suddenly we discovered that it was going to be added as a rider to the omnibus," said Greenberger. "It contained what came to be known as the Enron provision. That bill was 200 pages long. I doubt that it was read through beginning to end before it was passed."

Greenberger, who is now a professor at the University of Maryland School of Law, said the is highly confusing and was written by "private parties who had a special interest in having that legislation passed."

He added, "My understanding is that Gramm was very instrumental. It had to be cleared by the committees of jurisdiction. Many parts of the bill dealt with the SEC."

However, Gramm's spokesman Larry Neal asserted in a written statement that his boss "took no role, had no say, and did not vote on the energy futures provisions of the Commodity Futures Modernization Act."

William Rainer, who was head of the **CFTC** at the time, said that scrutiny of Gramm is unwarranted and allegations of his work on behalf of Enron have been overblown.

Rainer told The Hill that his discussions with Gramm did not broach the subject of energy and were "confined and restricted to financial instruments." The bill codified internal regulations at the **CFTC** that exempted Enron from the agency's oversight.

However, one Senate source said Gramm was in fact concerned that the SEC would fill the regulatory void left by the **CFTC** and worked to make sure that the exchange commission did not extend its jurisdiction to include the type of hybrid securities that Enron traded actively.

As Enron's trading activity grew more complex, it began to delve more and more into such instruments as credit derivatives, instruments normally handled by banks.

"Some of what Enron was doing could have been in the gray area of being a security and not being a security," said Allen W. Williams Jr., an attorney specializing in regulatory practice.

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By confining the purview of the CFTC and the SEC, the Commodity Futures Modernization Act allowed much of Enron's trading activity to remain unmolested by government oversight. However, whether oversight could have prevented the company's collapse is unknown.

If the Banking Committee chooses not to examine the role of the SEC and Congress in the collapse of Enron, the task may fall to someone like Sen. Byron Dorgan (D-N.D.), who is conducting an investigation on behalf of the Commerce Committee.

"Enron was very active politically here on Capitol Hill to try to prevent legislation from occurring that would have resulted in the oversight by CFTC and others," Dorgan said in a television interview last month. "They helped create the circumstance in which they operated off the books with secret partnerships. We intend to get to the bottom of all that and see where it leads us."

Alexander Bolton can be reached at alex@thehill.com.

WSJ 01/09/01

Enron Met Six Times With Bush Energy Task Force

By TOM HAMBURGER

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Enron Corp. executives met six times last year with officials of the Bush administration's energy task force, though they did not talk about the energy company's finances, Vice President Dick Cheney's office said in a letter to Capitol Hill.

One of the meetings included a 30-minute session between the vice president and Enron Chief Executive Kenneth Lay that had been previously disclosed. In addition, Enron officials met in large and small group meetings with the task-force staff. Two of the meetings occurred after the staff completed writing its report, including one as late as Oct. 10—days before Enron began its rapid slide into bankruptcy court.

"None of these meetings included a discussion of the financial position of the Enron Corporation," David Addington, the vice president's legal counsel, wrote in a letter Thursday to Rep. Henry Waxman of California, ranking Democrat on the House Government Reform Committee.

Mr. Addington, who was responding to a request from Mr. Waxman for information on Enron's contacts with members of the energy task force, provided few details. He suggested all of the meetings were consistent with the Energy Policy Development Group's plan to conduct "meetings with a broad representation of people potentially affected by the Group's work."

Nonetheless, these newly disclosed contacts are likely to become grist for further congressional inquiry as half a dozen committees plan oversight hearings into the failure of the giant energy-trading company. Next month, the Senate Government Affairs Committee expects to open hearings on Enron. Committee Chairman Joseph Lieberman (D., Conn.) said at a news conference last week that he wanted to explore, among other things, whether Enron influenced administration energy policy.

The letter produced a swift response from Mr. Waxman, who wrote the vice president yesterday asking for more detail. The first response, he said, "raises additional questions about the extent to which Enron

may have influenced the administration's energy policies or provided information about its own operation." For example, Mr. Waxman noted that the day after Mr. Cheney met privately with Mr. Lay, the vice president stated his opposition to electricity price caps in California, a position that Enron had espoused previously.

Mr. Waxman said the response did not provide names of participants other than the vice president, nor did it mention the subject of the meetings, any requests for policy changes and copies of any documents or e-mail communications between Enron and the administration.

White House spokeswoman Claire Buchan said task force members conducted the meetings to learn as much as possible about energy issues. The meetings, she said, were held by the staff with "many, many groups across a broad range of interests to insure they had a thorough understanding" of the topic. She said that the White House was committed to cooperating with members of Congress reviewing the Enron situation "provided they are not pursuing open-ended investigations or fishing expeditions."

Enron, the nation's biggest marketer of electricity and natural gas, filed for bankruptcy-court protection following a crisis of confidence among its investors. The problems have resulted largely from Enron's dealings with private partnerships, run by some of its own executives. The company saw its market value plunge recently to about \$540 million from more than \$77 billion last year.

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FT 01/09/02



Call to order: a guard outside the Spanish consulate in Buenos Aires asks applicants to form a line as hundreds of Argentines try to get visas to emigrate to Europe. Banks look bankrupt in the face, Page 6 AP

Cheney staff held series of meetings with Enron

By Peter Spiegel in Washington

Vice-president Dick Cheney and the staff of his energy taskforce met Enron representatives six times over a seven-month period last year but never discussed the energy giant's precarious financial position, according to a senior White House aide.

The most recent meeting occurred on October 10, just a week before Enron revealed a \$1.2bn reduction in shareholder equity, the event precipitating its collapse into bankruptcy, according to a letter from David Addington, the vice-president's counsel, to Democrat Henry Waxman, a congressional critic.

The January 5 letter is the first time the vice-president or his staff have acknowledged any contacts with Enron other than a half-hour meeting on April 17 between Mr Cheney - formerly chief executive of Halliburton, another Houston-based energy company - and Kenneth Lay, Enron chief executive.

The vice-president disclosed that meeting last summer and the two discussed energy policy, including the California crisis,

but Mr Addington said they did not discuss Enron's finances.

Similarly, Mr Addington said the October 10 meeting between "Enron representatives" and a member of the vice-president's staff did not cover any internal Enron financial problems. The aide, who had been a senior staff member on the disbanded energy taskforce, only discussed "energy policy matters" with Enron, the letter said.

Mr Cheney's interaction with Enron has been the subject of much scrutiny, including two civil lawsuits, because he has previously refused to disclose who met the taskforce he chaired when it formulated the Bush administration's energy legislation - currently before Congress. Environmental groups have said they were not allowed to meet Mr Cheney.

"Access provided to Enron far exceeded the access provided by the White House to other parties interested in energy policy," Mr Waxman wrote yesterday in response to the vice-president. Enron and its employees donated \$113,800 to the Bush campaign during the 2000 election, accord-

ing to the Centre for Responsive Politics, a watchdog group.

The General Accounting Office, Congress's influential auditing agency, is also contemplating a lawsuit against the vice-president to compel him to reveal the taskforce's inner workings. A GAO spokesman would not comment on Mr Addington's letter to Mr Waxman, a senior member of the House energy and commerce committee, which is investigating the company's collapse.

Mr Addington said that other than the Cheney-Lay meeting, three of the contacts occurred during the taskforce's routine duties, and one of those came during a meeting of several utility officials that included an Enron representative. The other two meetings occurred after the president issued his energy policy report last summer.

He said the Enron sessions with taskforce staff were part of a series of meetings with "a broad representation of people potentially affected by the group's work".

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NYT 01/09/02

Enron and Cheney Aides Met 4 Times

By JEFF GERTH

WASHINGTON, Jan. 8 — Officials of the Enron Corporation met four times last year with the staff of Vice President Dick Cheney's energy task force to discuss energy policy matters, but they never talked about the company's finances, according to David S. Addington, Mr. Cheney's counsel.

Mr. Addington disclosed the private contacts with Enron, the Houston-based energy services company, in a letter last week. He was responding to a request by Representative Henry A. Waxman, Democrat of California, who is seeking to find out more about the workings of the energy group.

Mr. Waxman has said that Enron and other energy companies had too much access to the task force. Today, in a letter to Mr. Cheney, he applauded "your decision to release for the first time some details" about the Enron contacts. But he urged the vice president to go further and "provide a full accounting of the contacts between Enron and the White House energy task force and other White House officials."

Two of the four meetings occurred early last year, before the

task force issued its report in May and well before Enron began to disclose its accounting problems. The last meeting, on Oct. 16, came a week before Enron made the first in a series of disclosures about accounting errors, representing a \$1.2 billion reduction in shareholder value. Last month, Enron sought protection under federal bankruptcy law.

In addition to the four staff meetings, Mr. Addington said that Mr. Cheney met for 30 minutes on April 17 to discuss energy policy with Enron executives, including Kenneth L. Lay, the company's chairman and chief executive. The meeting with the vice president had previously been disclosed by Enron officials and Mr. Cheney.

In an interview last year, Mr. Cheney said his task force would "make decisions based on what we think makes sound public policy," not what "Enron thinks."

Enron's collapse has prompted both President Bush, a friend of Mr. Lay, and many Democrats to call for a thorough investigation. It has also given Mr. Waxman an opportunity to rekindle his effort to find out more about the operations of the energy task force.

The attacks of Sept. 11 put in abeyance a possible lawsuit by the

General Accounting Office, the Congressional auditing arm, which has been seeking access to energy task force records at the request of Mr. Waxman and Representative John D. Dingell, the Michigan Democrat.

The task force's final recommendations on electricity deregulation resembled much of what Enron officials had advocated in their meeting with Mr. Cheney. They were also in accord with policies advocated by Mr. Bush during the 2000 campaign.

As president, Mr. Bush has sometimes taken positions contrary to those of Enron. For example, he backed away from curbs on carbon dioxide emissions, an idea supported by Enron, which was looking to trade emission credits as part of its energy business.

Early in the administration, Mr. Lay played an unusual role in advising the White House on candidates for seats on the Federal Energy Regulatory Commission, the agency that oversees many of the markets Enron once dominated. But last spring the energy commission limited prices in California's chaotic wholesale electricity market, a move Enron and other merchant energy companies opposed.

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The Hill January 9, 2002 Wednesday

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January 9, 2002 Wednesday

SECTION: EDITORIAL; Pg. 14

HEADLINE: Following Enron's trail

BODY:

We're quite aware of how much national politics has changed in the wake of last September's terrorist attacks on America's financial and military nerve centers. Yet, judging by the keen interest shown by some Democratic senators in probing the sudden collapse of Enron Corp., with its close ties to the Bush administration, we could be on our way back to a semblance of normality.

The forthcoming congressional investigation, announced last week by Sens. Joseph Lieberman, (D-Conn.), chairman of the Governmental Affairs Committee, and Carl Levin (D-Mich.), head of the panel's Investigations Subcommittee, produced few front-page headlines. But press interest is likely to soar if the committee subpoenas several key Bush administration officials with long-standing ties to the failed Texas-based energy giant - as is likely - and if the White House subsequently refuses to cooperate by invoking the shopworn excuse of "executive privilege."

The links, if any, between these officials and the loosely regulated Houston-based company need to be thoroughly vetted. Any effort by the administration to stonewall the committee's inquiry is likely to backfire.

Veteran observers of the Washington scene will recall the Nixon administration's 1971 decision to drop an antitrust action aimed at blocking International Telephone and Telegraph Corp. from acquiring three companies. Around the time, ITT made a \$400,000 donation to help bring the Republican National Convention to San Diego, where then-President Richard Nixon wanted it held, because it was conveniently just down the road from the Western White House in San Clemente. ITT and the Republican White House insisted that there were no links between the two events.

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But then an ITT lobbyist named Dita Beard wrote a memo that was leaked to the press seemingly acknowledging a quid pro quo. An embarrassed GOP was forced to move the convention to Miami. Subsequently, the infamous White House tapes confirmed Nixon's advance knowledge of and involvement in the ITT matter.

In due course we shall see whether the tawdry Enron affair will mushroom into a full-blown government scandal. But it's already evident that the Enron saga will rank in corporate annals as a scandal of the first magnitude, which has also raised serious questions about the

MOVE →

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integrity of the accounting profession.

In launching the probe, Levin blasted what he said "appears to be a massive shell game with multiple layers of conflict of interest." The irregularities seemingly include massive insider trading of Enron stock, which has fallen in value from \$90 a share last January to less than \$1 today. Among the losers are thousands of rank-and-file Enron employees from whom the warning bells never sounded. As a result, they saw their retirement nest eggs plummet in value. Many of them are now out of work.

Given Levin's preliminary charges, a key witness at the hearings could be Army Secretary Thomas White. As a former top Enron executive, White fortuitously sold millions of dollars in the company's stock before assuming his current post.

Top White House political adviser Karl Rove also held about \$250,000 in Enron stock, which he disposed of when conflict-of-interest allegations arose early in the Bush presidency. Bush economic adviser Lawrence Lindsey and Trade Representative Robert Zoellick also have close Enron ties.

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Yet another player is Wendy Gramm, who served under the first President Bush as chair of the **Commodity Futures Trading Commission**. A series of commission rulings under Gramm's tenure essentially created the once highly lucrative trading of energy derivatives that became Enron's bedrock growth business.

Gramm, the wife of retiring Sen. Phil Gramm (R-Texas), resigned from her government post to join the Enron board. She's been subsequently cited in a lawsuit alleging insider trading as having sold \$276,912 in Enron stock. Her response is that she got out to avoid the appearance of a conflict of interest, given that her husband was then chairman of the Senate Banking Committee (and the recipient of nearly \$100,000 in Enron political contributions).

But the central figure on the witness stand in the Senate hearings is likely to be Kenneth Lay, Enron's chairman, a longtime personal adviser and a major financial backer for President Bush. Lay met with Vice President Dick Cheney last spring when the administration was drafting its energy policy.

"Knowing that Mr. Lay, at least, and others [close to President Bush] played an active role in the formulation of energy policy by the Bush administration, we've got to ask whether the advice rendered was at all self-serving," Lieberman noted.

Whatever our other pressing concerns at home and abroad, these are vital questions that the Congress and the nation need to have answered.

LOAD-DATE: January 8, 2002

WP

01/09/02

Cheney, Aides Met With Enron 6 Times in 2001

Counsel: Energy Policy Was Topic

By **MIKE ALLEN**
Washington Post Staff Writer

The White House told Congress in a letter released yesterday that Vice President Cheney or his aides met six times with Enron Corp. representatives last year, including a session two months before the energy trading company made the largest corporate bankruptcy filing in American history.

The meetings continued after President Bush released the energy policy that Cheney's staff had developed, according to the letter. Five of the meetings were with Cheney aides, and one was with the vice president. One of the staff meetings occurred six days before Enron announced actions that reduced its shareholder equity by \$1.2 billion.

Cheney met for half an hour on April 17 with Kenneth L. Lay, Enron's chairman, according to a Jan. 3 letter by David S. Addington, the vice president's counsel. The letter was written in response to a Dec. 4 request by Rep. Henry A. Waxman (D-Calif.), ranking minority member of the House Committee on Government Reform, who released the correspondence.

Addington wrote that Cheney and Lay "discussed energy policy matters, including the energy crisis in California, and did not discuss information concerning the financial position of the Enron Corporation."

Cheney's office has resisted inquiries into the operations of his energy policy task force by the General Accounting Office, the investigative arm of Congress, and by Senate Democrats who are hoping to measure Enron's influence on policy.

The Houston-based company has longtime personal and financial ties to Bush. Waxman said the letter "shows that the access provided to Enron far exceeded the access provided by the White House to other parties interested in energy policy."

Bush released his energy plan on May 17, and Enron filed for bankruptcy protection on Dec. 2. Addington's letter said Cheney's National Energy Policy Development Group existed from Jan. 29 through Sept. 30, 2001.

Addington said the group's staff met with Enron representatives on Feb. 22 and March 7. On April 9, the staff met with about two dozen representatives of various utilities, including one from Enron. Cheney aides met with officials of a German subsidiary of Enron on Aug. 7 and with Enron representatives on Oct. 10. Enron announced huge losses on Oct. 16.

"Enron did not communicate information about its financial position in any of the meetings with the Vice President or with the National Energy Policy Development Group's support staff," Addington wrote.

He noted that Cheney and Lay served on a panel at the American Enterprise Institute World Forum on June 24. "The panel was widely attended and addressed energy matters," the counsel wrote. "There was no discussion of information concerning the financial position of Enron Corporation."

A White House official said the meetings reflected the "open and inclusive" approach of Cheney's energy task force.

Bush told reporters on Dec. 28 that he is "deeply concerned about the citizens of Houston who worked for Enron who lost life savings" when its stock value collapsed. He said he supports moves by Congress and the Securities and Exchange Commission to look into that issue. "I have had no contact with Enron officials in the last six weeks," Bush said.

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Greenwire January 8, 2002

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January 8, 2002

SECTION: ENERGY POLICY & MARKETS; Vol. 10, No. 9

**HEADLINE: ENERGY MARKETS: LIEBERMAN HOPES TO CHANNEL ENRON INQUIRY INTO;
ELECTRICITY POLICY HEARINGS**

BODY:

Colin Sullivan, Greenwire staff writer

A building Senate inquiry into fallen energy trader Enron Corp. will likely culminate in directed electricity restructuring policy hearings this winter or spring to assess the implications of the company's collapse, an aide to Senate Governmental Affairs Committee Chairman Joe Lieberman (D-Conn.) said Monday.

"It is our plan to hold hearings on the policy side of this issue," the aide said. "But not before we complete an extensive document investigation" led by Sen. Carl Levin (D-Mich.), chairman of a Governmental Affairs subcommittee on investigations. Such policy proceedings could hinder the progress of energy legislation drafted by Senate Majority Leader Tom Daschle (D-S.D.) as senators assess impact, Hill sources said. Daschle has promised to bring a comprehensive energy reform debate, electricity restructuring included, to the Senate floor prior to the Presidents' Day recess in late February.

For now, the Senate focus is on issuing and forcing Enron to comply with about 30 subpoenas directed at documents held by the Enron board of directors, its auditor, Arthur Andersen, and executive officials. Once those documents are received, Levin's staff will sort through Enron's collapse in an attempt to demystify prior to a Jan. 24 hearing what many fear was an established pattern of lies and illegal profits at the executive level.

Upon announcing the investigation last week, both Lieberman and Levin openly condemned the company's financial conduct, and even went so far as to wonder whether top executives, including CEO and President Bush ally Ken Lay, may have profited from the collapse.

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"Top Enron executives and directors apparently reaped almost \$1 billion in stock sales in 2000 and 2001, [and] 500 high-level executives walked out with over \$55 million days before Enron declared bankruptcy," Levin said last week. "Investors, employees and creditors are left holding the bag."

The announcement came amid press reports linking Lay and former President Jeffrey Skilling to partnerships that may have disguised the company's fuzzy accounting methods. A Jan. 2 Wall Street Journal article reported that Lay and Skilling, despite earlier denials, may have been well aware of false partnerships leading up to Enron's collapse and unprecedented bankruptcy court filing on Dec. 2 (see the 1/3 Greenwire).

Levin cited the article indirectly, describing the partnerships as "a massive shell game with multiple layers of conflict of interest." Debt may have been transferred to "paper partnerships" in which Enron officials had personal financial interests, he said.

As for political connections, Lieberman told reporters his committee would look into the close ties between Lay and the Bush administration, but cautioned against characterizing hearings to come as partisan.

"This is a search for the truth, not a witch hunt," he said.

Also under the microscope is whether the Federal Energy Regulatory Commission, Securities and Exchange Commission, **Commodity Futures Trading Commission** and Labor Department lived up to their oversight duties in the months prior to Enron's swoon.

Beyond this, the policy implications of the Enron freefall have been fuzzy, at best. On the House side, Democrats raised red flags during December hearings and successfully forced Republican leaders to punt consideration of electricity legislation to early in the second session -- but Energy and Commerce Committee Chairman Billy Tauzin (R-La.) has nevertheless pledged to proceed with Rep. Joe Barton's (R-Texas) electricity bill when Congress resumes (see the 12/17 Environment and Energy Daily).

Tauzin may hold investigative hearings of his own, bringing the Hill committee count with an eye on Enron to five. In addition to Tauzin and Lieberman's committees, House Financial Services, House Education and Workforce and Senate Commerce have held or plan to hold oversight hearings on Enron.

LOAD-DATE: January 8, 2002

Monday, January 7, 2002

Volume 18, Issue 1; ISSN: 1051-4880

Requiem for Enron
Jamie Dettmer; John Berlau

There's enough blame to go around for the collapse of the energy giant: from executives to auditors to financial analysts to Congress.

Lawsuits, class actions and congressional and federal probes now are under way to try to ascertain how much of Enron Corp's collapse was due to corruption and how much was the result of bad investment

decisions and the recession. As far as those who lost on the energy trader are concerned, the main question is: Who knew what and when about the financial shenanigans used to obscure Enron's \$40 billion-plus debt.

There were few naysayers around when Enron Chief Executive Officer (CEO) Jeffrey Skilling bragged last summer that the Houston-based energy trader would "become the biggest corporation in the world." Everyone loved Enron back then: Business analysts, banks and economists were lauding the company for its radical new ways of doing business; politicians, too, Republicans and Democrats alike. President George W. Bush was lent a corporate jet for the election campaign by Enron's founder, Kenneth Lay.

Bush enjoyed being associated with a Texas company that epitomized the roaring, risk-taking New Economy of the 1990s. Other politicians looked at Enron and salivated about all that money. At a time when it was praised by management gurus as a hotbed of entrepreneurial innovation and a model for companies in the 21st century, what politician wouldn't want to be mentioned in the same breath as Enron?

Only a few months later, however, the boast of Skilling - Lay's handpicked successor as CEO - is being recalled with embarrassment by Washington politicians and with great bitterness by aggrieved Enron employees, many of whom likely will suffer the Christmas double whammy of losing both their jobs and 401(k) balances, while their bosses took care of themselves.

Along with investors and an army of creditors desperate to claw back billions of dollars in losses, they are asking why the alarm wasn't raised earlier on a company whose share price plunged from a summer high of \$90 to a December penny stock. Fair-weather politicians also are eager to identify the reasons for Enron's crash, although doubts remain that Congress will admit to its own indirect contribution - namely, the weakening of securities-fraud legislation in the 1990s that some lawyers say has encouraged auditors and investment banks to be negligent.

"We have been warning for years about weaknesses in the watchdog system," says New York attorney Mel Weiss, who helped investors recover \$800 million in the investigation of junk-bond king Michael

Milken. "We have warned about conflicts of interest with the big auditing firms who use auditing as a loss-maker to attract more-lucrative consulting contracts, and we have warned that the Securities and Exchange Commission (SEC) is not able to keep pace with the explosion in capital formation. Congress removed a useful deterrent when it made it harder for plaintiffs to sue for fraud" (See sidebar below.)

Enron, which reported almost \$50 billion in assets, has gone from ruling the world to being the world's biggest corporate bankruptcy.

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dwarfing the previous record. Texaco's \$35.9 billion bankruptcy case filed in 1987. The unraveling came quickly amid disclosures of inflated Enron earnings - to the tune of \$600 million over five years - and massive hidden debt. Was Skilling inviting nemesis when he boasted in the summer of Enron's golden future or advancing cynically the effort to disguise what Gary Hines of Doltec Asset Management has dubbed a "corporate black hole"? "Until the forensic accountants can get in there and sort things out you just don't know what Enron's worth," said Hines. Even if the company is auctioned off following its Dec. 2 filing for Chapter 11 bankruptcy, the ramifications - economic, political and legal - will be long-

lasting. About the only silver lining from Enron's crash is the timing. Analysts say that if it had come earlier or later, when the economy was not flooded with liquidity by the Federal Reserve, the firm's collapse could have posed a serious threat to the financial markets.

Enron insiders believe the firm's thunderous fall was due both to corruption and commercial stupidity. A senior Enron executive tells INSIGHT: "Skilling was out of control; we didn't know half that was going on. My impression is that his cover-up was an effort to buy time. He was the Micawber of the New Economy." certain that something would turn up.

But, as Enron employees point out, he was not a poor Micawber. During the year Skilling, a former McKinsey & Co. consultant who was recruited by Lay to become the nuts-and-bolts man at Enron, quietly was unloading stock, making 17 trades to sell \$62 million worth of Enron shares.

While Skilling was waiting for something to turn up for Enron, where was Arthur Andersen LLP, Enron's auditor? It failed to ask

probing questions about the byzantine off-the-balance-sheet partnerships with innocuous-sounding names such as Osprey, Marlin and Whitewing that Skilling and his sidekick, former chief financial officer Andrew Fastow, used to disguise the parlous state of the company. Fastow personally made \$30 million on the partnership - a conflict of interest, say Enron employees.

And where, too, was the company's independent auditing committee that appears to have been asleep at the switch? Nervous federal regulators say there is plenty of blame to be spread. They concede that the US, financial and political establishments have much to answer for, either as direct players or negligent observers.

Skeptical voices were few and far between. A Fortune magazine article in 1996 that was loudly positive about the company did note some doubts about Enron's methods of "managing" its earnings and cast doubt on Enron's use of "marking-to-market" accounting, which counted proceeds from longterm gas contracts as present income. The magazine said: "According to several former employees, this practice simultaneously inflates current earnings and creates a 'feeding frenzy' as executives scramble to make new deals to prop up future profits."

With so many culprits available for criticism in Enron's crash, the focus is becoming blurred. But at the center of America's largest-ever corporate bankruptcy stand Lay and Skilling. Together they had guided the company into becoming a natural-gas and electricity-- trading powerhouse boasting a market capitalization at one time of \$80 billion. Not bad for a business started in 1985 from the merger of two pipeline companies. Enron became the dominant trader in the newly deregulated market for energy, buying and selling contracts on gas and electricity among other things, and establishing markets in financial derivatives related to energy. Increasingly, though, it traded purely financial products, including credit derivatives, and under the direction of Skilling moved further away from its core energy business, buying a water plant in Britain and a power distributor in Brazil.

Awful investment decisions followed in quick succession, say Enron insiders, as the company branched out and acted as a hedge trader in multiple commodities, services and products, including broadband capacity.

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All looked rosy as Enron's revenue soared from \$14 billion in 1991 to \$100 billion in 2001, and its average annual profit growth for the decade was a startling 29 percent. That attracted an "A" from Wall Street rating agencies such as Standard & Poor's and Moody's Investor Service. But behind the scenes the books were being cooked and the earnings figures inflated as competitors started to bite into Enron's profit margins and international investments failed to perform well.

The first public signs to break through Enron's secretive corporate culture came in August when Lay nonchalantly dismissed questions about a \$1.2 billion reduction in shareholder equity related, he said, to accounting errors involving an Enron partnership run by Fastow. Furthermore, he denied all knowledge of the Enron partnerships involving Fastow and Skilling. Belatedly that has earned Lay condemnation - if he didn't know, he, too, was failing in responsibility, and for many his claim is unbelievable.

"First, founders of companies don't tend to ignore what's going on with their babies and, second, he knows all about accounting

practices," says a Wall Street banker who spoke on condition of anonymity. In fact, the 59-year-old Enron chairman studied economics at the University of Missouri, earned a doctorate in the subject and, as a naval officer serving in the Pentagon worked to develop more efficient accounting systems. Lay also served as an aide to a federal-government regulator for the natural-gas industry.

SEC sources tell INSIGHT that they also find it unlikely that Lay didn't know Enron was slipping rapidly into trouble; along with Skilling, Lay steadily dumped personal Enron stock throughout the year, selling in 457 trades \$74 million worth of shares.

Lay and Skilling were not alone in dumping shares. Other senior executives also bailed out, including Lou Pai, director of Enron's energy-services operation, who sold shares totaling \$352.7 million; Rebecca Mark-Jusbasche, head of Enron's Indian power plant and its water company, who walked away with \$79.5 million; Ken Harrison, head of Enron's Portland General Electric subsidiary, who took home \$75 million; and Kenneth Rice, head of Enron Broadband Services, who sold shares worth \$72.8 million. Speaking on the Don Imus Show, Sen. John McCain (R-Ariz.) said it's going to be difficult to "explain

how executives of the company were unloading stock right and left while the employees were not able to do so."

The dumping of stock by Lay - and Skilling for that matter - sticks in the craw of Enron employees. They were blocked by the company from selling their stock options as the crunch loomed following the formal disclosures by Enron that it had shifted billions of dollars in debt off its balance sheet and into an array of complex partnerships.

Those disclosures sunk desperate buyout negotiations Enron was having with its smaller rival, Dynegy Inc., which pulled out from purchasing Enron on Nov. 9, precipitating the final collapse of the company.

Questions remain, though, not only about the mishandling of Enron by its corporate officials and their cooking of the books but the leggardly reaction of the rating agencies and the auditors.

In June, Standard & Poor's warned Enron that it was concerned about the firm's underperforming international assets. But the agency

didn't alter its credit rating of the company, being satisfied apparently with the assurances Enron executives gave about the future. Skillings' abrupt departure as CEO in August didn't trigger alarms on Wall Street or among the business press. As summer came and went there was no way for ordinary investors to know a hurricane was brewing.

The rating agencies now say they were worried about Enron, but felt that downgrading the company's investment rating sooner would only have brought on bankruptcy quicker. According to Standard & Poor Director Todd Shipman, the core energy business still looked good and no one at the agency knew the scale of the off-the-books debt.

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The agencies were aware that a downgrading of Enron would result in a credit squeeze for the company and, along with a plunge in shares, would lead to trading partners losing confidence that the company would have the cash to pay bills.

Mutual-fund analysts and investment banks, including Citibank and J.F. Morgan Stanley, continued to talk up the company and to give it a "buy" rating, all in a bid, say Wall Street analysts, to shore up the energy trader and their large investment in and loans to Enron.

Enron's woes are sure to shake up the accounting and auditing industries. Arthur Andersen has egg on its face for not catching Enron's overstated earnings and for failing to scrutinize the company's off-the-books partnerships, which showed the company to be much more in debt than was stated on its balance sheets.

"I think it's obviously time for a very thorough review of the state of auditing in not only the Enron case but generally speaking" House Energy and Commerce Committee Chairman Billy Tauzin (R-La.) told the Washington Post.

Concerns have been voiced for years about possible conflicts of interest arising from accounting firms performing consulting services for the companies they audit. Critics charge that this leads them to go easy on the companies they work for and to turn a blind eye to problems. Others say that technology has overtaken accounting standards, making it hard to scrutinize 21st-century financial deals.

Whatever the case, the industries are going to have to do a lot to win back public confidence, experts say. "Arthur Andersen was paid \$25 million to do audits for Enron," Dale Oesterle, a professor at the University of Colorado School of Law who specializes in securities law, tells INSIGHT. "It's hard for Arthur Andersen to be an independent certifier of Enron when such a huge percentage of Arthur Andersen's revenues are coming from Enron. And it was not only getting money for auditing, it was also doing other work for Enron - very lucrative consulting services worth \$27 million."

Lynne Kiesling, director of economic policy for the Reason Public Policy Institute and a senior lecturer in economics at Northwestern University, thinks the issue is more about outdated practices than conflicts of interest. A former international-taxation consultant at the Chicago office of the accounting firm PricewaterhouseCoopers, she says firms usually have good firewalls between their accounting and consulting services. Nevertheless, Kiesling says, there is going to be greater scrutiny of business practices that were overlooked, such as "off-the-balance-sheet partnerships" that allowed Enron to be much more leveraged than investors realized. "Enron executives structured their debt in a way that didn't show how leveraged they were," Kiesling tells INSIGHT.

Fred Smith, president of the free-market Competitive Enterprise Institute, says the accounting practice hasn't caught up with complex financial transactions such as derivatives that Enron used. "New technologies and new economic instruments often aren't accounted for very well, and derivatives are one of those areas," Smith says. "The accounting profession does have to get better at understanding how to put those kinds of thing into a record."

Lawmakers have put on their best "we're-gonna-get-to-the-bottom-of-this-- financial-fiasco face, promising to expose the culprits. But Washington insiders remain doubtful about how fierce congressional inquiry will be in the coming weeks as many on Capitol Hill and in the White House have been recipients of Enron's financial benevolence. Both the right and left pushed away from the Enron table fat and happy.

MOVE →

(continue...)

According to the Center for Public Integrity, a Washington-based nonprofit government watchdog organization, the Democrats in 1996 received a little more than \$200,000 from Enron, while the Republicans tucked away nearly \$1 million from the company's

political-- action committee and individual employees. In the 2000 election, Enron was America's 16th-largest donor, contributing \$2,445,898, with 72 percent of that landing in Republican coffers.

Beyond campaign contributions, there are a number of Republicans who profited from Enron's early success, including James Baker III, a former U.S. secretary of state who sat on Enron's board, and Robert Mosbacher, a former U.S. commerce secretary who was onboard as a consultant.

Lawrence Lindsey, the president's top economic adviser, received \$50,000 from Enron in 2000 for consulting fees, and Karl Rove, senior adviser to the president, sold "up to \$250,000" in Enron stock to avoid a conflict of interest. Army Secretary and newly named Pentagon liaison to the Homeland Security Office Thomas White was vice chairman of Enron Energy Services in charge of commodity and capital management, among other things, and a member of Enron's executive committee and CEO for Enron Operations Corp. Sen. Phil Gramm (R Texas), former chairman of the Senate Banking Committee, can claim Enron as his 12th-largest contributor during the same time that his wife, Wendy, who has been nicknamed "the Margaret Thatcher

of financial deregulation," sat on Enron's board. She also was on Enron's independent audit committee.

Although Enron politics leaned to the right, it was during the Clinton administration that the Export-Import Bank (which is supported by taxpayer funds) subsidized Enron to the tune of nearly

\$630 million. To date, just \$5 million has been returned to the taxpayers and, given the company's Chapter 11 filing, it remains doubtful if additional payments will be made on the loans. And the company had plenty of Democrat friends, including former Treasury secretary Robert Rubin, a fellow Harvard Endowment board member with Herbert "Pug" Winokur, the chairman of Enron's finance committee as well as a member of the company's executive committee, and former Texas governor Ann Richards.

In some ways those political friendships and connections may have deterred pertinent questions from being raised sooner about the health and management of a company that has become America's biggest corporate bankruptcy. Worse, in the minds of some, they constituted seals of approval.

JAMIE DEITNER IS A SENIOR EDITOR AND JOHN BERLAU IS A WRITER FOR insight.

Nobody Is Watching Financial Watchdogs

"All the safeguards failed," says New York attorney Neil Weiss. The doyen of class-action lawsuits, he sees auditor Arthur Andersen LLP as having more than egg on its face with the Enron Corp. collapse, maintaining there was negligence involved.

"The auditing profession is a grotesque failure," Weiss says. "There are only five major auditing firms now, and do you imagine you can audit any big company without having a conflict of interest?" he asks.

Already a half-dozen lawsuits have been filed against what was until recently the seventh-largest corporation in the United States. Nearly as many federal agencies and congressional committees have announced investigations of the company that was the dominant dealmaker in the gas and oil industries. Weiss already is preparing a class-action lawsuit against Enron.

MORE ->

(continue...)

Weiss sees the fall of Enron as yet another example of a financial watchdog system that is not working. He blames Congress for the problem, arguing that it undermined a legal deterrent in the 1990s by making it harder for plaintiffs to sue those who "aid and abet" financial fraud. His bugbear is the Private Securi-

ties Litigation Reform Act, passed by Congress in 1995 after strenuous lobbying by the Big-Five auditing firms.

"They teamed up with the high-tech industries. That was a powerful alliance and well-funded with booming stocks in a booming economy. They were able to pull off one of the most scandalous frauds on Congress by selling the argument there was a litigation explosion," says Weiss.

He adds: "We came in with charts showing that the numbers of cases hadn't risen that much at a time that capital formation had increased by a multiple of thousands. The number of public companies was hugely greater. The opportunities to commit fraud had increased and, if

anything, it was surprising that so few cases were brought," he argues.

The changes in the law were detrimental, Weiss contends, by making it harder for plaintiffs to sue and by neglecting a provision enabling auditors and investment banks to be sued for aiding and abetting fraud. "Two years later they added fuel to the fire by passing a law that took away the ability to file such securities-fraud cases in state courts."

Weiss argues that the Securities and Exchange Commission (SEC) never will be in a position to know exactly what is

going on inside large companies and that the threat of massive lawsuits would assist in keeping auditors and securities firms on the straight and narrow.

Critics of Weiss maintain that class-action lawsuits can have a disastrous effect on the financial markets, paralyzing companies and deterring risk. They also fear vexatious lawsuits that companies in the end decide to settle because it is much cheaper to give in than to fight.

Dale Osterle, who has written papers for the free-market Cato Institute, argues against a post-Enron increase in regulation and litigation, saying the SEC has contributed to the problem with audits by insisting on a one-size-fits-all rule for auditing. "What I find problematic is that it's an all-or-nothing audit," he says. "You either get a clean bill of health or you get an audit with reservations. It seems to me that if you had the market controlling this rather than the [SEC] rules, you'd have a lot of different kinds of audits that people could choose from."

Osterle explains: "You could envision where you get an 'A' or a 'B' or a 'C' audit, and you tell everybody which one you paid for. A 'C' audit is a lighter audit, and an 'A' audit is a real strict audit. You could choose which one you wanted, and it would be priced in the markets accordingly. The SEC doesn't allow that."

- JD and JB

Who is Kenneth Lay?

Recipient of the Horatio Alger Award in 1998, Ken Lay's story is a classic rags-to-riches tale. Raised in a farm family in Tyrone, Mo., a small town in the Ozarks, Lay worked as a field hand when he was 12 and put himself through the University of Missouri by working at construction jobs, according to Mosaic, a magazine for alumni of the university's College of Arts and Sciences. After earning a master's in economics, Lay followed his mentor, Professor Pinkey Walker, to the Federal Energy Regulatory Commission in Washington. There, Lay learned about the energy industry and political lobbying, knowledge he assuredly put to use while chief executive officer of Enron Corp. Later he would earn a doctorate at the University of Houston.

MORE ->

(Continue..)

"Lay plays the role of the classic 'Mr. Outside,' jetting around the world opening doors for the company and schmoozing his mostly Republican contacts in Washington," said Fortune magazine in 1996. But Lay courted Democrats, too. He served on an advisory commission for Ann Richards, George W. Bush's predecessor as governor of Texas. A place was found on the Enron board for former Commodity Futures Trading Commission chairman Wendy Gramm, wife of Sen. Phil Gramm (R-Texas).

Lay owned one of the first beach houses in the fancy Galveston, Texas, resort community of Kahala Beach Estates, called the "Hamptons of the Gulf Coast." At a typical party in the neighborhood, "the brunch menu includ

ed Bloody Marys garnished with grilled jumbo shrimp, mushroom frittatas with peppered bacon, mesquite-grilled salmon on a bed of black beans, and, for dessert, iced cappuccino and chocolate-covered frozen bananas," according to the populist Texas Monthly.

Lay gave generously to his alma mater, in 2000 bestowing on Missouri a \$1.1 million chair in economics. "Endowing a chair in economics is at least one way I can partially repay the school for all it has given me," Lay told Mosaic last year. "Business is primarily a matter of knowing how to think logically, solve problems and be creative, all of which we learn, at least in part, in the pursuit of a liberal arts and science education."

- JB

Enron's Collapse Takes Employees With It

LINDA ROBERTS

Linda Roberts has been in the oil and gas business for 30 years. She has just walked away from a 23-year career with Enron with nothing to show for her two decades of work for the energy trader. "I started with Northern Natural Gas Company and was there when it was merged with Houston Natural Gas and then again when it became Enron. The demise of Enron is the most incredible thing I've ever witnessed."

Roberts tells INSIGHT, "The company gave 4,000 people about an hour-and-a-half to pack their personal belongings and get out of the building. There was no dignity afforded to these people who have given so much of themselves to this company. I lost 23 years of stock and all of my retirement. Just in my 401(k) this year, alone, I invested \$60,000 and I've lost 97 percent of that. The difference between us and the Jim Jones cult is that they walked down the path, drank the poison and died. We walked down the path, drank the poison and lived."

GEORGI LANDAU

Like Roberts, Georgi Landau also was with Enron from the company's founding. She was a "specialist senior global manager." Although the title is flowery, Landau says, she "processed legal contracts - financial agreements worth millions of dollars."

After 23 years with Enron and its predecessors, once given her walking papers Landau says with deep sadness that she wasn't even allowed to wait inside the building to wait for a ride home.

Landau tells INSIGHT, "I went to lunch and came back to find people leaving the building in droves carrying boxes. I was told I was being laid off, but they haven't given us any information about severance benefits, pay or pension benefits. Everything I've learned about the bankruptcy I've learned from the media. Everything I had in retirement is gone. I'm not old enough to retire so, like so many others, I have to try to find another job and start over. I'm in shock. I can't believe this has happened."

(and)

FT 01/09/02

AEP takes over Enron offices in Scandinavia

By Matthew Jones

American Electric Power, the US utility group, yesterday extended its European energy trading operations into the Nordic region by assuming control of Enron's offices in Oslo and Stockholm.

AEP, which last month bought Enron's international coal trading operations in a deal worth up to \$35m, said it had hired 35 of Enron's former traders as well as middle- and back-office equipment. The deal does not include Enron's Nordic trading book, but the company said it might consider buying this in the future.

The Nordic power market is one of the most mature deregulated markets in

Europe but is one from which AEP has been absent to date. The group has instead focused on Germany and the UK market, where last year it bought two of the country's largest power stations for \$600m (\$300m) from Edison Mission Energy of the US.

As well as trading energy in Norway, Sweden, Denmark, Finland and Germany, the Nordic operations will continue to trade weather derivatives, as they did under Enron's ownership.

The value of the deal was not disclosed but is thought to be structured in a similar way to the acquisition of Enron's coal activities, which included a lucrative "golden handcuffs" deal offered to 22 former Enron

traders in addition to the \$10m purchase price for the international coal trading book.

In a separate development, it emerged that Sempra Energy of the US was set to buy Enron's London-based metals trading business.

Sempra emerged as the favourite bidder last week but last-minute complications in unravelling the group's structure mean it is now likely to take a few more days.

Enron bought the metals trading business 18 months ago from MG, the trader, for \$300m. The deal with Sempra is expected to fetch less than this because it will not include the international metals warehousing business.

(end)

FT 01/09/02

Group says 'multiple bids received' for trading arm

By Andrew Hill and Julie Earle in New York

Enron, the bankrupt energy trader, said yesterday it had received "multiple bids" for its trading operations.

Two banks - Citigroup and UBS - have mounted bids, according to people close to the process. Neither company has commented, and Enron refused to name the bidders. The banks are understood, however, to have bid for a majority stake in New Energy Trading Company (Netco), the new joint venture for the trading business.

BP, the oil company, said yesterday it had offered \$25m for a small part of Enron's trading business, but the London-based group

has not bid for a majority in the core operations.

The main bidders are unlikely to have offered large upfront cash payments. Instead, Enron's aim is to find a creditworthy backer that will allow it to revive the trading business. Until Enron collapsed into bankruptcy last month, the trading operations were the largest contributor to the group's revenues.

Either UBS or Citigroup, which have strong balance sheets, would fit the bill as creditworthy partners, which could help to restore confidence in Enron's trading counterparties.

BP said its \$25m bid was mainly for information technology systems, including software and licence rights

for middle and back-office systems. Enron would be able to continue using those systems itself, but BP, if its bid was successful, could adopt the same technology for its own trading operations. BP said it might negotiate for other parts of the business if its bid was unsuccessful.

The auction of the assets is due to take place tomorrow in the New York bankruptcy court. The court has scheduled a hearing on Friday to approve a buyer.

A successful auction will be important in Enron's attempt to restructure and emerge from bankruptcy.

Additional reporting by Shris McNulty in Houston and Matthew Jones in London

(end)

WSS 01/09/02

BP Makes Bid for Part, Not All of Enron Unit

By a WALL STREET JOURNAL Staff Reporter

LONDON—BP PLC said it submitted a \$25 million bid for the computer settlement support systems of Enron Corp.'s energy-trading subsidiary, but isn't currently bidding for control of the whole unit.

BP, a global petroleum concern based in London, was one of several companies that met a Monday deadline for bids in advance of tomorrow's scheduled bankruptcy court "auction" for Enron's trading division. Enron's advisers are currently sorting through the sealed bids, which also include offers from New York-based Citigroup Inc. and Switzerland's UBS AG, people familiar with the matter

say. Enron hopes to play the bids off against one another tomorrow before making a final decision.

Enron has expressed interest in finding a joint-venture partner to take a majority stake in the entire trading arm, called Enron Online, so that it can resume trading with backing from a credit-worthy partner. BP's bid, it appears, wouldn't fulfill that objective.

The Wall Street Journal, citing people familiar with the matter, incorrectly reported yesterday that one of the offers that Enron had received for a majority interest in the energy-trading business was from BP.

The Enron computer support systems that BP has bid on are used for the settlement and administration of natural-gas and electricity contracts. BP is a major marketer of natural gas in the U.S. "We are interested in the technology," said BP spokesman Roddy Kennedy. "It would improve our marketing capacity."

Mr. Kennedy added that if the auction process scheduled for tomorrow didn't yield a deal, "we'd be happy to enter into discussions on other aspects of Enron's business." He declined to specify which ones.

(end)

Big Banks Seeking Enron's Energy-Trading Business

By JONATHAN D. GLATER

Several financial institutions and companies, including Citibank, UBS and BP, have indicated a serious interest in buying the energy-trading business of the bankrupt Enron Corporation, according to people involved in setting up an auction of the business. Each company was required to put up a \$25 million deposit to bid for all or part of the operation, according to court documents.

An Enron spokeswoman, Karen Denne, would not comment on the number of bidders or their identity. "All we're saying is that we received multiple bids," she said.

There were conflicting reports from different sources yesterday of additional interested buyers, and one

lawyer whose client will be involved in the auction said that other companies might submit bids even though the official deadline had passed. The auction is scheduled to take place tomorrow. "We have the ability to be flexible," the lawyer said.

Trying to buy a piece of Enron is not as surprising as it may sound, according to analysts who follow energy trading and Enron's business. What is valuable in a trading operation, according to one analyst whose firm is involved in the bankruptcy proceedings, is not just the tangible assets — the computers, proprietary software and other necessary tools of trading — but the experience of its employees. And surprisingly few employees have left the trading operation of Enron North America, a subsidiary.

Added value from employees who know how and when the weather changes.

More than 500 employees remain, including researchers, traders and analysts whose job it is to determine what the price of a given transaction should be. Ms. Denne, the Enron spokeswoman, said. "There has been a real effort to keep that business intact so that Enron would retain some of the benefits of that business," she said.

Part of that effort included pay-

ments of millions of dollars to keep crucial employees, including some natural gas and electricity traders, both before the collapse of Enron's merger with Dynegy and soon before the company sought bankruptcy protection. Those payments, which were criticized by creditors at the time, may have bolstered the value of the trading business.

"Forget about having all these physical assets," said Peter Rigby, director of utilities, energy and project finance for Standard & Poor's. "It's a very knowledge-dependent business."

An energy trading business at its simplest sells energy commodities, like gas or electricity, at a specific time, Mr. Rigby said. But the business becomes more complicated for a market maker like Enron, which matches buyers and sellers of commodities, as well as hedging products

that allow companies, utilities or other entities to protect themselves from fluctuations in the prices of energy products. Some traders might watch the weather in different parts of the country to anticipate energy needs, for example.

Where the experience becomes valuable, though, Mr. Rigby said, is in understanding more of the complexities of energy markets — the times of peak use in different markets in different time zones, the location and capacity of power plants in different regions and potential matches of buyers and sellers.

"You've got to know about markets; you've got to know about the weather; you've got to know about power markets and fuel markets," he said.

But determining how much that experience is worth is another question — complicated, Enron's lawyers say, by the fact that bids are taking the form of ownership stakes in a joint venture that would also operate the trading business. Potential buyers propose the percentage of the joint venture they would own, the lawyer said; the advantage to the trading business is the financial credibility that it would have as a result of financial backing from outside Enron.

A committee of Enron's creditors and company executives will meet with bidders this week to try to improve the offers that have been made. A winning bid could be approved as early as Friday by the bankruptcy court.

(end)

St. Petersburg Times, January 08, 2002

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St. Petersburg Times

January 08, 2002, Tuesday, 0 South Pinellas Edition

Gramm didn't shape energy futures bill

Contrary to the unfair allegation contained in the Jan. 4 editorial, Enron's meltdown, Sen. Phil Gramm, R-Texas, did not engineer "a legislative change" that exempted the Enron Corp.'s energy futures trading business from regulatory oversight. The legislation to which the Times refers was the Commodity Futures Modernization Act of 2000, and Sen. Gramm did not participate in the development, drafting, negotiation or approval of any provision designed to affect the regulation of energy futures.

You may be interested to learn that the original version of the act was based upon concepts proposed by the Clinton administration's **Commodity Futures Trading Commission**, and it was written, introduced and ultimately passed in the House. Sen. Gramm does not serve in the House and had no role whatsoever in its bill.

The subsequent Senate version was written by the chairman of the Agriculture Committee and handled by the Agriculture Committee, on which Sen. Gramm also does not serve. The Senate Banking Committee, of which he was chairman at the time, oversees regulation of stocks, but not commodities or commodity futures, and the senator's involvement with the bill was limited to negotiating joint regulation of **single-stock futures** and certifying the legality of "swaps."

Single-stock futures are hybrids of stocks and futures, and were subject to a long-term jurisdictional dispute between the Securities and Exchange Commission and the **Commodity Futures Trading Commission**. Sen. Gramm certainly did exercise his Banking Committee's jurisdiction on these matters, but he took no part in any portion of the bill outside of assuring participation by SEC in the regulation of **single-stock futures** and providing legal authority for over-the-counter "swaps," which are banking contracts.

The final agreement on these two Banking Committee issues was supported by all parties to the negotiations, specifically including Federal Reserve Board Chairman Alan Greenspan and three Clinton administration officials, SEC Commissioner Arthur Levitt, CFTC Chairman William Rainer and Treasury Secretary Larry Summers.

In sum, the Senate Banking Committee has no jurisdiction over energy futures, and Sen. Gramm did not "engineer" anything related to them. He took no role, had no say and did not vote on the energy futures provisions of the Commodity Futures Modernization Act, or even on the act itself.

Larry Neal, deputy chief of staff, office of Sen. Phil Gramm,

U.S. Senate, Washington, D.C.

(end)

Oster Dow Jones

Tuesday, January 08, 2002 -- ODJ CBT Renews Contract With Dow Jones Indexes

Chicago, Jan. 8 (OsterDowJones) - The Chicago Board of Trade has renewed its contract with Dow Jones Indexes, allowing the CBT to continue trading its equity products until the end of 2007, the CBT said on Tuesday.

The CBT declined to detail terms of the licensing agreement, which it initially inked in June of 1997 and was set to expire on Sept. 30, 2002.

However, according to documents filed by the CBT with the U.S. Securities and Exchange Commission, the initial pact required the CBT to pay Dow Jones annual royalties based on trading volumes, with a minimum annual payment of \$2 million.

Potentially offsetting the cost of the new agreement, which takes effect in October, is a new, \$200 monthly fee that the exchange this month began accessing Index Debt Energy Market, or IDEM, members. The fee - which represents as much as \$1.5 million in annual revenue - was touted as a means of helping fund its equity complex.

Nearly 650 IDEM seat holders are being billed the new monthly fee, which could be viewed as helping fund the licensing agreement with Dow Jones, given an IDEM membership only allows for the trading of index products, all of which are Dow.

Amid renegotiating its accord with Dow Jones and implementing its revenue-generating fee on IDEM members, the CBT in December also announced a plan to add a second Dow Jones futures mini-contract to trade exclusively on the all-electronic a/c/e platform.

While the CBT has enjoyed a significant boost in volume for its Dow contracts, they still represent a small piece of the exchange's overall business. From January through November 2001, total volume for Dow Jones products came to nearly 4.6 million, compared to overall exchange volume of 240.5 million for the same time slot.

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Tuesday, January 8, 2002

USA: OneChicago taps CBODirect for its trading platform.

CHICAGO, Jan 8 (Reuters) - OneChicago LLC, a joint venture of Chicago's three derivatives exchanges to trade single-stock futures, said on Tuesday it has selected the screen-based system CBODirect as its single trading platform.

In May 2000, the Chicago Mercantile Exchange Inc., the Chicago Board Options Exchange and the Chicago Board of Trade banded together to develop electronic trading of single-stock futures, but no trading platform was named at that time.

OneChicago has said it expects to begin trading in the products this spring with some 50 to 75 issues.

OneChicago picked CBODirect, the electronic options trading system for the CBOE, because of its huge capacity to handle and execute orders, the CBOE said.

Orders can be entered through either the CBODirect electronic platform or via connections to CBODirect through access points to CME's Globex, the electronic trading platform for CME's futures products, according to the joint release by the three exchanges.

"CBODirect will provide our members with the most efficient arena for trading single-stock futures, because it was designed to work with a Lead Market Maker system and is scalable to accommodate our future needs," William Rainer, chairman and chief executive officer of OneChicago, said in the press release.

U.S. Congress two years ago lifted the 1982 prohibition on the trading of single-stock futures, to allow U.S. futures exchanges to compete on an even footing with foreign rivals.

CBODirect, built in-house by the CBOE and launched in October 2000, currently operates from 7 a.m. CST (1300 GMT) to 8:15 a.m. CST (1415 GMT), before regular trading begins at 8:30 a.m. CST (1430 GMT) on the CBOE.

End

Tuesday, January 8, 2002

USA: CORRECTED - KCBT vote amends No. 3 wheat for deliverable stocks.

In KANSAS CITY story headlined "KCBT votes to drop No. 3

wheat for deliverable stocks," please read in first paragraph

... "Kansas City Board of Trade members on Tuesday voted to make adjustments in the composition standards of lower-quality number three grade hard red winter wheat..." instead of ...

"Kansas City Board of Trade members on Tuesday voted to remove

lower-quality number three grade hard red winter wheat from

approved standards...." ... correcting to make clear KCBT vote

amended, rather than dropped, No. 3 wheat for deliveries.

A corrected version follows.

KANSAS CITY, Jan. 8 (Reuters) - Kansas City Board of Trade members on Tuesday voted to make adjustments in the composition standards of lower-quality number three grade hard red winter wheat for mixing to meet delivery requirements against KCBT wheat contracts.

The exchange said in a statement that, effective with the July 2003 wheat futures contract, any number three hard red winter wheat warehouse receipts delivered against KCBT futures will be limited to contain no more than 5 percent wheat of other classes, reduced from 10 percent.

Also, the discount for delivery of number three wheat will be increased to 5 cents per bushel, from 3 cents, the exchange said. But the discount for deliveries of number three wheat to the KCBT's Hutchinson, Kansas, delivery

point will be nine cents per bushel, compared to 12 cents previously, it added.

KCBT chairman Greg Edelblute told Reuters that the 101-to-14 vote backed the work of the exchange's contract committee, which had sought to "give more balance between the makers and takers of deliveries."

The new standards are pending approval from the Commodity Futures Trading Commission, he said.

Tuesday's vote was the second attempt to adjust the content of deliverable stocks. An earlier vote in August 2001 failed to garner the necessary two-thirds majority.

Arguments to eliminate number three wheat from the acceptable mix for deliveries had stirred up controversy at the KCBT. There were members who believed that number three wheat is becoming increasingly hard to broker or sell for feed or export, and those who wanted flexibility to blend low-quality wheat to deliverable standards in case there is a poor wheat crop.

Number three wheat has lower standards for minimum test weight and other grading factors like damaged or broken kernels and allowable foreign material.

Edelblute said the "potential is still there" for a poor crop producing more than its share of number three or poorer wheat, but the vast majority of members felt comfortable voting for the new rule.

With the changes to the composition standards for number three wheat in deliverable stocks, it is likely that "people will handle it, merchandise it and discount it as they always have," Edelblute said. "It's just considerably less likely to be delivered."

Most of the Kansas wheat crop grades out as number two wheat, he added.

(and)

WSJ 01/09/01

Cotton Posts Third Straight Day of Strong Gains

COMMODITIES

By ENZA TERESCO
Oster-Doss-Jones Commodity News

NEW YORK—For the third consecutive day, cotton futures on the New York Cotton Exchange registered strong gains, with traders citing technical factors unrelated to basic supply and demand factors.

But while cotton's recent behavior might perplex fundamental analysts—who are constantly reminding market players of the excess cotton supplies world-wide, poor consumption in the U.S. and copious global inventories—some are approaching the market with a fresh eye in 2002 in anticipation of an economic recovery that could boost consumption and reduce production in the coming season.

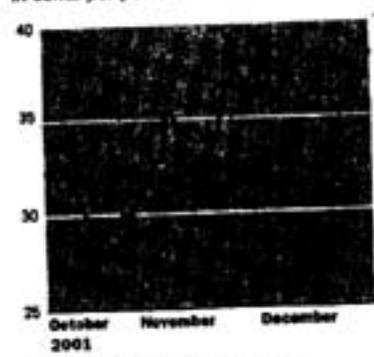
After hitting a high of 38.50 cents a pound, the leading March contract settled at a 23-session high of 38.45 cents, 0.89 cent higher on the day. That gives March an 8% gain since the beginning of the year.

Ron Lawson, senior vice president of investments with Prudential Securities Inc. in Napa Valley, Calif., questions whether farmers will plant as much cotton next season because they might find themselves with no credits and no crop insurance. He maintains that because of past fraudulent episodes, banks are tightening their lending.

"Because [banks] got burned in the past, they are now very reluctant to give any credit without any real strong balance sheet," Mr. Lawson explained. "Logic

Cotton Futures

Continuous front-month contract, in cents per pound



Source: Thomson Financial/Datastream

COMMODITY INDEXES

Tuesday, January 9, 2002

	CLOSE	CHG.	NET	YR. ADD
New Jones-AGE Futures...	92.074	- 0.288		115.096
New Jones Spot	90.54	- 0.06		111.13
Master U.S.	1199.32	+ 7.74		1363.70
C R B Bridge Futures...	195.03	+ 0.14		229.00

alone dictates that banks are not going to lend any money to someone to produce a product with a selling price 40% below last year's, especially because they didn't make money last year."

In addition, with the insurance compa-

nies also hesitant to continue writing checks to farmers with failed cotton crops, as they have in the past three years, farmers will be faced with not enough resources to even buy their seeds.

Based on that, Mr. Lawson said he expects a sharp reduction in the planted acreage for the 2002-03 season. While he said that trade players might be finally turning their backs on the bear tack and joining the buyers, others believe the recent upward moves continue to be strictly driven by speculative participants.

Alan Feild, a cotton broker with STA Trading Services, a Memphis, Tenn., brokerage, attributed the gains purely to formations on price charts, or "technicals," and said they can't be justified by the supply-demand picture. "All of this is pure speculation in a market that is overpriced right now," Mr. Feild said. "Punds are already too long; they're forcing a technical issue and at some point the market will fall apart as fundamentals are out of line."

SUGAR: World sugar futures rose to a one-month high as speculators and local traders bought, amid tight supplies from Brazil and of European white sugar. The March contract increased 0.89 cent to 7.80 cents a pound.

LUMBER: Futures touched their daily limit at the Chicago Mercantile Exchange, as spread trading helped lift the market through buy stops, or preplaced purchase orders. The most active March contract rose \$8.60 to \$259.70 a thousand board feet, having earlier been up by \$19.

Feild

02054

FUTURES

Weather, Supply Talk Sink Crude; Beans Rise Again; Silver Cools Off

BY REUTERS

Oil prices closed lower on Tuesday with mild weather forecasts for the Northeast and large stockpiles of oil products such as heating oil weighing on sentiment ahead of weekly reports of petroleum usage.

In other featured commodity trading, soybean prices continued to firm up after last week's life-of-contract lows. Silver prices eased in line with softer lease rates.

February crude oil fell 23 cents to \$21.25 a barrel. Heating oil fell 0.37 cent to 56.82 cents a gallon. Gasoline lost 1.35 cents to 60.99 cents.

With weather forecasts showing a short-term warming trend, traders saw little prospect of a sustained rally. Swollen stocks of distillate fuels like diesel and heating oil, built up but yet to be used during the mild winter, remained bearish.

"We still have a difficult time seeing this market advance for any prolonged period of time unless we can draw down distillate inventories," said Peter Beutel, president of Cameron Hanover, a Connecticut oil trading consultancy.

Oil traders and analysts said that Tuesday night's weekly American Petroleum Institute estimate of U.S. distillate stocks inventories was expected to show a modest reduction of 1.05 million barrels last week.

Crude oil stocks were forecast to show a decline of 1.3 million barrels, and gasoline stocks were forecast to have risen 1.25 million barrels.

Weather Services Corp. said it expects temperatures in the Northeast, the key heating oil-consuming region, and the mid-Atlantic to rise 4 to 8 degrees Fahrenheit above normal on Wednesday and 6-15 degrees above normal Thursday, then to cool to 4-10 degrees above Friday and 2-6 degrees above Saturday.

At the Chicago Board of Trade, the

recent financial and political turmoil in Argentina continued to hang over grain markets. The disruption has included a nearly 30% peso devaluation to cheapen exports, but also has paralyzed grain trading due to confusion in farming, banking and financing circles.

Argentina is among the top five grain exporters. U.S. prices have climbed from the turmoil on hopes that some worried importers would turn to the U.S. for supplies.

So far, no big switching of export sales has been confirmed by exporters or the U.S. Agriculture Department. But this week the soy markets gained strength on such talk after wheat prices were boosted in a similar way last week. Lack of rain in some Brazilian soybean fields also helped.

March soybeans rose 4 1/4 cents to \$4.35 a bushel, and March soybean oil rose 0.12 cent a pound to 16.47 cents. Rumors circulated late that Egypt might be seeking U.S. soybean oil, a switch from Argentina.

COMEX silver closed lower after borrowing or lease rates for the physical metal subsided from Monday's spike. But with silver forward rates still at their tightest levels in years, the market was loath to sell until lending scarcity abates.

March silver fell 2.7 cents to \$4.64 an ounce after trading as high as \$4.69, its highest level since Oct. 4.

"It came in a bit tighter, but the market seemed to be somewhat capped," said James Pogoda, a vice president of precious metals at Mitsubishi International Corp. "When some lending showed up, that knocked the lease rates down maybe 700-800 basis points and the markets looked (lower)."

One-month silver lease rates eased to about 25%, down from Monday's 30%. Monday's rate was the tightest in four years.

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FT 01/09/02
LME puts silver
contract on hold

By Rachina Singh

Despite a history of more than 100 years, the London Metal Exchange's silver contract has failed to catch on. On Monday, the exchange notified its members that it would suspend the contract - for the fourth time since its initial launch in 1897.

Bullion traders said that they were not surprised. The contract had been languishing, with minuscule trading volumes, since its reintroduction in May 1998. It has not been traded since January 24, 2000.

In a notice to its members, the LME said it had decided to suspend its silver contract with effect from the close of business on March 1.

"With immediate effect, no trades in this contract will be permitted if they have a prompt date beyond March 1, 2002," the notice, dated January 7, said.

John Reade, precious metals analyst at UBS Warburg, said in reaction to LME's notice: "This move shouldn't be a surprise to anyone in the market.

"It is not reflective of a lack of interest in silver, which has rallied by 15 per cent in the last six weeks,

but more of a lack of success [of the LME contract]."

The main focus of silver trading in London remains the over-the-counter bullion market, with silver futures trading centred on New York's Comex.

According to Mr Reade, it is difficult to say exactly why the contract couldn't attract liquidity.

"Liquidity has always been a chicken-and-egg situation. Attracting it is difficult," he added.

Ross Norman, director of TheBullionDesk.Com, said the idea of having a silver contract alongside base metals had failed.

"The concept [of having a silver contract] was based on the premise that a lot of base metals traders trade in silver as well," Mr Norman said. "But that proved to be wrong, as they couldn't have any critical mass to trade in it."

Mr Norman said the contract stood a chance of surviving if it was repackaged "in another new medium, perhaps online".

The LME notice said the exchange would continue to keep the silver contract under review, either in its current form or in a modified form.

(end)

WSS 01/09/02

U.S. Delays for Year Rule About Poultry Products

WASHINGTON (AP)—The government is giving poultry processors another year to start disclosing the water content of raw chicken sold in supermarkets.

Processors were supposed to comply by today but had asked the Agriculture Department to delay the rules for two years. "We felt that giving them a one-year postponement would give them sufficient time to prepare for implementation of the rule," said Caryn Long, a spokeswoman for the Agriculture Department's Food Safety and Inspection Service.

Under the rules, processors will be required to show that any added water

is a consequence of antibacterial treatment. Slaughtered chickens are routinely chilled in cold water to stop bacteria growth.

The cattle and hog industries, struggling to regain market share lost to chicken products, have argued that it is unfair for poultry to be sold with up to 8% added water weight when beef and pork can't have any. Cattle and hog carcasses are chilled in freezers.

A federal judge ruled in 1997 that those standards were unfair and ordered the Agriculture Department to come up with the new rules.

(end)

WSS 01/09/02

Fed Sees Later Recovery Than Analysts

Officials Say Contraction Could Last Longer; Rates May Fall Further

By Gann LP

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—Federal Reserve officials appear to be less optimistic about economic recovery than many private analysts, and that suggests interest rates could remain low for a while or even fall again.

"I believe recovery will occur around mid-2002—a few months later than the median forecast predicts," Anthony Santomero, president of the Federal Reserve Bank of Philadelphia, said in a speech. He was one of five Fed officials to speak so far this week. Their comments, while more upbeat than they have been for months, suggest they are less impressed with the run of positive economic reports, ranging from capital-goods orders to home sales, than private forecasters and investors.

Mr. Santomero, for example, said it may

take longer than expected for companies to rebuild inventories, something optimistic analysts are counting on to generate higher production and an imminent recovery. He said consumer spending, though resilient so far, could retrench if big layoffs persist.

A Wall Street Journal poll of 54 forecasters found that two-thirds expect the economy to grow in the current quarter, and almost all expect growth in the next quarter.

But Fed officials see more risks. Richmond Fed President Alfred Broaddus said in a speech that while the consensus forecast is "the most probable outcome ... I think there's a good chance that the economy may be at least a little softer than the consensus over the next year or so." He cited the risk that continued weak profits will hold back business investment. On Monday, Atlanta Fed President Jack Guynn said the economy would probably contract "for another quarter or two." While he cited several positive forces for "significant" recovery, including low energy prices and interest rates, he projected second-half growth of "around" 3%, less than the 3.6% consensus, at an annual rate.

The comments have prompted investors

in the futures markets to raise the odds that the Fed will cut rates again at its Jan. 29-30 meeting. But investors still put the chances at only 30%—meaning most investors still think the Fed has finished easing. The Fed's federal-funds target rate now stands at 1.75%. The markets also see the Fed starting to raise rates by June. Fed officials steered clear of what they expected to do with interest rates.

The most important voice in monetary policy belongs to Chairman Alan Greenspan, who has speeches scheduled both tomorrow and Friday. His speech on the economy in San Francisco on Friday likely will make up investors' minds about the near-term direction of rates.

Two other officials who invariably vote with Mr. Greenspan on rate decisions gave their most upbeat remarks in a while, but tempered those remarks with warnings that it is too soon to say if the economy has hit bottom. "Economic data have changed from mostly negative to more mixed recently," Fed Vice Chairman Roger Ferguson told reporters after a speech in Geneva, but "it is too early to say what the contours of the turnaround in the U.S. are likely to be." New York Fed President William McDonough, also speaking in Europe, said economic data are mixed, which is "typical when you're getting near to the bottom, or are at the bottom," but it isn't clear the worst of the downturn has passed. *MSK →*

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(continue..)

The cautious outlooks of Mr. Broadhus and Mr. Santomero are noteworthy because both have tended to be on the more hawkish wing of the Fed's policy-making committee, that is, seeing more risk of inflation than their colleagues. Still, caution on the economy doesn't necessarily translate into support for lower rates. Interest rates are now at an exceptionally low level and some Fed officials worry that leaving them there too long could fuel inflation. Mr. Santomero warned that during "transition" periods such as the present, Fed officials had to be especially mindful of the long lags between rate cuts and the impact on the economy, "so caution must be the watchword in the months ahead."

At this January's Fed meeting, the annual rotation among regional Fed presidents will give Mr. Santomero, Cleveland Fed President Jerry Jordan, Dallas Fed President Robert McTeer and Minnesota Fed President Gary Stern a vote on rate decisions. Boston Fed President Cathy Minehan, Kansas City Fed President Thomas Hoenig, St. Louis Fed President William Poole and Chicago Fed President Michael Moskow will lose their votes. However, all presidents participate in the discussion on rate decisions.



Question of the Day: How has your level of debt changed in the past year? Visit WSJ.com/Question to vote.

FT 01/09/02

Washington whispers leave O'Neill looking vulnerable

Speculation is mounting over Treasury secretary's future, writes Gerard Baker

In Washington, whispers don't stay whispers for long, especially when they involve someone's career. Sotto voce assertions that someone is on the way up, down, or out, can quickly build to a deafening pitch.

The man in the echo-chamber at the start of the second year of the administration of George W. Bush is Paul O'Neill, Treasury secretary.

Throughout the holiday break, Washington was abuzz with speculation - not of a positive sort - about Mr O'Neill's future. He has powerful critics in Washington - in Congress and even in the administration.

His habit of speaking his mind on what was driving the dollar, the efficacy of international financial co-operation and the folly of fiscal demand management ruffled financial markets, troubled his G7 counterparts and raised hackles among his Republican colleagues.

Mr O'Neill was not helped either by a lack of clarity within the administration about who held the reins of economic policymaking.

Lawrence Lindsey, Mr Bush's economic adviser, seemed closer to the president politically and personally. Several times last year, the Treasury was forced to insist that it, rather than the White House, was in charge of policy on international economics. Unfortunately, the clarifications helped only to muddy the situation.

But none of this seemed to worry the ever-cheerful former chief executive of Alcoa, the aluminium producer.

As the year wore on, he toned down some of his more quotable remarks. After the tragedy of September 11, he gained considerable praise from colleagues in the US and abroad for his handling of the complex issue of enforcing tougher financial action against terrorists.

Not in the last month the political context of Mr O'Neill's apparent shortcomings has changed. When his critics were mostly currency economists and finance ministers of emerging market economies, it did not seem to matter much. But recently he has committed the cardinal sin of alienating the conservative base of the Republican party.

In October, when the House



Paul O'Neill outraged conservative Republicans by calling the stimulus package 'show business' *Chris Webb*

of Representatives passed a highly partisan post-September 11 economic stimulus package of tax cuts for business and higher-income Americans, Mr O'Neill dismissed it as "show business".

Republicans were outraged. The Treasury secretary had already irritated some within his own party with his cool support for Mr Bush's \$1,500bn tax cut in June. There were reports of delegations of Republican congressmen preparing to march up to the White House and request Mr O'Neill's removal.

Middle-ranking White House officials have been critical in private about what they see as Mr O'Neill's deficiencies. A month ago, some were speculating that his successors were already being lined up.

To conservatives, the dysfunction at Treasury goes beyond the secretary. There is also criticism of Peter Fisher, a Democrat and former New York Federal Reserve official, who was appointed by Mr Bush to take charge of domestic financial policy. John Taylor, the respected monetary economist who heads international policy, has been hampered for his handling of the

financial crisis in Argentina.

The Free Congress Foundation, a conservative think-tank, consulted its members just before Christmas and offered a grading of Mr Bush's cabinet in its first year. There were As for Donald Rumsfeld, the defence secretary, and Dick Cheney, the vice-president; a B for John Ashcroft at the Justice department; a C for the suspiciously multilateralist Colin Powell at the State department and a straight D for Mr O'Neill.

Mr O'Neill attracts criticism from non-conservatives too. The suspicion that Treasury may have been overruled more than once by the White House is damaging and some believe it has contributed to, and been magnified by, a lack of engagement on the part of Treasury in some big international issues - such as Argentina.

Mr O'Neill has remained above the fray, apparently reluctant to be drawn into the fighting around him. But there are signs that the Treasury might be starting to speak up politically in its own defence.

Before Christmas, when a favourable article about Mr

O'Neill appeared in the editorial page of the Washington Post, a Treasury official quickly drew it to the attention of economics reporters.

And it should not be forgotten that Mr O'Neill has powerful allies. His biggest sponsor is Mr Cheney, the embassador of the Bush White House, who worked with Mr O'Neill in the Ford administration.

One of his admirers is Alan Greenspan, chairman of the Federal Reserve. "Paul O'Neill says what he believes," Mr Greenspan said yesterday. "He doesn't generally consider it worthwhile sifting statements so that they fall within the politically correct arena."

And Mr O'Neill himself pointed this week to the source of his good humour. "Well, you know, I have a couple of clients. The most important client is the president of the United States," he said on NBC's *Meet the Press* last Sunday. "As long as they continue to tell me that they're happy with what I'm doing... I'm going to be here to help them and be part of their team."

Gerard Baker

Reuters English News Service
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Tuesday, January 8, 2002

USA: KCBT votes to drop No. 3 wheat for deliverable stocks.

KANSAS CITY, Jan. 8 (Reuters) - Kansas City Board of Trade members on Tuesday voted to remove lower-quality number three grade hard red winter wheat from approved standards for mixing to meet delivery requirements against KCBT wheat contracts.

KCBT chairman Greg Edelblute told Reuters that the 101-to-14 vote backed the work of the exchange's contract committee, which had sought to "give more balance between the makers and takers of deliveries."

The new standards will begin with the July, 2003, contract and are pending approval from the Commodity Futures Trading Commission, he said.

Tuesday's vote was the second attempt to adjust the content of deliverable stocks. An earlier vote in August, 2001, failed to garner the necessary two-thirds majority.

The arguments to eliminate number three wheat from the acceptable mix for deliveries had stirred up controversy at the KCBT. There were members who believed that number three wheat is becoming increasing hard to broker or sell for feed or export and who wanted flexibility to blend low-quality wheat to deliverable standards in case there is a poor wheat crop.

Number three wheat has lower standards for minimum test weight and other grading factors like damaged or broken kernels and allowable foreign material.

Edelblute said the "potential is still there" for a poor crop producing more than its share of number three or poorer wheat, but the vast majority of members felt comfortable voting for the new rule.

With number three wheat ineligible for inclusion in deliverable stocks, it is likely that "people will handle it, merchandise it and discount it as they always have," Edelblute said. "It's just considerably less likely to be delivered."

Most of the Kansas wheat crop grades out as number two wheat, he added.

Fend!

BN

Bloomberg 8 01/08/02
SEC Names Carter Legislative Chief, Harlan Chief Spokeswoman
Jan 8 2002 15:22

SEC Names Carter Legislative Chief, Harlan Chief Spokeswoman

Washington, Jan. 8 (Bloomberg) -- The Securities and Exchange Commission's acting legislative chief, Casey Carter, was named to the post on a permanent basis today, and former Senate Banking Committee aide Christi Harlan was appointed chief SEC spokeswoman.

They will work with SEC Chairman Harvey Pitt, whose immediate tasks including facing questions from Congress and the news media about possible changes in U.S. accounting policies following Enron Corp.'s collapse.

Carter, 38, and Harlan, 44, will report to Brian Gross, the SEC's communications director. Harlan and Gross worked for Senator Phil Gramm, a Texas Republican, when he was Senate Banking Committee chairman.

Carter, who has been with the SEC since 1999, worked in legislative affairs for the Comptroller of the Currency and the Resolution Trust Corp.

Harlan most recently was in charge of external affairs at the Federal Emergency Management Agency. She also has worked as a reporter for several newspapers, including the Wall Street Journal.

The SEC is investigating Enron and its auditor, Arthur Andersen LLC, after the energy trader filed the largest Chapter 11 bankruptcy ever and admitted to overstating earnings by \$600 million.

--Neil Roland in Washington (202) 624-1868 or
nroland@bloomberg.net /ba

Carleton, Norman

From: Roseboro, Brian
Sent: Thursday, November 08, 2001 4:13 PM
To: Carleton, Norman; Clarida, Richard
Cc: Randall_S. Kroszner (E-mail); Knalmgre (E-mail)
Subject: FW: Enron Update



Enron.doc

FYI

-----Original Message-----

From: Robert.Elsasser@ny.frb.org [mailto:Robert.Elsasser@ny.frb.org]
Sent: Thursday, November 08, 2001 3:58 PM
To: andrew.jewell@do.treas.gov; anna.corfield@do.treas.gov;
brian.roseboro@do.treas.gov; gregory.berger@do.treas.gov;
james.sharer@do.treas.gov; jeff.huther@do.treas.gov;
jill.cetina@do.treas.gov; joe.engelhard@do.treas.gov;
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lois.quinn@do.treas.gov; mark.sobel@do.treas.gov;
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ramin.toloui@do.treas.gov; shirley.gathers@do.treas.gov;
suzanne.boughner@do.treas.gov; tim.adams@do.treas.gov;
tim.dulaney@do.treas.gov; troy.wray@do.treas.gov
Subject: Enron Update

Enron requires little introduction. The following analysis written by Lorie Logan, Olivia Padilla and Mike Schetzel summarizes the blow to the debt and equity prices of Enron and other energy companies, and also examines the impact thus far on the energy trading markets.

(See attached file: Enron.doc)

Bob Elsasser
Government Securities, FRBNY
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212.720.1234

November 8, 2001

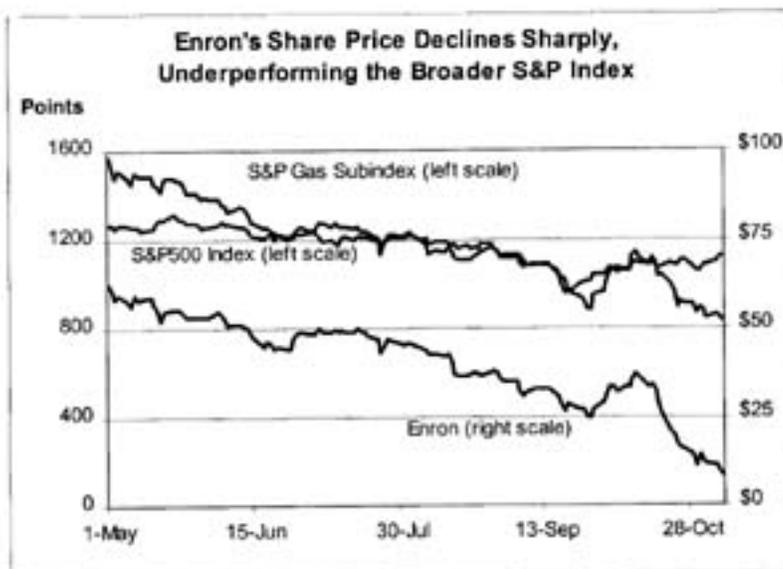
Markets Group, Government Securities Staff

(212) 720-1475, 1519, and 2153

Enron Asset Prices Plummet and Expectations of a Default Rise Amid Significant Credibility Concerns

- ◆ Enron share and debt prices have declined sharply following revelations that its shareholder's equity dropped significantly and the SEC opened a formal investigation into transactions between Enron and the partnerships headed by its former CFO.
- ◆ Ratings downgrades of Enron's senior debt to two notches above junk status and rumors that the company is seeking a private equity infusion have further increased concern about the company's near-term liquidity position and a potential default.
- ◆ Spillover into the broader markets has reportedly been limited thus far to the share and debt prices of large energy merchants and power producers. To date, there has reportedly been little impact on trading conditions in the commodity markets or natural gas and electricity prices.

Enron's asset prices have declined significantly since mid-October, when Enron first disclosed a \$618 million third-quarter loss and a \$1.2 billion reduction in shareholder's equity. Additionally, the announcement that the SEC would be conducting a formal investigation of Enron's related-party transactions, as well as the subsequent downgrades to two notches above junk status by Moody's and S&P further weighed on investor confidence. Market participants are particularly concerned as a downgrade to below investment grade status from Moody's or S&P could reportedly reduce counterparties' willingness to conduct business with Enron and could further lower Enron's ability to secure additional funding. Enron's share price has declined over 65 percent since mid-October, and is currently trading below \$10 per share for the first time in 9 years.



- The price on Enron's benchmark bond (6 3/4 of 2009) has traded significantly lower since mid-October, with the spread to comparable Treasuries breaching the 1,000 basis point level. Once this occurred, the bonds have begun trading more in line with high yield bonds and are trading on many distressed debt desks. Trading liquidity in the debt has progressively worsened, with bid-ask spreads quoted anywhere from 1 point for small trades to 3 to 5

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points (100 to 200 basis points) for larger trades. For some perspective, a high quality, medium to large investment grade issue could trade with a bid-ask spread of 5 to 10 basis points.

Enron Bond Spread to Treasuries (from JP Morgan)			
	3-months ago	1-month ago	Today (11/07/01)
5-year	+130	+270	+1750
10-year	+160	+290	+1440
30-year	+190	+320	+705

- In the credit default swap market, which is used by market participants as a hedge against a credit event in a specific issue, Enron spreads have widened significantly. The premium fee for Enron, which is based on an annual percentage of the par value of the security that is being insured, rose from 260 basis points at the beginning of September to between 2,000 and 3,000 basis points today. Anecdotally, market participants in the credit default swap market expect if a credit event involving Enron is to occur, it will happen in the next 3-months with some suggesting that a 35 percent probability of an Enron credit event is being priced in.

Spillover in the broader equity and bond markets appears to be limited thus far to large energy merchants and power and utility companies. Market participants explained that while share prices in the sector have been trending lower this year given the political news surrounding the California power crisis and significantly lower electricity and natural gas prices, concerns about Enron have weighed on the sector. Specifically, investors note uneasiness about the extent to which such firms may be impacted through derivative and other trading-related exposures.

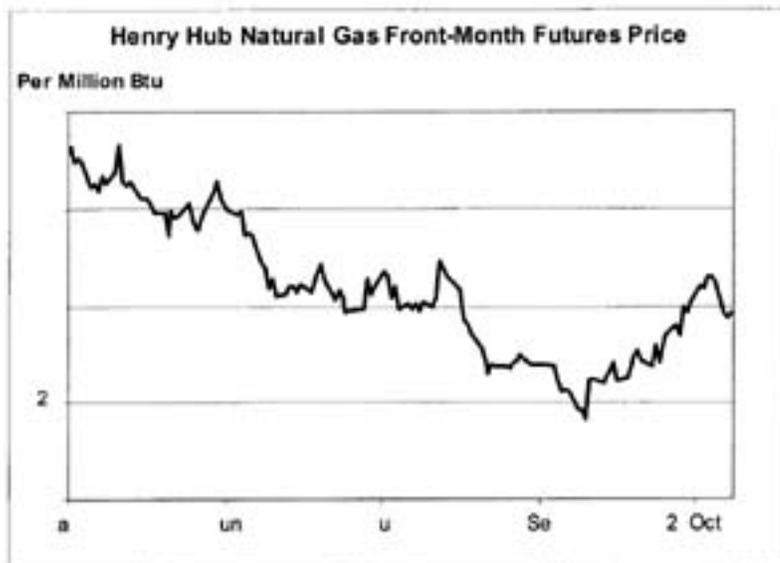
- Shares of the large energy merchant companies such as El Paso, Duke, and Dynegy are down 5 to 20 percent since mid-October. Spreads on the benchmark bonds of such companies also widened anywhere from 10 to 70 basis points to Treasuries, but have reportedly since stabilized. Furthermore, many energy companies are continuing to issue debt, with over \$4 billion in the energy sector expected to price this week.



- Some contagion effect has also been reflected in the credit default swaps of other large energy merchants, with premium spreads widening by 40 to 80 basis points since September. For example, the spread on El Paso widened 40 basis points to 320 basis points, while the spread on Mirant rose 50 basis points to 400 basis points.

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In the energy commodity market, traders report that trading in the natural gas and electricity markets remain liquid, price volatility remains within normal ranges, and supply and demand fundamentals continue to dominate price action. The CFTC also announced that it has no indication of futures markets disruptions involving Enron Trading Services, Enron's registered futures commission merchant. A few dealers have suggested that the 6.8 percent rise to \$3.25 per million Btu in the front-month Henry Hub natural gas futures contract last week was partially a result of Enron unwinding some short positions. However, several others explained that the rise in futures prices was due to an increase in demand from utility investors in combination with seasonal factors and the American Gas Association inventory report, which showed a smaller-than-expected increase in inventory levels.



- Market participants note uncertainty about the impact on the energy markets should Enron's position worsen, as it is difficult to know the totality of Enron's derivative positions in the natural gas and electricity markets. Some have suggested that existing market hedges between multiple firms in the markets could begin to unwind, which could add to short-term instability in the energy market, particularly natural gas. However, they note that terms would likely be quickly renegotiated and price stability would return to the trading markets.

Market participants reportedly continue to trade on Enron's trading platform, EnronOnline, though some accounts may be more cautious about long-term exposure.¹ EnronOnline reportedly handles 20 to 25 percent of all volume in the natural gas and electricity markets. While daily trading volume data for EnronOnline is not regularly reported, Enron announced on Monday that trading volume for all products on the platform was about 6,500 transactions, above the 30-day average of 5,800 transactions. However, energy merchant companies that compete with Enron, including El Paso and Dynegy, have publicly noted an increase in business activity as investors concerns about Enron have increased over the week.

Today, Dynegy and Enron confirmed earlier speculation that they are engaged in discussions about a possible business combination, but did not release any terms of the potential transaction. On this news, Enron bond prices rose, largely retracing this week's losses as short-term accounts covered short positions. The 10-year bond is about 10 points higher than yesterday's lows at 75 cents on the dollar, while the equity price is little changed. After declining on the news yesterday, Dynegy shares rose 11 percent and the price of its 10-year benchmark has partially retraced, trading at about 300 basis points above Treasuries as investors reportedly believe the deal would be done be under favorable terms for Dynegy.

¹ Other primary trading platforms include DynegyDirect, Intercontinental Exchange (ICE), New York Mercantile Exchange, and TradeSpark in addition to several smaller electronic trading systems.

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Carleton, Norman

From: Carleton, Norman
Sent: Monday, March 19, 2001 2:25 PM
To: Gross, Jared
Subject: Who Turned Dubya (Briefly) Green by Timothy Noah



Who Turned Dubya
(Briefly) Gre...

Jared,

Thought you might find the discussion of Enron's involvement interesting.

Norman

02957

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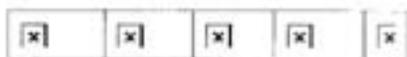
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Who Turned Dubya (Briefly) Green?

By Timothy Noah

Posted Thursday, March 15, 2001, at 2:48 p.m. PT



One of the deeper mysteries surrounding _____ is why Bush _____ to reduce CO2 emissions in the first place. Throughout the campaign, Bush opposed the _____ on global warming. At the _____, he was asked by Jim Lehrer whether new regulations were called for to address global warming. Although Bush had come out in favor of reducing CO2 emissions only two weeks before, his answer made it sound like he *opposed* CO2 reductions:

I think it's an issue that we need to take very seriously. But I don't think we know the solution to global warming yet. And I don't think we've got all the facts before we make decisions. I tell you one thing I'm not going to do is I'm not going to let the United States carry the burden for cleaning up the world's air. Like Kyoto Treaty would have done. China and India were exempted from that treaty. I think we need to be more even-handed, as evidently 99 senators--I think it was 99 senators supported that position.

Why did Bush disguise the fact that his campaign had proposed a much more aggressive approach to global warming than Gore? After all, this wasn't the primaries; Bush was fighting Gore for swing votes. Why not show up Gore as all talk and no action? One little-discussed explanation is that Bush's position on CO2 was a quiet favor to Kenneth Lay, chairman of _____, the Houston-based energy company. In the March 19 *U.S. News*, _____ writes,

Many observers believe the key influence has

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- Whisper of the Snake: George W. Bush
- Who Turned Dubya (Briefly) Green?
- The Web Short-Change: Dubya
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been business. Kenneth Lay, a close Bush friend and major campaign contributor, has been in the vanguard of businesses active on global warming. The chairman of Enron Corp., Lay stands to gain substantially from carbon control, not only as the largest North American trader of natural gas (less polluting than oil and coal) but because of the company's burgeoning energy-efficiency business.

Lay has _____ as Dubya's "No. 1 career patron." He was one of _____ a group of 214 fund-raisers distinguished by having raised more than \$100,000 for the Bush campaign. Lay also _____ to the Bush-Cheney inaugural committee and, with his wife, _____ to the Florida recount. Lay's company, Enron, gave the Republicans _____ during the 2000 election cycle and kicked in an _____ for the inauguration.

Chatterbox isn't suggesting a *quid pro quo* of the sort that Rep. Dan Burton suspects Bill Clinton granted to Democratic fund-raiser Denise Rich. Even if such a *quid pro quo* existed, Bush's reversal would make it a dead letter. Still, the notion that Bush hugged a tree in order to pacify a corporate baron does play havoc with one's preconceived notions about the evils of soft money and the virtues of environmental regulation. On the other hand, the coal industry, which has the most to lose from the regulation of CO2, _____ to Republicans during the 2000 election cycle, and perhaps in the end this helped Bush to change his mind. If so, campaign finance reform may not be a bad idea after all.

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2-21-02

List of Enron related documents

Lori SANTAMORENA 691-3632

Executive Director, Government Securities
Regulations Staff

1. 6/28/01 Notes Retail Swaps Study
2. 8/29/01 Carleton e-mail
3. 8/29/01 Carleton e-mail
4. 7/18/01 Bonnano e-mail
5. 7/31/01 Virzera e-mail
6. 10/26/01 Carleton e-mail
7. 11/01/01 Carleton e-mail
8. 7/12/01 Virzera e-mail
9. 11/15/01 11/15/2001 DRAFT Retail Swaps Report
with handwritten notes
10. copy of 8/21/01 Enron Interview @ FRBNY

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01400000000003

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#1 ENRON

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01400000000005

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0140000000006



Norman.Carleton@do.treas.gov

08/29/01 02:40 PM

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cc:

Subject: More on the Enron issue

[(b)(5)]



Norman.Carleton@do.treas.gov

08/29/01 11:14 AM

To: Peter.Fisher@do.treas.gov, Brian.Roseboro@do.treas.gov, Sheila.Bair@do.treas.gov, Peter.Nickoloff@do.treas.gov, Heidlynn.Schultheiss@do.treas.gov, Edward.Demarco@do.treas.gov, Gerry.Hughes@do.treas.gov, Jared.Gross@do.treas.gov, Amy.Smith@do.treas.gov, Gary.Sutton@do.treas.gov, Martha.Ellett@do.treas.gov, Jose.Gabilondo@do.treas.gov, Roberta.McInerney@do.treas.gov, Isantamorena@bpd.treas.gov

cc:

Subject: Status of Retail Swap Study and the Enron Issue

[(b)(5)]

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inform me of any views the CFTC has on this before the meeting. She said she would. (We'll see.)

I also suggested to Elizabeth Fox that the CFTC staff consider their authority to give Enron exemptive relief if they determined that was appropriate. **[(b)(5)]**

Any thoughts or recommendations? I will send around a separate note discussing the Enron issue in more detail.