U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release
Tuesday, March 4, 2003

Grassley, Baucus Question SEC on Post-Enron Rule-making

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, have asked the Securities and Exchange Commission whether it plans to revisit a recent decision to allow accounting firms to provide tax consulting services to their audit clients. The senators asked whether the review should come in light of last month's report detailing the Enron Corp.'s extensive use of accountants, lawyers, and investment bankers to avoid taxes and manipulate its financial statements.

The text of the senators' letter follows.

March 3, 2003

The Honorable William Donaldson
Chairman
Securities and Exchange Commission
450 5th Street, NW, Room 6000
Washington, DC 20549

Dear Mr. Donaldson:

Congratulations on your nomination and confirmation as Chairman of the Securities and Exchange Commission. We wish you success in your new position. We are writing to bring to your attention a matter of mutual concern – restoring integrity, accountability and confidence in corporate America and the financial markets.

On February 13, 2003, the Senate Finance Committee received the official report of the investigation by the Joint Committee on Taxation (JCT) relating to the collapse of Enron Corporation. The JCT report entitled, "Investigation of Enron Corporation and Related Entities Regarding Federal Tax and Compensation Issues, and Policy Recommendations" (the Enron report) provides a detailed analysis of Enron's complex tax transactions and the role played by promoters and advisers. Enclosed is a copy of the report for your information.

The JCT concluded that Enron's structured transactions revealed a pattern of behavior showing that Enron deliberately and aggressively engaged in transactions that had little or no business purpose in order to obtain favorable tax and financial accounting treatment. For many transactions, Enron obtained sophisticated advice from a small pool of promoters and advisers, including its auditor, Arthur Andersen. According to the JCT, in some cases, if one adviser from the pool was not advising Enron in a particular deal, that adviser counseled the other party (the promoter) to the transaction. These incestuous relationships evolved among the participants in many of the transactions, with the result that Enron even acted as an accommodation party to deals designed primarily by Enron's advisers to benefit others.

The Enron report serves as a wake-up call to all of us. Enron's use of a close web of tax promoters and advisers – accountants, lawyers, and investment bankers – to construct complex schemes to avoid taxes and manipulate the financial statements raises serious questions regarding the roles played by these promoters and advisors. In order to restore public confidence in corporate America, we must ensure integrity and greater accountability in the business community (i.e., corporate officers, accountants, lawyers, and investment bankers). That requires a firm, but fair approach.

As such, we are interested in your views on JCT's findings and recommendations as they pertain to the transactions involved and to those promoters and advisers who assisted Enron. In particular, we would appreciate the benefit of your views on the use of complex tax-motivated transactions designed to avoid taxes and attain financial statement benefits. We are also interested in your views on the extent to which the SEC's January 22, 2003, decision to allow accounting firms to provide tax consulting services to their audit clients will help prevent future Enrons, or whether that decision should be modified in light of the JCT's report.

We look forward to your response and to working with you in the future.

Sincerely,

Max Baucus	Charles E. Grassley
Ranking Member	Chairman

Enclosure