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HEADLINE: Ex-banker Corzine becoming corporate critic

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BODY:

The collapse of Enron Corp. points up the need for greater consolidation of the financial services industry, including expanded oversight powers for the Securities and Exchange Commission (SEC) and the Federal Reserve System, Sen. Jon Corzine (D-N.J.), said.

Corzine, who was chairman of the Wall Street investment firm Goldman Sachs before his election to the Senate in 2000, likened his role in pressing for reforming the financial services industry to President Nixon's 1972 groundbreaking trip to China.

"We have to move for more efficient consolidation of financial services regulation," Corzine told The Hill. "Personally, I think the Fed and the SEC should supervise regulation of the financial services industry."

Specifically, he urged they should take over the regulatory functions now performed by the Comptroller of the Currency and the Commodity Futures Trading Commission (CFTC).

"The Fed should control currency and the SEC should control all financial commodities," said Corzine, who described Enron as "one great hedge fund [that] was not so much an energy company as a financial services company."

He added, "There's plenty of room for regulatory consolidation in this whole field. Between the Fed and SEC and the CFTC, you don't have a consolidated view of the regulation of derivative markets. The CFTC is the weakest of them, with no focus. It plays much more of an advocacy role than a regulatory role. It needs to change from advocacy to oversight."

But Corzine said the SEC will need additional resources if it is to expand its oversight function. "The SEC is the public safety net [but] there are only 25 accountants in the Accounting Division. That's not enough horsepower to be a serious overseer of a \$10 trillion economy."

He said President Bush's 401(k) reform proposal did not go far enough. Corzine urged limiting to 20 percent the investment an employee can have in any one stock in a 401(k) retirement plan. In addition, he would limit to 90 days

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the time that an employer can force an employee to hold a matching employer stock contribution to the plan.

Corzine also criticized the Financial Accounting Standards Board (FASB), calling it "a huge problem in and of itself. The rules are designed to support the views of business."

Corzine, who is a member of the Banking Committee, predicted that the Enron scandal will force wholesale changes in the way corporate America governs itself.

"I think this is going to have an impact in all areas," he said, including "a whole series of changes in corporate accounting procedures, how they make the rules, and who oversees the process. We need accounting reform, pension reform, corporate governance reform and, obviously, campaign finance reform."

Nevertheless, Corzine said he doesn't think the accounting industry is "a corrupt system, but it's subject to influence. People question where the fox is watching the chickens."

While Corzine praised former SEC Chairman Arthur Levine for his efforts to force accounting reform, he also defended Levine's successor, Harvey Pitts, who was a lawyer for the accounting industry.

"Contrary to popular opinion, I think he's been pretty forceful and I believe he will move fairly aggressively" with regard to regulating the kinds of Byzantine partnerships and off-shore investments that enabled Enron to hide hundreds of millions of dollars in losses, he said.

He added, "I think he took a little bit of a bad rap in regard to recusing himself from anything to do with Arthur Andersen and Enron. He had a strong reputation before and he's a disciplined guy, but I think he's also torn about maintaining confidence in the system. It's harder than in my role as a senator to raise issues and define them. I think sometimes it's like Nixon going to China."

Corzine cited his own experience as "leader of an organization which I thought had high standards. They do things right, and not just when I was there, but we had enough car crashes at Goldman Sachs on some issues. That's why you have to have legitimate regulation with checks and balances."

Corzine asserted that "there's nothing wrong with the effectiveness of the markets, but with the policing of markets. We need a commitment to keep from misbehaving or stretching the rules."

Corzine said it's too early to tell how long it will take to restore public confidence in corporate America.

"The whole process is at an early state. When one of the Big Five accounting firms' reputations becomes embroiled in something like Enron, it has the potential to have a real impact."

He added that, while the economy seems to be benefiting from the fiscal stimulus from increased spending on defense and homeland security in the wake of

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Sept. 11, the public still has doubts about the integrity of the equities market.

"I think we've got a different crisis of confidence, which changes the nature of people's willingness to invest. I think we've got an evolving risk in the economy when individuals pull away from investing," he said.

However, he suggested that Enron's problems are not indicative of the overall corporate community. "The extreme position they took ... to use accounting techniques the way they did was unique. They did everything that was extreme and unusual in the system."

Corzine, who spent some \$60 million of his own money to win his Senate seat, disclosed that his campaign received \$1,250 from Enron at a Houston fundraiser organized by a Goldman Sachs partner.

He said he was aware of corporate America's "aggressive participation in the political system" when he headed up the Bond Market Association while at Goldman Sachs.

"I think I had a realistic view. But generally, I think people think that the laissez-faire approach of corporations is in their best interest, and therefore in the best interest of the country. From my perspective, that's not quite as obvious."

Corzine also warned that the demographic challenges of an aging population threaten the viability of Social Security and Medicare. "It's incredible that we have this huge change in population structure coming and we're not doing anything to prepare ourselves for it."

He added, "If we don't think this will have an impact on us, look at Japan, where an aging population has changed the whole nature and structure of the economy."

While Corzine praised President Bush for the national defense and homeland security part of his State of the Union speech, he criticized him on economic issues. "He rehashed what he'd said before [and] there was not a whit about stabilizing the economy. He didn't move the ball forward on the debate about economic stimulus and economic recovery."

But he conceded that Bush is "doing a good job in articulating his agenda and taking responsibility, and predicted that "he will be able to maintain his popularity longer than many other presidents."

Corzine added, "I thought it was brilliant for him to capstone his speech with an appeal to public service. It was a very legitimate expression of what is needed to pull our nation together."

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