

From: McCardell, Dan
Sent: Thursday, January 10, 2002 1:26 PM
To: LaKritz, Robb
Subject: News Story

Thursday January 10 12:57 PM ET

White House: Enron Official Phoned

By KAREN GULLO, Associated Press Writer

WASHINGTON (AP) - Enron 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.

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 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, Dynegy Inc., 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.

LaKritz, Robb

From: Dam, Ken
Sent: Tuesday, January 08, 2002 3:54 PM
To: LaKritz, Robb
Subject: RE:

I hope so. I'd like to. Check with Reavie.

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

From: LaKritz, Robb
Sent: Tuesday, January 08, 2002 2:45 PM
To: Bair, Sheila
Cc: McCardell, Dan; Adams, Tim; Dam, Ken; Gross, Jared; Kupfer, Jeffrey
Subject:

Sheila,

Do you have time tomorrow to meet with Dan McCardell and me to discuss an internal policy roundtable we are hoping put together on issues related to the Enron situation and ancillary developments?

Thanks.

Robb LaKritz

LaKritz, Robb

From: Bair, Sheila
Sent: Wednesday, January 09, 2002 6:56 PM
To: LaKritz, Robb; Hunt, Betty Ann
Subject: RE:

yep-- I will try to make time. Tomorrow is tough. Betty -- please try to work in

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LaKritz, Robb

From: Hunt, Betty Ann
Sent: Wednesday, January 09, 2002 6:59 PM
To: LaKritz, Robb; McCardell, Dan
Subject: RE:

Right now Sheila is available at 1:45 (45 min) or 4:30 pm (1 hour). Please let me know what works for you.

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From: Hunt, Betty Ann
Sent: Thursday, January 10, 2002 8:35 AM
To: LaKritz, Robb; McCardell, Dan
Subject: RE:

See you at 1:45 pm

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

From: LaKritz, Robb
Sent: Wednesday, January 09, 2002 8:44 PM
To: Hunt, Betty Ann; McCardell, Dan
Subject: RE:

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From: LaKritz, Robb
Sent: Thursday, January 10, 2002 2:21 PM
To: Harvey, Reavie
Subject: FW: News Story

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Servetnick, Dale

From: Michael J. Wade [mwade@eclipse.net]
Sent: Sunday, January 13, 2002 5:19 PM
To: OPCMail@do.treas.gov
Subject: Sec O'Neil

Sir:

I just wanted to let you know that I saw you today on This Week with Sam Donaldson, and thought you did an excellent job of explaining the role the administration took in the Enron matter, and if fending off Sam's leading and argumentative questions.

Keep up the good work!

Michael Wade
mwade@eclipse.net

Hambor, John

From: Kupfer, Jeffrey
Sent: Monday, September 10, 2001 10:41 AM
To: Hambor, John; Horowitz, John
Subject: FW: September 13th - Market Solutions to Climate Change conference in DC

John/John -- I got this email invitation to a conference and wanted to pass it along to you -- or anyone else in your shop.
--Jeff

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

From: Mark Glickman [mailto:glickman@rprogress.org]
Sent: Thursday, August 30, 2001 11:40 AM
To: uspop@us.net
Subject: September 13th - Market Solutions to Climate Change conference in DC

Hello,

This September 13th, Redefining Progress, in association with Conservation International, will be hosting a one-day conference on **Market Solutions to Climate Change** in Washington DC.

Redefining Progress, a member is a nonprofit, nonpartisan policy group promoting economically sound and environmentally effective solutions to climate change. The conference will provide a forum to discuss market-based policies and firm initiatives aimed at reducing carbon emissions. Note that the focus of this conference is on domestic, rather than international, efforts both private and public.

The DC conference promises to be a high-profile event with **Glenn Hubbard, Chairman of the President's Council of Economic Advisors**, delivering the keynote address. As you may know, Hubbard is a member of the President's global warming task force. Other keynote speakers include energy efficiency expert **Amory Lovins**. Academics from the **Brookings Institute** and **AEI** will speak on some of the policy options available. Corporate representatives from the **Citigroup, Enron, Calvert Group** and others will also be offering their insights.

The conference will be followed by a **reception on Capitol Hill** with Congressional sponsors of the '4-Pollutants' Bill invited.

Please note that we have been able to secure additional funding for this event and have reduced the registration fees to
- \$100 for corporate representatives, and
- \$75 for non-profit, government and other registrants.

I've attached a registration form and agenda listing committed speakers below. Conference information can also be found at www.redefiningprogress.org/climate.

We look forward to your participation.



Climate Conference
Registratio...



DC Conference
Agenda.doc

Regards,

Jerome Sayre
Business Outreach Manager
Redefining Progress

sayre@rprogress.org

1904 Franklin Street, 6th Floor
Oakland, CA 94612

Phone: 510-444-3041, ext 312
FAX 510-444-3191

Web: <http://www.rprogress.org>

**Market Solutions to Climate Change
Marriott Metro Center, Washington, D.C.
September 13th, 2001**

Preliminary Conference Agenda

Time	Item
8:00 – 8:30	Registration
8:30 – 9:00	Opening Remarks Michel Gelobter , <i>Executive Director, Redefining Progress</i> TBD , <i>Conservation International</i>
9:00 – 9:30	Keynote Speaker – Dr. R. Glenn Hubbard , <i>Chairman of the President's Council of Economic Advisers</i>
9:30 – 10:15	Market Approaches to Carbon Reduction Introduction - Mark Glickman , <i>Redefining Progress</i> Presenter - Paige Brown , <i>Corporation for Enterprise Development</i> <ul style="list-style-type: none"> • 'Grandfathered' vs. Auctioned Permits and Trading
10:30– 11:45	Policy Approaches to Strengthen the Economy - Recycling Carbon Revenues <ul style="list-style-type: none"> • Moderator – William Gale, <i>The Brookings Institution</i> • Kevin Hassett, <i>American Enterprise Institute</i>, - Corporate Tax Integration • Andrew Hoerner, <i>Center for a Sustainable Economy</i> - Payroll Tax Reduction
11:45 –12:45	Lunch Keynote Speakers (start 12:00) – Introduction – Michel Gelobter <ul style="list-style-type: none"> • The Honorable George Miller, <i>U.S. House of Representatives, D-CA</i> • Amory Lovins, <i>CEO, Rocky Mountain Institute</i>
1:00 – 2:15	Private Sector Initiatives to Limit Carbon Emissions Introduction – Jerome Sayre , <i>Redefining Progress</i> <ul style="list-style-type: none"> • Moderator – Glenn Prickett, <i>Executive Director, Center for Environmental Leadership in Business, Conservation International</i> • Lisa Jacobsen, <i>Enron Corporation</i>
2:30 – 3:45	Financial Market Views of Industry Exposure to Carbon Risk Introduction – Jerome Sayre , <i>Redefining Progress</i> <ul style="list-style-type: none"> • Frank Dixon, <i>Innovest</i> • Ilene Fiezel Bieler, <i>Citigroup</i> • Julie Gorte, <i>Calvert Group</i> • Alice LeBlanc, <i>Environmental Finance Products</i>
3:45 - 4:00	Closing Remarks Michel Gelobter , <i>Executive Director, Redefining Progress</i>
5:00 – 7:00	Reception on Capitol Hill

What is the EIN?



elsewhere in Internet Service Providers:

What we offer Internet Service Providers

See Who is Already ePowered

What is the Enron Intelligent Network?

ePower Application Services

ePowerOnline Resources

Become ePowered

Find an ePowered ISP

elsewhere in Enron.net: The Enron Intelligent Network

ePower Application Services

Who We Are

for our Customers: Bandwidth Products and Services

Solutions for ISPs

Solutions for Content Providers

Solutions for the Enterprise

ePowerOnline Resources

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The Enron Intelligent Network is a new world network built from the ground up using the latest in optical technology to satisfy real business needs. With virtually unlimited bandwidth and built-in intelligence, the Enron Intelligent Network bridges the chasm between very expensive dedicated (Virtual Private) networks and the public Internet. Combining the power of Pure IPT™ with embedded network intelligence, we're enabling a whole new breed of application services. We call them ePowered™ application services.

The Enron Intelligent Network excels at transporting rich media and high-bandwidth, delay-sensitive content, including:

- Live television content
- Videoconferencing
- Streaming video
- Distance learning
- Network hosted applications
- New forms of entertainment



Servers
RealPlayer
100k 200k 400k



Fiber Optics
RealPlayer
100k 200k 400k



Pooling Points

The Enron Intelligent Network is comprised of three components: Enron's Pure IPT™ fiber network, a One Hop community of distributed servers, and Enron Broadband Services' powerful, patented software that enables our unique ePowered™ application services. The Enron Intelligent Network allows our partners and customers to deploy products and services that will revolutionize the delivery of rich media and other



delay-sensitive, high-bandwidth solutions to the desktop.

This sweeping new approach provides a highly reliable, pay-for-what-you-need, bandwidth-on-demand method to deliver data and streaming media to three constituencies: content and application providers, network service providers, and to end-users who want more from the public Internet.

Built With the Best Equipment Available

To implement this new architecture, Enron Broadband Services has formed strategic alliances with Cisco Systems, Ciena Corporation, and Sun Microsystems, all leaders in network technology.



Cisco Systems' high speed backbone routers determine which path the IP bits will take across the Enron Broadband Services backbone. Ciena Corporations' Dense Wave Division Multiplexing creates the high-speed optical circuits. Enron Broadband Services provides the Pure IPTM fiber network over which the Dense Wavelength Division Multiplexing (DWDM) logical fibers operate and the operations and engineering expertise to architect, integrate, manage, and maintain the network.

The Pure IPTM advantage? No ATM. No Frame Relay. No SONET.

Download whitepapers, diagrams and more on our Application Services and our Network.

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Bandwidth Solutions

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Network

[ePowered
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[Solutions for the
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**Bandwidth Solutions:
Who Benefits and How?**

Enron's Bandwidth Solutions use Enron's own network along with other networks to provide bandwidth users and providers with customized solutions to their bandwidth needs. EBS's Bandwidth Solutions offers customers innovative ways to actively manage unexpected fluctuations in the price, supply and demand of bandwidth. This gives customers much desired flexibility and a new way to manage growth.

At EBS we are able to provide unique solutions to our customers' bandwidth needs by leveraging the following areas:

- **EBS owns its own network**
Because EBS owns its own network, we are more than just a trading company. We have the flexibility to buy and sell capacity on routes that many other buyers would find unattractive.
- **Leverage Risk management/trading experience**
Enron has been providing tailored risk management services to customers in the Energy industry for years. Enron has become a major catalyst for the development of eCommerce in the gas and electric industries and, currently operates the largest eCommerce site in the world - [EnronOnline](#).

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Collocation

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for our Customers:
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and Services

Solutions for ISPs

Solutions for Content
Providers

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ePowerOnline
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Enron Broadband Services offer Collocation services to CLEC's, ePowered ISP's, and IXC's that deliver services for EBS, or participate in Bandwidth Trading. This gives our customers the advantage of a physical location alternative to building their own network and Points of Presence. EBS's collocation facilities are located along our own longhaul fiber builds and within every major city throughout the United States. Collocation within EBS's POP's (Point of Presence) provide customers with a cost-effective means of establishing a physical presence in a city. In addition, our services provide a secure, controlled environment and easy connectivity to EBS's fiber optic network and ePowered Application Services.

Our Target Customers

- Local Exchange Carriers (LECs)
- Internet Service Providers that are ePowered Distributors or that buy and sell bandwidth with EBS

Cabinets

Enron Broadband Services provides customers with solid front, lockable cabinets. Each cabinet or cage is in a secure, conditioned room designated for collocation, with ventilation, air conditioning, and fire suppression systems. The conditioned space is accessed via a key coded card. Customers have 24-hour, 7 day a week access to their equipment.

The cabinets are 23" internal width by 24" internal depth by 84" internal height.

SPECIFICATIONS

EBS Provides	Carrier Provides
<p>EBS will Provide:</p> <ul style="list-style-type: none"> • Cabinets (internal dimensions of 23"x24"x84") • Shelves and fans in the cabinets for the Carrier • DSX-1, DSX-3, FDP panels in the collocation room • Raceway, risers, or innerduct between the Carrier's cabinet space and the cross connect cabinet point in the collocation room 	<p>Carrier will provide</p> <ul style="list-style-type: none"> • Extension ears to make the in rack in the cabinet accommo internal width equipment • Jumper cables for connectivit cross connection cabinet • Plenum rated innerduct in clo tray to connect fiber to cabin outside of ECI suite
EBS will provide cable between the cross	Carrier is responsible for cabling be

EBS will provide cable between the cross connection cabinet in the collocation room and the customer's collocation cabinet or cage	Carrier is responsible for cabling between their cabinet space and the demarcation point (DSX-1, DSX-3, FDP) in the collocation room
EBS will maintain the environmental conditions within the collocation area	Carrier is responsible for maintaining their equipment and for keeping the common area clean
EBS will deliver normal AC or UPS power to the Carrier via 120V AC, 20 Amp circuits	Carrier will work with building management to get building entrance pull fiber from the manhole and terminate the fiber in their assigned cabinet**
EBS will deliver redundant A & B DC power via appropriately sized cables to the customer's cabinet	The Carrier terminates the DC cable within the cabinet using either a fuse breaker panel provided by the Carrier

Availability of Service

See [Map](#)

Collocation facilities are available throughout EBS's footprint.

The following locations are available for collocation as of March 2000.

- Portland
- Chicago
- Las Vegas
- Los Angeles
- Denver
- Salt Lake City
- Seattle

Future

- Atlanta
- Dallas
- Detroit
- Houston
- New York
- San Jose
- Washington D.C.

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Harris-Berry, Gail V. Inventory

- Received a Christmas Card from Linda Robertson in December 2000 but discarded the card after the holidays

Allman, Amy

From: Allman, Amy
Sent: Tuesday, January 15, 2002 4:55 PM
To: Quinn, Katie
Subject: Hearings and Committees investigating Enron

I have printed opening statements from the House Financial Services hearing. I can go in and look at the transcript but am not allowed to make copies.

I can go to the Hill tomorrow morning to copy the Senate Commerce hearing transcript, including opening statements. Attached is a list of past hearings and scheduled hearings:



Congressional
hearings.doc

Following are the Committees and Departments either currently conducting investigations or have indicated they are going to conduct an investigation:

Senate Banking Committee: Shortcomings in accounting and investor protection

Consumer Affairs Subcommittee of Senate Commerce Committee: Inquiry into Enron retirement funds

Senate Energy and Natural Resources Committee: Impact of Enron collapse on Energy industry

Senate Governmental Affairs Committee: Possible regulatory violations; influence of Enron on Bush administration energy policy

Investigations Subcommittee of Senate Governmental Affairs: Inquiry into Enron's board of directors and auditors to determine who knew of the company's impending collapse and when they learned about it.

Senate Committee on Commerce, Energy, and Transportation

House Financial Services Committee: The role of Enron's auditor, Arthur Andersen

House Committee on Government Reform

House Education and Workforce Committee: Laws regulating stock ownership by employees and their retirement plans

House Energy and Commerce Committee: Financial collapse of Enron; destruction of documents

Department of Justice: Criminal investigation by the FBI and US attorneys in Washington, NY, and San Francisco

Department of Labor: Enron's employee retirement plan

Securities and Exchange Commission: Auditing practices of Arthur Andersen

Amy Allman
Special Assistant - Legislative Affairs
Department of the Treasury
202-622-7593

0060000000011

Enron Congressional Hearings

12/12/01

Joint Hearing on "The Enron Collapse: Impact on Investors and Financial Markets"
House Subcommittee on Capital Markets, Insurance and Government Sponsored
Enterprises Chairman Baker (R-LA), Ranking Member Ney (D-OH)
Subcommittee on Oversight & Investigations
Chairman Kelly (R-NY), Ranking Member Paul (D-TX)

12/18/01

Enron Collapse – Full Committee Hearing
Senate Committee on Science, Commerce, and Transportation
Chairman Hollings (D-SC), Ranking Member McCain (R-AZ)
Sen. Dorgan (D-ND), Chairman of Subcommittee on Consumer Affairs, Foreign
Commerce, and Tourism, presided

Scheduled Hearings

1/24/02, 10:00 a.m., 342 Dirksen

Senate Committee on Governmental Affairs
Chairman Lieberman (D-CT), Ranking Member Thompson (R-TN)
"The Fall of Enron: How Could It Have Happened?"

2/4/02, 9:30 a.m. (time subject to change), 253 Russell

Senate Committee on Science, Commerce, and Transportation
Chairman Hollings (D-SC), Ranking Member McCain (R-AZ)
Sen. Dorgan (D-ND), Chairman of Subcommittee on Consumer Affairs, Foreign
Commerce, and Tourism, most likely to preside again

HEARINGS INVOLVING ENRON

DATE	COMMITTEE	KEY COMMITTEE MEMBERS	DOCUMENT LINKS	SUBJECT
January 31, 2001	Senate Energy and Natural Resources Committee	Chairman Bingaman (D-NM), Ranking Member Murkowski (R-AK)		California Energy Crisis
June 20, 2001	Senate Governmental Affairs Committee	Chairman Liberman (D-CT), Ranking Member Thompson (R-TN)		The Role of the Federal Energy Regulatory Commission Associated With the Restructuring of Energy Industries
December 12, 2001	Capital Markets, Insurance, and Government Sponsored Enterprises Subcommittee of the House Financial Services Committee	Chairman Baker (R-LA), Ranking Member Ney (D-OH)		The Enron Collapse: Impact on Investors and Financial Markets
December 18, 2001	Senate Commerce, Science, and Transportation Committee	Chairman Hollings (D-SC), Ranking Member McCain (R-AZ) Senator Dorgan, Chairman of Subcommittee on Consumer Affairs, Foreign Commerce, and Tourism, presided.		An Overview Of The Enron Collapse

SCHEDULED HEARINGS INVOLVING ENRON

DATE	COMMITTEE	COMMITTEE MEMBERS	Document Links	SUBJECT
January 24, 2002 10:00 AM 342 Dirksen	Senate Committee on Governmental Affairs	Chairman Lieberman (D-CT), Ranking Member Thompson (R- TN), PSI Subcommittee Chairman Levin (D-MI)	http://www.senate.gov/~gov_affairs/ 010201press.htm	The Fall of Enron: How Could it Have Happened
February 4, 2002 9:30 AM (Time Subject to Change) 253 Russell	Senate Committee on Science, Commerce, and Transportation	Chairman Hollings (D-SC), Ranking Member McCain (R-AZ), Sen. Dorgan (D-ND), Chairman of Subcommittee on Consumer Affairs, Foreign Commerce, and Tourism, most likely to preside again.		http://www.senate.gov/~gov_affairs/ 010201press.htm
February 12, 2002 10:00 AM 538 Dirksen	Senate Banking Committee	Chairman Sarbanes (D-MD), Ranking Member Gramm (R-TX)		Oversight hearing to examine accounting and investor protection issues in the wake of the Enron Corp. failure and problems with other public companies. Five former Chairmen of the Securities and Exchange Commission will testify before the full Committee on these issues.

20

Monday
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1997

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JANUARY						
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19	20	21	22	23	24	25
26	27	28	29	30	31	

Appointments	
Early	
8:00am	
9:00am	
10:00am	
11:00am (-11:00am)	Sen. Lieberman, Al From & DLC Inauguration Party at The Old Ebbitt Grill (546-0507) (attending ?) (11am-5pm)
11:30am (-11:30am)	INAUGURAL CEREMONY AT THE U.S. CAPITOL
11:30am (-11:30am)	Mutual of Omaha Cos. Invite to Inaugural Parade Celebration, 1700 Penn. Ave., N.W., Suite 500 (attending ?) (11am-4pm)
12:00pm	
1:00pm	
2:00pm (-3:00pm)	The Presidential Inaugural Parade (ticket)
3:00pm (-3:00pm)	Enron Corp. reception honoring Sen. Robert Kerry at The Florida House, One Second St., N.E. (3-6pm) (attending ?)
4:00pm	
5:00pm	
Late 7:00pm - 7:00pm	The Presidential Inaugural Ball at The D.C. Natl. Guard Armory, 2001 East Capitol St., S.E. (Black tie)

Linda Robertson 1/17/97

Tasks	

Notes	
	** PRESIDENTIAL INAUGURATION DAY - OFFICE CLOSED **

Upcoming Events	
Appointments	<p>1/21 11:00am - 11:30am Mtg. w/Patti Lynch (244-3127) (OOB 6-22-93) (CLEARED)</p> <p>1:00pm - 1:30pm Follow-up interview w/Martha Wolford (OOB 7-9-70) (222-1661) (CLEARED)</p> <p>2:15pm - 2:45pm Sec. mtg. w/Cong. Matsui re Congressional tax agenda in 2308 Rayburn Bldg. (attending)</p> <p>3:00pm - 3:30pm Sec. mtg. w/Sen. Kohl re Treas. Approps. in SH-300 (attending)</p> <p>3:45pm - 4:15pm Sec. mtg. w/Sen. Lautenberg re budget issues in SH-506 (attending)</p> <p>4:30pm - 6:00pm Party for Sylvia Matthews inside the Bell Entrance</p> <p>1/22 9:30am - 10:30am Sr. staff mtg. ??</p> <p>10:00am - 10:45am Sec. has ceremony to recognize & thank all Treas. Natl. Capital Area bureau coordinators (captains, keyworkers & contributors at Melton Auditorium)</p>
Tasks	
Notes	<p>1/21 - 6:45am - SEC. HAS INTERVIEW ON CNN'S MONEYLINE - 11am - SEC. HAS PRESS CONF. RE INFLATION INDEXED BONDS</p> <p>1/23 - SCHEDULING MTG. ?</p> <p>1/24 - 8:35am - SEC. HAS ROUNDTABLE DISCUSSION W/MEMBERS OF TREAS. CAREER ADVISORY PANEL</p>

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Smith, Amy

From: Richard, Gregg [Gregg.Richard@mail.house.gov]
Sent: Friday, December 14, 2001 10:39 AM
To: Amy.Smith@do.treas.gov
Subject: RE: Enron and Bankruptcy Bill -- ABI Website

Thanks.

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

From: Amy.Smith@do.treas.gov [mailto:Amy.Smith@do.treas.gov]
Sent: Friday, December 14, 2001 10:08 AM
To: Richard, Gregg
Subject: FW: Enron and Bankruptcy Bill -- ABI Website

FYI

- > ENRON UPDATE
- > Greenspan, Oxley Meet; Netting Bill Gains Support Following Enron Debacle
- > Federal Reserve Chairman Alan Greenspan met yesterday with key House
- > lawmakers to discuss this year's prospects for passing legislation that
- > clarifies corporate bankruptcy laws by allowing companies to quickly
- > settle outstanding derivatives contracts in the event of an insolvency,
- > Dow Jones reported. The once-obscure financial issue has gained new
- > prominence and urgency on Capitol Hill as federal investigators sift
- > through the mess left behind by Enron's chapter 11 bankruptcy filing. The
- > measure allows institutions to quickly close outstanding derivatives
- > contracts with bankrupt trading partners by netting all the losses and
- > gains of individual contracts into one deal.
- >
- > House Financial Services Chairman Michael Oxley (R-Ohio) invited Greenspan
- > to meet with House Judiciary Chairman James Sensenbrenner (R-Wis.) after
- > Oxley held a bruising hearing on Wednesday on financial improprieties
- > leading to Enron's demise. Complicated, off-balance sheet transactions
- > were the company's undoing. Its stock collapsed after a Nov. 8
- > announcement that the firm had overstated its net income over four years
- > by \$569 million. Creditors are now lining up to collect on about \$40
- > billion in debt owed by Enron.
- >
- >
- > "Congress should not fail to enact netting legislation this year,"
- > Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few
- > weeks after the attacks. "Further delays would unnecessarily place the
- > financial system at greater risk." Lawmakers are now questioning whether
- > the legislation, which is also attached to a broader bankruptcy bill in
- > both chambers, could be applied to Enron's bankruptcy case if the bill
- > passes this year. Federal securities officials said it was unclear whether
- > they could apply new contract netting laws retroactively. Oxley hopes to
- > get the bill passed by next week, before Congress finishes its work for
- > 2001.
- >
- > House Probe Seeks Andersen's Records On Enron Audits

01/16/2002

- > The House Energy and Commerce Committee yesterday asked Arthur Andersen to
- > provide records relating to its audits of Enron Corp., Dow Jones reported.
- > At the same time, the committee sent a letter to former Enron Chief
- > Executive Jeffrey Skilling, requesting an interview with committee
- > investigators within the next two weeks. The committee also formally
- > sought interviews with David Duncan, Andersen's partner in charge of the
- > company's Enron account, and Andersen employees involved in the company's
- > audits. The requests came after Joseph Berardino, Andersen's chief
- > executive, told the House Financial Services Committee on Wednesday that
- > the auditing and consulting firm didn't receive critical information from
- > its client concerning the special-purpose entities that brought about
- > Enron's financial downfall.
- >
- > Enron Seeks Supplier to Take Over California University System Powers
- > Contract
- > Enron Corp is looking for another electricity supplier to complete its
- > contract with California's two public university systems, a spokeswoman
- > for California State University said yesterday, reported Dow Jones. Enron
- > Energy Services Inc.'s current contract with California State and the
- > University of California Systems expires on March 31, 2004, said
- > spokeswoman Clara Potes-Fellow. The Enron subsidiary filed for chapter 11
- > bankruptcy protection Dec. 2.
- >
- >
- > Enron Contract Hearing Moved To Dec. 18
- > A bankruptcy court hearing regarding embattled Enron Corp.'s motion to
- > negotiate, end or sell certain contracts has been postponed to next
- > Tuesday, Dec. 18, Dow Jones reported. The meeting was originally
- > scheduled for today. Earlier this week, Enron filed a motion with the
- > court asking to be allowed to terminate with other parties certain
- > contracts with safe-harbor provisions. The company doesn't want to ask
- > for court approval every time it seeks to end an agreement.
- >
- > In its filing, Enron had asked for authority to end some of these
- > safe-harbor contracts and negotiate payments for each termination.
- > Creditors, including Cinergy Corp.'s Cinergy Services Inc. and Wiser Oil
- > Co., have filed objections. The motions and objections will be addressed
- > at Tuesday's bankruptcy court hearing.
- >
- >

01/16/2002

0060000000051

Smith, Amy

From: Richard, Gregg [Gregg.Richard@mail.house.gov]
Sent: Monday, December 10, 2001 9:58 AM
Subject: FW: Agenda Items Thought Dead Revived by Enron's Fall

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

From: Steel, Aimee
Sent: Monday, December 10, 2001 9:49 AM
To: Wild, Brian; Richard, Gregg; Mark Dion; patjtoomey@aol.com; Toomey, Patrick
Subject: Agenda Items Thought Dead Revived by Enron's Fall

The American Banker

December 10, 2001, Monday

HEADLINE: Agenda Items Thought Dead Revived by Enron's Fall

BYLINE: BY ROB GARVER and MICHELE HELLER

BODY:

Several congressional and regulatory issues that were shelved after the Sept. 11 terrorist attacks -- ranging from the technicalities of bankruptcy law to high-profile questions about the integrity of financial professionals-- have been thrust back onto the agenda by the collapse of Enron Inc.

The need for a multitude of counterparties to safely and quickly unwind their derivatives contracts with the multibillion-dollar energy conglomerate has sparked interest in the so-called "netting" legislation, initially sponsored by Rep. Jim Leach, R-Iowa, that has languished in Congress since last year.

The bill would give creditors the authority to "net out" their losses with a major counterparty that has filed for bankruptcy, to prevent a financially harmful domino effect. Currently a judge's permission is required to do so -- and often difficult to get.

In the aftermath of the Enron collapse, Rep. Leach said, the need for the legislation "should become rather self-evident."

The revelation that equity analysts at major securities firms were still advising clients to buy Enron's stock after its share price had plummeted to less than \$1 spurred Rep. Richard Baker, R-La., the chairman of the House Financial Services capital markets subcommittee, to renew his assault on the industry.

01/16/2002

Rep. Baker, who held hearings on the reliability of equity analysts this year, has pledged to find out "whether the research analysts dropped the ball on this, and why were so few people aware of what was coming or willing to speak up about it."

Finally, the disclosure that the accounting firm Arthur Andersen had signed off on financial statements that misstated Enron's earnings by \$583 million over four years has resurrected questions about the reliability and independence of accounting firms.

"The effect of Enron's collapse could have far-reaching implications for our economy," said Rep. Sue W. Kelly, R-N.Y., who chairs the Financial Services oversight subcommittee. "Mistakes or misstatements of this magnitude must not be repeated. We need to determine why required disclosures gave no indication of these problems until only recently."

The issues of analyst independence and the reliability of accountants will be addressed in a hearing scheduled for Wednesday before a joint session of Rep. Baker's and Rep. Kelly's subcommittees. The House Energy and Commerce Committee is also expected to hold a hearing next month.

The netting debate, though, appears most likely to produce a new law if it can be separated from a highly controversial bankruptcy reform bill. Senate and House Judiciary committee leaders have balked at allowing a separate vote on it. They have viewed the noncontroversial netting measure as a key part of the engine they hoped would propel the bankruptcy overhaul package to enactment.

But last month Rep. Pat Toomey, R-Pa., introduced a standalone bill identical to the netting measure in the bankruptcy bill. He has powerful supporters in the regulatory community who have urged Congress to consider netting separately from bankruptcy reform.

"We believe that failure to enact these financial contract netting provisions would unnecessarily place the financial system at greater risk," seven top federal financial regulators, including Federal Reserve Board Chairman Alan Greenspan, Treasury Secretary Paul O'Neill, and Securities and Exchange Commission Chairman Harvey Pitt, wrote in an Oct. 31 letter to House and Senate leaders.

Proponents worry that the urgency for the quick passage of a netting bill has been slightly mitigated by the fact that Enron did not bring down the international derivatives market with it. Most contracts were successfully unwound before the company collapsed.

"We have a little work to do to help" lawmakers "understand the risk Enron posed and how much safer our whole financial system would be if we could pass these netting provisions," Rep. Toomey said.

During highly publicized hearings on the issue of analyst independence last summer, Rep. Baker said that he was reluctant to impose a legislative solution on what he saw as a crisis of credibility in the world of equity analysts-- but

01/16/2002

that he was willing to consider that possibility.

The industry responded with a set of voluntary guidelines. In the hearing Wednesday, Rep. Baker will likely ask why those guidelines did not prevent six of 15 analysts following the company from listing Enron as a "strong buy" just days before its bankruptcy filing. According to a news release issued by Rep. Baker's staff, even as late as Nov. 27 only one analyst had advised clients to sell Enron shares.

The issue of Enron's accounting problems will likely lead to a reprise of last year's debate over whether firms that audit a public company's books should be allowed to accept lucrative consulting contracts from that company as well.

Andersen made more last year from the consulting services it sold to Enron than it did for auditing the energy company's books, and critics have said that the auditors may have bent the rules for a preferred client.

01/16/2002

00600000000054

Smith, Amy

From: Smith, Amy
Sent: Friday, December 14, 2001 10:08 AM
To: 'gregg.richard@mail.house.gov'
Subject: FW: Enron and Bankruptcy Bill – ABI Website

FYI

ENRON UPDATE

Greenspan, Oxley Meet; Netting Bill Gains Support Following Enron Debacle

Federal Reserve Chairman Alan Greenspan met yesterday with key House lawmakers to discuss this year's prospects for passing legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency, Dow Jones reported. The once-obscure financial issue has gained new prominence and urgency on Capitol Hill as federal investigators sift through the mess left behind by Enron's chapter 11 bankruptcy filing. The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by netting all the losses and gains of individual contracts into one deal.

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Smith, Amy

From: Smith, Amy
Sent: Thursday, November 29, 2001 6:15 PM
To: 'gregg.richard@mail.house.gov'
Subject: FW: A Dow Jones Newswires Column: Enron's Derivatives Could Test Courts (discusses bankruptcy netting issues)

FYI. Have you heard anything new about moving Pat's bill?

Amy

November 29, 2001

IN THE MONEY: Enron's Derivatives Could Test Courts

By CAROL S. REMOND and PHYLLIS PLITCH

A Dow Jones Newswires Column

NEW YORK -- Prepare for the largest test in bankruptcy history of safe harbors designed to protect the liquidity of the nations' financial system.

Enron Corp.'s (ENE) much-anticipated bankruptcy filing, if it indeed comes, is certain to be precedent setting. First, in terms of sheer magnitude, we're talking about \$62 billion in assets. But also because it's likely to involve hundreds, if not thousands, of counterparties intertwined with **Enron** in various financial and energy derivative transactions.

Unlike other creditors whose claims will be stayed under U.S. bankruptcy laws, those counterparties will vie to unwind their trades, may they be "power forwards" or credit derivative contracts, in order to find more worthy hedging partners.

Built in the bankruptcy code are exemptions for securities or commodities contracts. These safe harbors were developed over the years as a sort of security blanket for the vital hedging functions that these transactions provide.

"These special rules are designed to avoid a domino effect," said a bankruptcy lawyer, who like many contacted for this column, declined to be identified given the likelihood that he'll end up representing one or many parties involved in **Enron's** expected Chapter 11 filing.

Counterparties claiming redress through these exemptions should be able to net out their various derivative contracts with **Enron**, attempting to use whatever collateral was pledged under those transactions to quantify how much money they owe to or are owed by **Enron**. All of that is normally done on the side, without prior bankruptcy court approval.

The problem is that **Enron** will likely question attempts to unwind those trades and take issue with the manner in which its counterparties netted their exposure to the company, observers say.

Given the large number of parties involved and the magnitude of **Enron's** recent losses, the treatment of derivative contracts could be further complicated by the market's lack of understanding of just how much value is left in **Enron's** assets. That's an issue that will permeate the proceedings with all of **Enron's** stunned creditors. On top of its derivative exposure, **Enron** is on the hook for roughly \$13 billion in debt.

As part of its energy trading operations, **Enron** was a party to billions of dollars of derivative contracts designed to enable the company and its trading partners to hedge, among other things, against rapidly fluctuating energy prices and foreign exchange volatility - stabilizing otherwise uncertain markets. By its own account, as of December 2000, **Enron** was involved in roughly \$20 billion of derivative contracts on which it owed its counterparties. More recent numbers aren't available.

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized

government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for **Enron** and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although **Enron** has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue **Enron** all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. **Enron** shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, **Enron** is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint.

Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although **Enron** and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that **Enron's** fondness for EEI agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that **Enron's** business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of **Enron's** derivative transactions were collateralized. But lawyers familiar with the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by **Enron** on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of **Enron** took a nose dive after Dynegy rescinded its merger offer, with trading levels indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to **Enron**.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

Smith, Amy

From: Upchurch, Carol
Sent: Tuesday, January 22, 2002 7:33 AM
To: Eichner, Matthew; Hunt, Betty Ann; LIBRARY, REFERENCE; Smith, Amy
Subject: FW: Daily Briefing for Tuesday, January 22, 2002

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

From: AmericanBanker.com [mailto:dailybriefing@AMERICANBANKER.COM]
Sent: Tuesday, January 22, 2002 5:20 AM
To: AMERICANBANKER@LISTS.AMERICANBANKER.COM
Subject: Daily Briefing for Tuesday, January 22, 2002

AmericanBanker.com
<http://www.americanbanker.com>

DAILY BRIEFING

Tuesday, January 22, 2002

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Place your advertisement on CareerZone Online, the online employment site available through AmericanBanker.com, and reach qualified financial service professionals. CareerZone Online allows companies to run ads in both our print and online products. Position your ad in front of the 130,000 professionals who read American Banker daily.

http://www.bankjobs.com/American_Banker_CareerZone.asp

=====

NATIONAL/GLOBAL

In Mexico, Citi Shows Its Emerging Optimism

Citigroup Inc.'s announcement Friday that it plans to add to its holdings in Mexico should come as no surprise to anyone who was paying attention the day before, when the New York financial services giant reported fourth-quarter earnings.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122NATL604

WASHINGTON

Lessons of Enron: Did GLB Contribute to the Losses?

The Enron case has been spectacular by many measures - as mass-market scandal, as cautionary tale for businesspeople, and as catalyst for accounting changes. But despite all that has been written, scant light has been shed on the larger lessons Enron holds for financial services companies. In a series beginning today, American Banker tackles three questions confronting the industry in Enron's wake: Did passage of the Gramm-Leach-Bliley Act spur institutions to take on too much risk in courting the complex company's business? In view of lenders' exposures, what lesson does the collapse hold for risk managers? Finally, as Washington scrutinizes Enron's pension system, what lies ahead for policies governing retirement savings?

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122WASH587

CARDS

Doubts Being Raised Over New OCC Tactic
Once again, the Office of the Comptroller of the Currency finds itself on the defensive about its enforcement powers over banks.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122CARD592

NATIONAL/GLOBAL

4Q Earnings: Regionals Tell Different Margin Tales
A disparate group of profit reports at the end of last week offered a snapshot of what went well and what did not for regional banking companies in the fourth quarter.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122NATL603

CARDS

Household Ad Campaign Targets 'Opinion Leaders'
Household International Inc.'s \$12 million national advertising campaign is not - that's right, not - aimed at making its name a household word.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122CARD589

COMMUNITY/REGIONAL

Banks of All Sizes Help N.Y. Firms Rebuild
After terrorists destroyed the World Trade Center towers on Sept. 11 and wreaked havoc on lower Manhattan, all work at Harris Smith Design, an architectural and interior design firm near ground zero, virtually stopped for three months.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122CORG593

MORTGAGES

MPF Gaining Steadily on Fannie and Freddie
Fannie Mae and Freddie Mac last year got a break from the political and public attacks they had to endure in 2000, but a growing threat to their secondary-market dominance quietly gained substantial ground.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122MORG595

TECHNOLOGY

Henry Will Take 1%, Considering
Jack Henry & Associates Inc., a 26-year-old provider of data processing software and services to banks, says it is managing to avoid the sales slowdown many other technology companies are feeling in a weakening economy.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122TECH596

INVESTMENT PRODUCTS

Some Banks Rush In as Rich Investors Get Restive
Some banks and other financial institutions see a chance today to attract wealthy investors unhappy with the service they get from their investment advisers.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122IPRD594

MARKETS

KeyCorp Gets Upgrade on Better Midwest Outlook
Encouraging manufacturing numbers have at least one equity analyst taking a more positive view on midwestern banking companies in general and KeyCorp in particular.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020122MMON612

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Smith, Amy

From: Upchurch, Carol
Sent: Sunday, January 20, 2002 8:30 PM
To: Eichner, Matthew; Hunt, Betty Ann; LIBRARY, REFERENCE; Smith, Amy
Subject: FW: Daily Briefing for Friday, January 18, 2002

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

From: AmericanBanker.com [mailto:dailybriefing@AMERICANBANKER.COM]
Sent: Friday January 18, 2002 5:20 AM
To: AMERICANBANKER@LISTS.AMERICANBANKER.COM
Subject: Daily Briefing for Friday, January 18, 2002

AmericanBanker.com
<http://www.americanbanker.com>

DAILY BRIEFING

Friday, January 18, 2002

=====

Entire loan origination process now handled through one source. TransUnion simplifies the loan origination process by handling everything from start to finish: credit approval, flood determination, property valuations, title searches, closing services and more.

For more information, call TransUnion at 1-888-299-8787 or visit http://www.transunionssi.com/checkthisout_AB.htm

=====

NATIONAL/GLOBAL

In Focus: In This Storm, the Umbrella Worked
When Citigroup Inc. completes the spinoff of its Travelers Property Casualty business two years from now, chairman and chief executive Sanford I. Weill will keep one trophy: Travelers' red-umbrella logo.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118NATL554

4Q Earnings: Double-Digit Increases In Nine Business Lines
Citigroup Inc., powered by strong growth in its global consumer business, overcame \$698 million of charges related to Enron's bankruptcy and the turmoil in Argentina to put up solid fourth-quarter profits, capping another record year.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118NATL552

MORTGAGES

Mold Crisis Puts Insurers, Lenders in Tight Corner
In the weeks and months after the Sept. 11 attacks, concern was widespread in the financial services industry that commercial real estate lending might go into a freeze without a comprehensive answer to the question of terrorism insurance.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118MORG557

WASHINGTON

D.C. Speaks: 30 Minutes with the President: Financial
Executives Press Terror Case

WASHINGTON - The chief executives of 100 of the country's largest financial services companies went to the White House on Thursday to remind President Bush that they support his efforts to stimulate the economy, and to tell him that a key to doing that is to establish a federal terrorism reinsurance system.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118WASH565

Enron, Election Seen Directing New Session

WASHINGTON - When Congress opens for official business next week the problems exposed by Enron Corp.'s collapse will dominate the attention of the financial services panels but won't steal the limelight completely.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118WASH567

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http://www.bankjobs.com/American_Banker_CareerZone.asp

Review 2001/Preview 2002

A complete set of links to American Banker's series of articles analyzing the key themes of last year and anticipating what's coming in the year ahead.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118NONE577

NATIONAL/GLOBAL

4Q Earnings: Regions Up; No Surprises from PNC, Bank of N.Y.
Neither PNC Financial Service Group Inc. nor Bank of New York Co. surprised Wall Street when they reported fourth-quarter earnings on Thursday.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118NATL575

TECHNOLOGY

Bank of Internet's Profits Buck Web Trend

Bank of Internet USA, a folksy little Web-only bank that opened on July 4, 2000, with \$14 million of venture capital, said this month that the fourth quarter was its first profitable one, and that it had ended 2001 with \$200 million of assets. The San Diego company said it crossed into the black in September, and posted a profit of \$170,000 in the fourth quarter, compared to a loss of \$232,000 in the year-earlier period.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118TECH550

CARDS

Next-Generation Systems Half a Generation Away

Imagine walking into a store with a smart card in your pocket, picking the merchandise you want, leaving, and having all the items charged to your card automatically.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118CARD564

INVESTMENT PRODUCTS

Banks Weigh Outsourcing Low-Yield Money Funds

As money fund profits fall with interest rates, banks with smaller money fund complexes are increasingly considering outsourcing their management to larger fund companies.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118IPRD558

COMMUNITY/REGIONAL

Small-Bank Funds Not Seen Outpacing Big Ones

Mutual funds made up of small-bank stocks far outperformed large-bank stock funds and general indexes last year, but few analysts expect that trend to continue this year.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020118CORGS59

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Smith, Amy

From: Upchurch, Carol
Sent: Thursday, January 17, 2002 7:29 AM
To: Eichner, Matthew; Hunt, Betty Ann; LIBRARY, REFERENCE; Smith, Amy
Subject: FW: Daily Briefing for Thursday, January 17, 2002

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

From: AmericanBanker.com [mailto:dailybriefing@AMERICANBANKER.COM]
Sent: Thursday, January 17, 2002 5:20 AM
To: AMERICANBANKER@LISTS.AMERICANBANKER.COM
Subject: Daily Briefing for Thursday, January 17, 2002

AmericanBanker.com
<http://www.americanbanker.com>

DAILY BRIEFING

Thursday, January 17, 2002

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http://www.transunionssi.com/checkthisout_AB.htm

NATIONAL/GLOBAL

4Q Earnings: JPM-Chase Sees Credit Worsening, Enron Aside
For an indication of just how difficult J.P. Morgan Chase's
fourth quarter was, consider that by the time it reported
earnings, \$2.6 billion of Enron Corp. exposure seemed like
good news.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117NATL524

CARDS

Providian Sells Loans, But (Surprise) Not Subprime
Providian Financial Corp.'s decision to sell \$8.2 billion of
its best-quality credit card loans to J.P. Morgan Chase & Co.
was a surprising move, even given its need to raise cash and
satisfy regulators pressing the tottering company to get back
on its feet.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117CARD540

NATIONAL/GLOBAL

4Q Earnings: Cleanup Work At Bank One Almost Over
After nearly two years at the helm of Bank One Corp.,
chairman and chief executive officer James Dimon is still
cleaning house but may finally be approaching the end of a
lengthy restructuring at the \$265 billion-asset banking
company.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117NATL538

4Q Earnings: Loss for Key; Comerica, SouthTrust Surge
KeyCorp, like many big banks, had a tough fourth quarter to
end a tough year. Unlike most of its
competitors, however, Key's top management may be running out
of time to show a significant improvement - whether or not the
economy cooperates.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117NATL539

MARKETS

Citigroup May Break Silence Today on Exposure to Enron
What is currently the biggest mystery on Wall Street may be
solved today, when Citigroup Inc. holds its fourth-quarter
meeting with analysts. Then again, it may not.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117MMON541

WASHINGTON

Treasury Official Renews Call for Better Disclosure
WASHINGTON - Peter R. Fisher, the under secretary for
domestic finance at the Treasury Department, spoke publicly
Wednesday for the first time since his name was dragged into
the Enron Corp. scandal last week.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117WASH521

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===== MORTGAGES

NetBank Builds Origination Engine with Pair of Deals
With its two acquisition deals last year, NetBank Inc.
quietly but quickly vaulted itself into a top-20 mortgage
lender and a major player in both online and offline home loan
banking.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117MORG525

TECHNOLOGY

State St. Stake In Tech Firm May Spur Aggregation
State Street Corp.'s agreement to take a minority stake in
ByAllAccounts Inc. and offer the Woburn, Mass., company's
account aggregation services to State Street's investment
advisers is a boost for the technology, which has yet to make
much headway in the consumer market.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117TECH513

COMMUNITY/REGIONAL

Farm Credit National Charter Plan Dead

It's official: The Farm Credit System's top regulator says he will not reintroduce the controversial national charter proposal, which would have allowed the system's lenders to do business outside their geographic territories.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117CORG527

INVESTMENT PRODUCTS

AIM Offers 401(k) for Businesses with 1 Employee
AIM Investment Management has taken advantage of tax-law changes to unveil a 401(k) plan for people who work alone in their own businesses.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117IPRD514

MARKETS

Wamu Expects More Chargeoffs, Fewer Deals in '02
On the heels of a blockbuster 2001, in which it built through a series of acquisitions and benefited from a strong interest rate tailwind, Washington Mutual Inc. is charting a very different course for this year.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117MMON529

Hartford Life's Fund Family Is Another Link to Banks
Hartford Life was one of the first insurers to expand into mutual funds, in 1996, and it looks to this added product capability to strengthen its relationships in the bank distribution channel.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020117INSP537

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Smith, Amy

From: Upchurch, Carol
Sent: Wednesday, January 09, 2002 7:39 AM
To: Eichner, Matthew; Hunt, Betty Ann; LIBRARY, REFERENCE; Smith, Amy
Subject: FW: Daily Briefing for Wednesday, January 9, 2002

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

From: AmericanBanker.com [mailto:dailybriefing@AMERICANBANKER.COM]
Sent: Wednesday, January 09, 2002 5:20 AM
To: AMERICANBANKER@LISTS.AMERICANBANKER.COM
Subject: Daily Briefing for Wednesday, January 9, 2002

AmericanBanker.com
<http://www.americanbanker.com>

DAILY BRIEFING

Wednesday, January 9, 2002

FREE WEBCAST: Authentication & Authorization in the Financial Industry

Join Steve Ellis, Executive Vice President, Wholesale Internet Solutions for Wells Fargo, along with Netegrity and BioNetrix, for a free webcast. Learn the trends and directions for increased security through authentication and authorization within financial institutions.

Wed., Jan. 16 - <http://www.bionetrix.com/webinar>

INVESTMENT PRODUCTS

Mellon Pays a Price with Pa. for Exit From Retail
Mellon Financial Corp. felt some backlash from its home state's government for getting out of consumer banking when the Pittsburgh banking company was passed over for a contract to run the state's tax-free college investment plan.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109IPRD319

WASHINGTON

Sarbanes: Yield Spread Issue on My Agenda
WASHINGTON - In a signal that fair-lending issues will remain a staple of the Senate Banking Committee agenda this year, Chairman Paul Sarbanes hauled industry representatives up to Capitol Hill on Tuesday to defend the payment of yield-spread premiums to mortgage brokers.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109CARD326

TECHNOLOGY

The Tech Scene: Can the Web Expand Wealth Management?
The Internet has clearly made it easier and more affordable to reach "mass-affluent" customers, who in previous years would not have been considered attractive prospects for wealth management services.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109TECH323

CARDS

Big Is Back in a Big Way In Net Cross-Market Deals
Cross-marketing alliances between financial institutions and big Internet properties are back, and they are bigger than ever.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109CARD312

NATIONAL/GLOBAL

Recession-Proof? Hot Texas Deal Climate Could Chill
Texas has been having its share of woes - Enron Corp.'s failure, oil prices declining, and technology companies and airlines in distress - none of it good news for the banking industry. But opinions differ on how severe the impact on Texas' economy will be.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109NATL324

Review 2001/Preview 2002
A complete set of links to American Banker's series of articles analyzing the key themes of last year and anticipating what's coming in the year ahead.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109NONE334

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MARKETS

Capital One Downgraded On Delinquency Worries
Jordan Hymowitz an equity analyst with Robertson Stephens Inc., the San Francisco investment banking unit of FleetBoston Financial Corp., has downgraded the credit card specialist Capital One Financial Corp.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109MMON322

MORTGAGES

Multifamily Seen Carrying Commercial Real Estate
Multifamily lending and development should be the bright spot in an otherwise dim commercial real estate market this year, several industry observers said.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109MORG320

COMMUNITY/REGIONAL

Another Deal for Boston Bank?

Kevin Cohee has spent the last two years working to realize his dream of building his small, black-owned bank into a nationwide franchise, and he expects to move closer to achieving that goal early this year.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109CORG313

CARDS

Card Companies Sell Euro's Convenience

Credit card companies are viewing the conversion to the euro as a unique opportunity to boost adoption of credit cards in Europe, where debit cards hold sway.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109CARD315

INVESTMENT PRODUCTS

Banks Rewarding Brokers Who Go Fee-Based

In an effort to attract more high-net-worth investors, several banking companies are either offering or planning to pay their brokers more money up-front to adopt fee-based compensation models in place of commission-based ones.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109IPRD316

NATIONAL/GLOBAL

Preview 2002: Terrorism Insurance Central to Coordinating Council Plan

WASHINGTON - Financial services lobbyists outlined a common agenda Tuesday, and in the process sought to demonstrate that their historically tumultuous relationship has matured into a powerful lobbying force.

http://www.americanbanker.com/cgi-bin/read_tagstory?20020109NATL325

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Smith, Amy

From: Upchurch, Carol
Sent: Monday, December 17, 2001 8:01 AM
To: Eichner, Matthew; Hunt, Betty Ann; LIBRARY, REFERENCE; Smith, Amy
Subject: FW: Daily Briefing for Monday, December 17, 2001

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

From: AmericanBanker.com [mailto:briefing@tfn.com]
Sent: Monday, December 17, 2001 5:20 AM
To: Daily Briefing
Subject: Daily Briefing for Monday, December 17, 2001

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DAILY BRIEFING

Monday, December 17, 2001

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http://www.bankjobs.com/American_Banker_CareerZone.asp

NATIONAL/GLOBAL

Bank One: Microsoft Deal Breaks New Ground

Distancing themselves from the Internet banner ads that their company spent millions on in the late 1990s, Bank One Corp. executives said Friday that advertising is just one component of the blockbuster online marketing deal they have signed with Microsoft Corp. and that the comprehensive two-way agreement marks a new level of sophistication in Web marketing.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217CARD010

For Now, Big Airlines Say No to Guaranteed Loans

SAN FRANCISCO - Months after President Bush signed an airline aid package that included \$10 billion in loan guarantees, only two small airlines have applied to participate in the program.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217NATL009

WASHINGTON

In Focus - FDIC: Plenty of Credit Still Going Untapped

WASHINGTON - There's no question that lending, like many businesses, is in a slowdown.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217WASH016

CARDS

Fleet's New Card Chief Wants Deeper Relationships Bankwide

It all sounds somewhat daunting: Not only has Patrick J. Coll been thrust suddenly into the job of his longtime mentor, he also is talking about cross-selling at a business - Fleet Credit Card Services - that manages to generate only 2% of its new accounts that way.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217CARD815

MORTGAGES

Commercial Real Estate Market Seen Staying Soft
Tyson's Corner, an oasis of tony stores and corporate offices in northern Virginia, is feeling the pinch of the recession.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217MORG813

MARKETS

Preferred Issues: Credit Derivatives Get Their Chance to Shine
Even in the early stages of Enron Corp.'s collapse, financial services institutions faced a balancing act between two major considerations, financial risks and customer relationships.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217MMON812

INVESTMENT PRODUCTS

'529' College Plans Grow by Hundreds of Millions
As students prepare for their college board exams, here is an analogy that isn't found in a Princeton Review manual but probably is a college prerequisite:

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217IPRD811

ONLINE BANKING

Corillian, S1 Reach Agreement in Patent Dispute
Two rival companies that sell e-finance and e-banking software have buried the hatchet in a long-running patent infringement lawsuit: Corillian Corp. has agreed to license a S1 Corp.-patented system it uses.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217OLBK828

COMMUNITY/REGIONAL

Bank Payday Loan Deals Scrutinized in Colo. Case
In state regulators' fight against the payday lending industry, all eyes are on Denver, where a district judge is expected to rule before the new year whether Colorado's lawsuit against Ace Cash Express Inc. can proceed.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217CORG821

WASHINGTON

Brokers Brace for Senate Probe
WASHINGTON - The same Senate subcommittee that took on the banking industry during two bruising investigations of money laundering through private and correspondent banking

operations is now asking the securities industry to step into the ring.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011217WASH618

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Smith, Amy

From: Upchurch, Carol
Sent: Monday, December 10, 2001 7:46 AM
To: Eichner, Matthew; Hunt, Betty Ann; LIBRARY, REFERENCE; Smith, Amy
Subject: FW: Daily Briefing for Monday, December 10, 2001

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

From: AmericanBanker.com [mailto:briefing@ab-bb.com]
Sent: Monday, December 10, 2001 5:20 AM
To: Daily Briefing
Subject: Daily Briefing for Monday, December 10, 2001

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DAILY BRIEFING

Monday, December 10, 2001

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=====

WASHINGTON

In Focus: Agenda Items Thought Dead Revived by Enron's Fall
WASHINGTON - Several congressional and regulatory issues that were shelved after the Sept. 11 terrorist attacks - ranging from the technicalities of bankruptcy law to high-profile questions about the integrity of financial professionals - have been thrust back onto the agenda by the collapse of Enron Inc.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210WASH650

CARDS

Data Let Visa, MasterCard Boast Gains
Which of the following is true? a) MasterCard is gaining market share on Visa; b) Visa is gaining market share on MasterCard; or c) It depends how you're measuring things.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210CARD653

WASHINGTON

Pressing Case, FDIC Says Refund May Hit \$1.5B
WASHINGTON - The Federal Deposit Insurance Corp. upped the ante last week in its battle to prevent Congress from granting a major refund to scores of banks, warning that it could end up costing the thrift insurance fund as much as \$1.5 billion - three times its original estimate.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210WASH649

MORTGAGES

Two Down, One to Go in B of A Subprime Exit

Bank of America Corp., advancing its business and operational streamlining, said Friday that it had found a buyer for its subprime servicing platform, a deal that will remove the second of three subprime assets it set out to purge itself of last August.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210MORG657

MARKETS

Preferred Issues: Bancassurance Buzz at BNP Paribas' BancWest
BNP Paribas, which completed the last hurdle of its pending acquisition of BancWest Corp. on Tuesday, is starting to look at ways to cross-sell BNP products - notably insurance - through the BancWest network in the western United States.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210MMON647

NATIONAL/GLOBAL

B of A Rearranges Its Commercial Executive Lineup

CHARLOTTE, N.C. - Bank of America Corp. has shuffled executives in its real estate and commercial banking operations in a series of moves it says was triggered partly by the decision to consolidate seven commercial sales regions into six.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210NATL645

MARKETS

Profit, Credit Concerns Hurt Regions Financial

Robert S. Patten, an equity analyst at UBS Warburg, trimmed his profit estimates for Regions Financial Corp. on Thursday, noting a poor outlook for revenues and credit quality.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210MMON668

ELECTRONIC COMMERCE

Bank Outsourcing Trend Seen Helping Processors

Bryan Keane, an analyst at Prudential Securities, expects financial institutions to continue to outsource technology over the next five years and create a significant opportunity for transaction processors.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210ELEC671

INVESTMENT PRODUCTS

Merrill: E-Service 'Popular' for Under-\$1M Trusts

Saying that electronic services have proven "popular" with its less wealthy trust clients, Merrill Lynch & Co. has announced that it is making permanent a regionalization of the

trust business to serve customers according to account size and location.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210IPRD654

COMMUNITY/REGIONAL

In Brief: Belmont of Ohio Settles Two Suits

ST. CLAIRSVILLE, OHIO - After spending two years embroiled in lawsuits concerning fraudulent loans, Belmont Bancorp has reached a financial settlement in one case and a "substantial resolution" in another.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210COR646

Equitable, Despite Layoffs, Pursues Bank Growth

Though Equitable Distributors Inc. laid off 10% of its work force last month, its bank wholesaling unit stayed largely intact, according to Alex MacGillivray, president of the New York-based wholesaling organization that distributes the company's insurance products to banks and broker-dealers.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210INSP648

TECHNOLOGY

In Brief: Fiserv Completes 3 Acquisition Deals

BROOKFIELD, Wis. - Continuing a long streak of acquisition deals, Fiserv Inc. has completed three, two in the United States and one in Latin America, and announced a fourth.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011210TECH658

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Smith, Amy

From: Upchurch, Carol
Sent: Thursday, December 06, 2001 7:42 AM
To: Eichner, Matthew; Hunt, Betty Ann; LIBRARY, REFERENCE; Smith, Amy
Subject: FW: Daily Briefing for Thursday, December 6, 2001

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

From: AmericanBanker.com [mailto:briefing@ab-bb.com]
Sent: Thursday, December 06, 2001 5:20 AM
To: Daily Briefing
Subject: Daily Briefing for Thursday, December 6, 2001

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DAILY BRIEFING

Thursday, December 6, 2001

Place your advertisement on CareerZone Online, the online employment site available through AmericanBanker.com, and reach qualified financial service professionals. CareerZone Online allows companies to run ads in both our print and online products. Position your ad in front of the 130,000 professionals who read American Banker daily.

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TECHNOLOGY

Several banks that have invested in wireless technology are scaling back expectations for consumer adoption - and at least one is pulling back altogether.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206TECH593

WASHINGTON

For Enron Banks, Wide Latitude on Commerce
WASHINGTON - At a time when regulators are repeatedly issuing credit quality warnings, and banks are adding billions to their loan-loss provisions, bank supervisors have been surprisingly quiet about the collapse of Enron Corp., the heavily indebted Houston energy conglomerate.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206WASH589

MORTGAGES

Refi Boom Shows Flaws In Servicing Hedging
With homeowners refinancing this year in record numbers, mortgage lenders' ability to value and hedge servicing rights has been severely tested, raising questions about the effectiveness of techniques used to hedge risk.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206MORG603

WASHINGTON

FDIC Suits Raise Fears of Thrift Fees

WASHINGTON - Several dozen large banking companies have sued the Federal Deposit Insurance Corp. for more than \$600 million, claiming the agency overcharged them five years ago when it capitalized the thrift fund at Congress' behest.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206WASH602

NATIONAL/GLOBAL

Brendsel at Top of Game but Has Freddie Peaked?

Leland Brendsel loves crunching numbers, and they all add up for the chief executive of Freddie Mac, economically and politically. After enduring public criticism in the late '90s, he helped defuse a threat to the federal financial support Freddie and Fannie Mae enjoy by brokering a deal with Congress last fall. Now he's weeks away from closing one of Freddie's best years ever, with earnings set to top 2000's by more than 20%.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206NATL585

American Banker Honors Killinger

Kerry Killinger, the president and chief executive of Washington Mutual Inc., was named American Banker's Banker of the Year at a ceremony in New York Wednesday night. Also honored were Terrence Murray, the chairman and chief executive of FleetBoston Financial Corp., who received the Lifetime Achievement Award; Gordon Nixon, the CEO of Royal Bank of Canada, who was named Innovator of the Year; and Joseph M. Grant, the CEO of Texas Capital Bankshares Inc., who was named Community Banker of the Year.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206NATL584

MARKETS

CEO: Bank One Chargeoffs May Exceed \$600M in '02

Bank One Corp.'s credit costs next year could surpass earlier estimates of \$600 million if the recession becomes severe, according to chief executive officer James Dimon.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206MMON599

COMMUNITY/REGIONAL

Some Low-Tech Banks Finding Room to Grow

Stockmen's Bank in Kingman, Ariz., sticks to rural towns and avoids offering electronic services to its customers - but that has not stopped it from becoming the largest bank headquartered in the state.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206CORG583

CARDS

Russian Smart Card Pioneer Finding U.S. a Tougher Sell

After founding a successful smart card company in Russia, Sergei Kousmine and his colleagues set off for Chicago, armed with plenty of start-up capital and a firm belief that the United States was ready for smart cards. They set up a U.S. headquarters for the Siberia-based company they had started in 1991, Center of Financial Technologies Inc., and began approaching banks and Visa with their idea of setting up a system analogous to the one they had built in Russia, which boasted a fraud rate of 0%.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206CARD591

INVESTMENT PRODUCTS

Lincoln's New Bank Chief to Push Variables

Lincoln Financial's new chief of bank distribution likes his chances a lot better than he did in the 1990s when he pulled Pioneer Investment Inc. out of that channel. It is a matter of Lincoln's being well established in sales relationships with banking companies whereas Pioneer was a newcomer trying to break in with what it believed was a good variable annuity, said Stephen Long, who is now a senior vice president at Lincoln.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011206IPRD590

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Smith, Amy

From: Upchurch, Carol
Sent: Thursday, November 29, 2001 7:37 AM
To: Eichner, Matthew; Hunt, Betty Ann; Smith, Amy
Subject: FW: Daily Briefing for Thursday, November 29, 2001

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

From: AmericanBanker.com [mailto:briefing@ab-bb.com]
Sent: Thursday, November 29, 2001 5:20 AM
To: Daily Briefing
Subject: Daily Briefing for Thursday, November 29, 2001

AmericanBanker.com
<http://www.americanbanker.com>

DAILY BRIEFING

Thursday, November 29, 2001

Thomson Financial Conferences is proud to present its premier Money Laundering Symposium to be held December 3-4, 2001 at the Marriott Wardman Park Hotel in Washington, D.C. This timely event will examine policy, recently passed and currently pending legislation as well as practical solutions for preventing money laundering activities. For further information or to register click here: <http://www.tfconferences.com/conferences/ML/index.html> or call 800-803-3424.

WASHINGTON

Faith-Based Proxy Item: Laundering Policies

WASHINGTON - Capitalizing on the post-Sept. 11 push to toughen anti-money-laundering standards, a coalition of faith-based institutional investors has filed shareholder proposals with six major financial services companies that would require them to adopt stricter rules than those in the new anti-terrorism law. The resolutions - sent to Citigroup Inc., J.P. Morgan Chase & Co., Bank of America Corp., Merrill Lynch & Co., FleetBoston Financial Corp., and Morgan Stanley Dean Witter & Co. - were filed by members of the Interfaith Center on Corporate Responsibility, a coalition of 275 investors with a combined \$110 billion of assets under management.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129WASH431

NATIONAL/GLOBAL

Wells Fargo Returning To Cost-Control Roots

SAN FRANCISCO - Belt-tightening is back in vogue at Wells Fargo & Co., where the brass is conceding that the company must begin implementing some of the cost-cutting moves already made by many of its peers. Details are few - management says it is still sifting through next year's budget and cannot release numbers - but this much is certain: \$298 billion-asset Wells is targeting everything from salaries to supplies, and plans to trim expenses in slow-growing business lines over the next year.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129NATL455

Providian Ordered Out Of Subprime

Tightening their grip on the troubled credit card issuer Providian Financial Corp., federal bank regulators last week handed the company a list of requirements to meet over the next few weeks, including one that will eliminate it from subprime lending. Providian said Wednesday that under its agreement with regulators it must submit by Friday a plan for managing capital and growth for the next three years. The company, which made its name in subprime, agreed to stop such lending.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129NATL446

TECHNOLOGY

Microsoft: Still Server-Crazy After All These Years

When William B. Harrison Jr. set foot on Microsoft Corp.'s Redmond, Wash., campus in August 1999, he was helping the software giant usher in a new way of nurturing fresh business from financial institution clients. Mr. Harrison, the president and chief executive officer of what was then Chase Manhattan Corp., and his entourage spent the full day in Microsoft's conference center, a warren of 12 to 15 rooms equipped with fancy audiovisual equipment.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129TECH432

NATIONAL/GLOBAL

Private Banking Aim Drove Deal for CSFB Direct

Though online investing is shrinking nationally, executives at Bank of Montreal say their company's deal to buy Credit Suisse First Boston's electronic brokerage unit is all about growth in U.S. private banking. The \$520 million CSFB Direct deal, announced Wednesday, goes beyond just expanding Bank of Montreal's online brokerage capabilities, they said. The company can turn CSFB Direct's one million online brokerage customers into a million private banking customers, they said, though more than half the CSFB accounts are inactive. And CEO Tony Comper said, "Our strategy is to grow in the United States."

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129NATL454

CARDS

Fee-Free ATM Venture Draws Doubt from EFT Community

Executives of electronic funds transfer networks say they are skeptical about the prospects for a company that aims to create a national network of surcharge-free automated teller machines to benefit financial institutions with few or no ATMs. The company, ATM National LLC in Washington, says it plans to seduce major U.S. banks by offering them subsidies to cover the surcharge revenue they may lose. Another selling point, it says, is that customers of all participating institutions - which may include community banks, credit unions, Internet banks, securities firms, and brokerages - would have free access to a much larger pool of ATMs. Customers would even be able to make free deposits to ATMs outside the United States.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129CARD428

COMMUNITY/REGIONAL

Executive Changes

Changes at the executive level in the banking industry.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129CORG430

INVESTMENT PRODUCTS

Zurich Chief: Rethink the 'Nature of Risk'

The insurance industry will take a large financial hit from the events of Sept. 11 but will emerge stronger if it can learn how to operate in a new environment and "think the unthinkable," according to Rolf Hüppi, chairman and CEO of Zurich Financial Services. The coming hard market for insurance "is an industry opportunity to deal with some of the issues in a manner that is slightly more sane than we have done in the past," Mr. Hüppi said, alluding to the price-slashing and looser underwriting criteria prompted by competition in recent years.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129IPRD436

MARKETS

Enron Exposure Hits Citi, JPM

The stocks of Citigroup Inc. and J.P. Morgan Chase & Co., the banking companies with the largest lending exposures to faltering Enron Corp., fell sharply on Wednesday. Standard & Poor's cut the Texas energy company's rating Wednesday to below investment grade, warning of liquidity problems if its deal with Dynergy Inc. failed.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129MMON448

MORTGAGES

Fannie's Portfolio Gap Greeted with a Big Yawn

Concerns voiced recently by a Goldman Sachs analyst about Fannie Mae's hedging methods are overstated, several observers say. In a Nov. 16 research note, Howard Shapiro, who covers Fannie and Freddie Mac for Goldman, Sachs & Co., raised a warning flag on the October duration gap of Fannie's mortgage portfolio.

http://www.americanbanker.com/cgi-bin/read_tagstory?20011129MORG438

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Smith, Amy

From: Martin.McGuinness@wc.ey.com
Sent: Thursday, January 17, 2002 4:37 PM
To: amy.smith@do.treas.gov
Subject: FW: ABA's WIN News for January 17, 2002

FYI....

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

From: ABA's Washington Information Network [mailto:WIN@aba.com]
Sent: Thursday, January 17, 2002 10:03 AM
Subject: ABA's WIN News for January 17, 2002

ABA'S WASHINGTON INFORMATION NETWORK NEWS
THURSDAY, JANUARY 17, 2002

Reminder: There will be a State Legislative Issues Working Group (SLIWG) conference call on Tuesday, January 22, at 3:00 p.m. (Eastern Time). To participate, call 1-800-357-0498. There is no access code for the call; just ask the operator for the ABA call being hosted by Ken Clayton or Mathew Street. If you encounter any problems accessing the conference call, contact ABA's Laura Vogel at 202-663-5345. To access the State Legislative Issues Working Group area of ABA's Web site, click here: <http://www.aba.com/members+only/legal/default.htm>. These calls will be held every Monday (or Tuesday, if Monday is a holiday) through June to discuss state legislative issues.

LEGISLATIVE NEWS

CONGRESSIONAL SCHEDULE

The second session of the 107th Congress will convene on Wednesday, January 23, 2002.

FSCC SENDS LETTERS TO CONGRESS IN OPPOSITION TO REALTORS' BILLS

Yesterday, the Financial Services Coordinating Council, of which ABA is a member, sent letters to all members of Congress expressing opposition to H.R. 3424 and S. 1839, the realtors' bills. The letter sent to members of the House reads as follows:

"The Financial Services Coordinating Council (FSCC) is an alliance of the principal trade organizations in each of the financial service sectors formed to address issues that cut across financial industry lines. Its members, the American Bankers Association, the American Council of Life Insurers, the American Insurance Association, and the Securities Industry Association, wish to express their opposition to H.R. 3424.

"The fundamental purpose of the Gramm-Leach-Bliley Act (GLBA) was to develop a flexible structure for our financial system that could adjust to changes in technology and other aspects of the marketplace. Congress believed, and we agree, that such a flexible structure would increase the soundness of our financial system, promote economic growth, decrease costs, and provide consumers and businesses with more choices. Congress recognized that the legislative process is too slow to keep pace with changes in technology and

the global marketplace, as demonstrated by the long history of Congressional gridlock prior to GLBA.

"Congress expressly gave the Federal Reserve Board and Treasury the authority to authorize financial holding companies to engage in new activities in addition to the products and services enumerated in the statute. In delegating this authority, Congress sought to empower experienced and independent financial regulators to make such determinations, based upon elaborate statutory criteria, that match marketplace realities. This is what financial modernization legislation is about: the ability to evolve. H.R. 3424 seeks to return to the pre-GLBA environment where industry competitors ask Congress to choose winners and losers.

"The financial services industry, the regulatory agencies, and Treasury are in the very beginnings of interpreting GLBA. Reopening one of its most central provisions would raise a great deal of uncertainty within the industry. We therefore strongly oppose H.R. 3424."

A similar letter was sent to members of the Senate.

SARBANES ASKS GAO TO INVESTIGATE QUESTIONS REGARDING FINANCIAL REPORTING AND EMPLOYEE INVESTMENTS IN COMPANY STOCK

Senate Banking Committee Chairman Paul Sarbanes (D-MD) has sent two letters to the General Accounting Office (GAO) asking it to investigate the adequacy of financial reporting and to investigate the prevalence of investments of employee retirement funds in company stock. Sen. Sarbanes requested the GAO to evaluate the accounting profession's governance system and to consider the extent of defects that may contribute to costly accounting errors. Specifically, Sen. Sarbanes asked the GAO to examine: (1) situations over the last 10 years in which employees have had "substantial retirement fund losses" due to declines in the value of company stock; (2) the number of retirement plans invested in company stock; and (3) the provisions of the Employee Retirement Income Security Act (ERISA), the Securities Act, and the Internal Revenue Code that govern company stock retirement plans.

In a press statement, Sen. Sarbanes indicated that he is interested in determining whether employers provide sufficient information and financial education to permit their employees to understand the risks of company stock retirement investments and whether the SEC should reconsider exploring application of the Securities Act and the Securities Exchange Act to define contribution plans. Sen. Sarbanes said the reported results of Enron's bankruptcy "raise significant issues" about the adequacy of certain U.S. laws and their enforcement. The Senate Banking Committee will hold a hearing to discuss these issues on February 12. Sen. Sarbanes has asked the GAO to report its findings and make recommendations by June 30.

POTENTIAL REGULATORY RELIEF LEGISLATION

House Financial Services Committee staff have recently indicated the Committee's intention to try to move a regulatory burden relief bill through the Congress this year. While the contents of this legislative package are still under discussion, a number of provisions affecting the banking industry may become a part of it, such as: expanded credit union powers to invest in Credit Union Service Organizations; expanded small bank examination cycles; some subchapter S relief; relaxed restrictions on interstate branching; and, expanded savings association investment advisory authority. Watch for more details in the weeks ahead.

PRESIDENT SIGNS SECURITIES LEGISLATION

Yesterday, President Bush signed into law H.R. 1088, the Investor and Capital Markets Fee Relief Act. The bill passed the House on June 14; it passed the Senate on December 20.

Kerry Early, Managing Associate Director, Washington Information
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202-663-5352, or tmcellig@aba.com

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Smith, Amy

From: Martin.McGuinness@wc.ey.com
Sent: Tuesday, December 18, 2001 11:30 AM
To: amy.smith@do.treas.gov
Subject: FW: ABA's WIN News for December 18, 2001

FYI....

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

From: ABA's Washington Information Network [mailto:WIN@aba.com]
Sent: Tuesday, December 18, 2001 9:57 AM
Subject: ABA's WIN News for December 18, 2001

ABA'S WASHINGTON INFORMATION NETWORK NEWS
TUESDAY, DECEMBER 18, 2001

LEGISLATIVE NEWS

ECONOMIC STIMULUS LEGISLATION

House and Senate negotiators are still working to reach an agreement on an economic stimulus package. Congressional leaders are expected to meet with President Bush this morning regarding the talks. Health care assistance for unemployed workers is one of the main sticking points the negotiators are trying to work out. In the meantime, the House Rules Committee will meet this morning to develop a rule for floor consideration of a new version of the House-passed stimulus bill. This bill may be brought to the House floor by the Republican leadership this evening, despite the fact that negotiators are still working on a compromise House-Senate bill.

TERRORISM INSURANCE LEGISLATION

A draft terrorism insurance bill may be introduced by Senate Majority Leader Tom Daschle (D-SD) today and be brought to the floor as early as tomorrow. The main issue still to be worked out among Senators is a possible provision to cap punitive damages associated with terrorism acts.

SENATE FARM BILL

Yesterday, the Senate resumed consideration of S. 1731, the Farm Bill. Sen. Edward Kennedy (D-MA) filed a motion to invoke cloture on Agriculture Committee Chairman Tom Harkin's (D-IA) substitute amendment. The Senate is expected to vote today on the cloture motion. The first cloture motion failed by a vote of 53-45 on December 13.

MARKUP OF TRADE AUTHORITY LEGISLATION

This morning, the Senate Finance Committee will mark up H.R. 3005, the Trade Promotion Authority Act.

SENATE BANKING COMMITTEE TO CONSIDER HUD NOMINATIONS

This afternoon, the Senate Banking Committee will hold a hearing to

consider
the nominations of Vickers Meadows and Diane Tomb to Assistant Secretary
for
Administration and Assistant Secretary for Public Affairs, respectively, at
the Department of Housing and Urban Development.

HEARING ON ENRON BANKRUPTCY

This morning, the Senate Commerce, Science and Transportation Committee
will
hold a hearing on the Enron bankruptcy.

HEARING ON AFTER HOURS STOCK-TRADING NETWORKS

Tomorrow, the Commerce, Trade and Consumer Protection Subcommittee of the
House Energy and Commerce Committee will hold a hearing on how Electronic
Communications Networks (after hours stock-trading networks) have been
affected by the September 11th attacks.

Kerry Early, Managing Associate Director, Washington Information
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Tom McElligott, Program Manager, Washington Information
202-663-5352, or tmcellig@aba.com

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Smith, Amy

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Sent: Monday, December 17, 2001 12:30 PM
To: amy.smith@do.treas.gov
Subject: FW: ABA's WIN News for December 17, 2001

FYI...

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From: ABA's Washington Information Network [mailto:WIN@aba.com]
Sent: Monday, December 17, 2001 10:15 AM
Subject: ABA's WIN News for December 17, 2001

ABA'S WASHINGTON INFORMATION NETWORK NEWS
MONDAY, DECEMBER 17, 2001

LEGISLATIVE NEWS

CONGRESSIONAL CALENDAR

Tuesday, December 18:

-The Senate Commerce, Science and Transportation Committee will hold a hearing on the bankruptcy of Enron.

Wednesday, December 19:

-The Commerce, Trade and Consumer Protection Subcommittee of the House Energy and Commerce Committee will hold a hearing on how Electronic Communications Networks (after hours stock-trading networks) have been affected by the September 11th attacks.

CONTINUING RESOLUTION

On Friday, the Senate passed a continuing resolution to keep the federal government funded through December 21. The House passed the resolution last Thursday.

SEIDMAN TO BE STAFF COUNSEL FOR REP. LAFALCE

House Financial Services Committee Ranking Member John LaFalce (D-NY) has announced that former OTS Director Ellen Seidman will serve as staff counsel for the Democratic members of the Financial Services Committee.

ECONOMIC STIMULUS LEGISLATION

House and Senate negotiators worked through the weekend to come to a compromise on economic stimulus legislation, although no final agreement has been reached. The House Republican Leadership has said that it may end the stimulus talks if negotiators do not make progress on reaching a compromise by Tuesday evening. A revised economic stimulus bill to be written by House Republicans may be considered on the House floor tomorrow evening.

TERRORISM INSURANCE LEGISLATION

Senate Majority Leader Tom Daschle (D-SD) reportedly may bring a consensus terrorism insurance bill to the Senate floor tomorrow. A general agreement was reached last week on most of the provisions of the Senate's plan.

Participating insurers would pay a "retention amount" for losses based on a market share formula. Insurers would also be responsible for paying 20 percent of losses above the retention amount for damages amounting to less than \$10 billion. Insurers would pay 10 percent of total losses for damages between \$10 billion and \$100 billion. The program would last one year and could be renewed by the Secretary of the Treasury for an additional year. Under a draft bill circulated last week, a federal cause of action would be created for any litigation arising out of a terrorist event and federal funds to pay any punitive damage awards would be prohibited. At this time, however, negotiations continue on how punitive damages language would be addressed in a final bill.

Kerry Early, Managing Associate Director, Washington Information
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Tom McElligott, Program Manager, Washington Information
202-663-5352, or tmcellig@aba.com

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Smith, Amy

From: Richard, Gregg [Gregg.Richard@mail.house.gov]
Sent: Friday, December 14, 2001 10:54 AM
To: Hampton, Frank; joseph.seidel@csfb.com; Sarah_Dumont@banking.senate.gov; Stacy Carey; strupp_cory@jpmorgan.com; Thomas J. Rosenkoetter; msolomon@fsround.org; amy.smith@do.treas.gov; arnie.cohen@ots.treas.gov
Subject: Netting Bill Would Prevent Domino Effect from Collapses Like Enron's on's

The American Banker

December 14, 2001, Friday

HEADLINE: Netting Bill Would Prevent Domino Effect from Collapses Like Enron's

BYLINE: BY STEVE BARTLETT

BODY:

The failure of Enron Corp. is just one of the numerous business collapses that the financial community and the U.S. economy could face in the coming months.

However, by acting fast Congress can help avert similar crises.

In financial services, "netting" refers to looking at the net amount of financial obligations in multiple contracts between two parties. By clarifying the enforceability of netting provisions in financial contracts, the Financial Contracts Bankruptcy Reform Act of 2001 (HR 3211) -- sponsored by Rep. Pat Toomey, R-Pa. -- would reduce legal uncertainty and enhance the liquidity of global financial markets.

Most importantly, the bill would reduce systemic risk by making it less likely that a large default by a single financial institution would have a domino effect. There is a broad consensus among financial institutions and their regulators that legislation to ensure the legal validity of netting is needed -- and needed now.

HR 3211 would be a much needed improvement, modernization, and harmonization of the payment risk reduction and netting provisions of the bankruptcy code and bank insolvency laws. The proposal has already been passed without opposition several times by the House and the Senate, on its own and as part of broader bankruptcy reform legislation.

If a party to multiple contracts with a financial institution declares bankruptcy, HR 3211 would permit that institution to offset its exposures from the various contracts, as the parties have agreed, and thus reduce the financial institution's overall exposure to the bankrupt party.

Suppose, for instance, that institution A is party to two transactions with institution B. One is an interest rate swap, under which A owes B a settlement payment of \$1 million when B files for bankruptcy and A terminates the swap. The other is a repurchase transaction, for which B owes A \$1 million.

Without netting, A would have to pay B the \$1 million owed for the repurchase transaction, but because of B's bankruptcy, A may not be able to collect the \$1

million owed for the interest rate swap. Under HR 3211 the two \$1 million debts could offset each other, so that A would not be faced with a loss on B's default.

HR 3211 has broad bipartisan support. Its passage has been urged by the President's Working Group on Financial Markets, the Board of Governors of the Federal Reserve System, the Treasury Department, the Securities and Exchange Commission, the Federal Deposit Insurance Corp., the Commodity Futures Trading Commission, the Comptroller of the Currency, the Office of Thrift Supervision, the Foreign Exchange Committee, the Investment Company Institute, the New York Clearing House, and the Securities Industry Association, among others.

In addition, the Financial Services Roundtable, a national association representing 100 of the largest integrated financial services companies in the country, strongly supports immediate congressional approval.

We cannot afford another Enron. Congress needs to pass HR 3211 before it adjourns, regardless of the disposition of larger bankruptcy reform issues. There is no good reason not to approve this bill immediately.

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November 30, 2001

Review & Outlook

Investigating Enron

You can cut the Schadenfreude with a machete these days as Enron careens toward failure. Like any fast-rising, innovative business, the energy trader made enemies, some with a fair grievance and some not. We hope the inevitable (and necessary) investigations keep in mind the difference.

Enron was a forthright advocate of competition, as every obituary of the past few days has noted. Some see the firm's collapse as discrediting the market economics it championed, though the opposite is closer to the truth.

It strikes us that Enron was partly a victim of its own success. Its revenues quadrupled in a year, thanks to the filip that California's troubles provided to the wholesale power market. But profits were up much less -- i.e., Enron was earning thinner margins in the energy-trading business it pioneered. The new industry quickly became too competitive and transparent to afford any windfalls, just as deregulation admirers would have predicted.

Enron does not own U.S. power plants and generally did not seem to make outsized profits on power for resale in, say, California. But that didn't stop California's eccentric attorney general, Bill Lockyer, from blaming Enron CEO Ken Lay for that state's electricity mismanagement. Last summer he told a Wall Street Journal reporter that, "I would love to personally escort Lay to an 8x10 cell that he could share with a tattooed dude who says, 'Hi my name is Spike, honey.'" Consider that an unfair grievance.

Accounting matters are more troubling. The struggle for a century has been to make sure corporate managers don't pursue their own agendas at the expense of owners. The emergence of special partnerships, controlled and owned by Enron's own senior officers, with which the company did some of its murkiest deals, would cause even libertarians to wonder what's been going on. Clearly Mr. Lay didn't fully understand what former Enron CEO Jeffrey Skilling was up to, and shareholders weren't told either.

At the same time, Enron officers had a large amount of personal wealth tied up in Enron stock, which has fallen from \$90 to 61 cents. So the mere existence of these partnership deals does not automatically indicate corrupt intent. Only a detailed investigation can resolve whether these deals were honestly motivated, and whether Enron's (and Arthur Andersen's) interpretation of accounting rules was defensible. In any case, trial lawyers will descend to squeeze every penny out of Enron's troubles for themselves (and for shareholders or employees who held Enron stock in their 401(k)s).

As for the investigations, we hope they won't be influenced one way or another by long connections between Mr. Lay and President Bush. Even the hint of special treatment would be a political disaster, especially for an Administration that promised to clean up after Bill Clinton.

While tradition has been not to make criminal matters out of accounting scandals, exceptions have arisen recently. Federal prosecutors in New York have gone after Walter Forbes, who sold his company to Cendant, giving rise to what before Enron was the nation's most costly stock meltdown due to bad accounting. San Francisco prosecutors recently extracted guilty pleas from executives of Aurora Foods

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over their treatment of trade promotion expenses for their portfolio of "orphan" brands as capital expenditures.

Enron is an opportunity for the Bush team to show it can police similar financial chicanery, if some is found. Sorting the capitalists from the crooks is one way of protecting capitalism.

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November 29, 2001

Major Business News

Enron CEO's Political Connections Run Silent During Company's Crisis

By **BOB DAVIS**

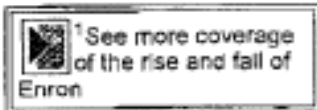
Staff Reporter of THE WALL STREET JOURNAL

For years, **Enron Corp.** Chairman Kenneth Lay has been George W. Bush's best friend in the board rooms of America's top corporations.

Since 1993, Mr. Lay and Enron have donated nearly \$2 million to Mr. Bush's political career, making them Mr. Bush's biggest backers. When Mr. Bush was Texas governor, Mr. Lay, a Houston resident, helped him win passage of a state education-reform plan that brought Mr. Bush national acclaim. During that fight, Mr. Lay got to know aides who became power players in the Bush White House.

Mr. Lay was confident enough of his friendship with Mr. Bush that he even needed him for needing arthroscopic surgery to repair a jogging injury. "I want you to know that at least one jogger [me] got past 50 without that surgery," Mr. Lay scribbled in a note to then governor in 1997.

Still, as Enron faces its greatest crisis, Mr. Lay's influence and personal relationships with the administration have amounted to little. There appears to be no effort by the White House or Congress to bail Enron out of its difficulties, which are widely seen as self-inflicted. The White House had no comment on Mr. Lay's predicament, a spokeswoman said. Indeed, short of an actual bailout to help Enron meet its obligations -- such as an aid package approved by Congress or organized by government officials from private sources, similar to the rescue of the Long Term Capital Management hedge fund -- there is little Washington can do at this stage to help the company. Nor is there likely to be a bailout, since Enron has burned many bridges on Capitol Hill with its history of strong-arm lobbying tactics, some congressional aides say.



That may reassure a cynical public, says Robert Mosbacher, Commerce Secretary in the first Bush administration and a longtime friend of the current president as well as Mr. Lay. "I don't see anybody being let off the hook," he said.

Mr. Mosbacher says he introduced Mr. Lay to the Bush family around 1987, when he persuaded Mr. Lay to help raise money for George H.W. Bush's successful presidential bid in 1988. Mr. Lay contributed \$461,000 to the younger Mr. Bush's two successful gubernatorial campaigns. He also made Enron's fleet of corporate jets available to Mr. Bush and won his help in lobbying officials in other states considering Enron projects.

His influence with then-Gov. Bush was based on more than money. Mr. Lay was one of the state's leading business executives and deeply involved in Texas politics. Under Mr. Bush's predecessor, Democrat Ann Richards, Mr. Lay headed the Governor's Business Council, a state advisory board. Mr. Bush asked him to stay on the job to help develop an educational reform plan and sell it to the Texas Legislature.

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In that capacity, Mr. Lay became close to several Bush aides, including political guru Karl Rove and communications adviser Karen Hughes, who have taken positions at the White House. He also got to know another leading Texas businessman: Dick Cheney, then CEO of Dallas oil concern Halliburton Co., who would become Mr. Bush's pick for vice president.

Against this backdrop, Mr. Lay was widely considered a top candidate for Treasury Secretary in the younger Bush's administration. Ultimately though, he was disqualified, Bush insiders say, as too closely identified with Mr. Bush, Mr. Cheney and others who worked in the Texas energy business for an administration that wanted to show it wasn't in the pocket of big oil companies.

Early on, Mr. Lay had unrivaled access to the administration. When the president's advisers debated a new energy policy in the spring, Mr. Lay was the only energy executive to be invited for a one-on-one session with Mr. Cheney, who led the effort. Mr. Lay also worked with Mr. Rove and others to successfully push for appointments to the Federal Energy Regulatory Commission, which oversees much of Enron's business.

As Enron's problems multiplied and its fortunes plummeted, however, the White House was silent. During a several-hour long interview in the spring, Mr. Lay mused that his Bush connections could boomerang someday. "It could hurt, from the standpoint that, at some point, they lean in the other direction to make sure they don't face criticism," he said.

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November 30, 2001

Dow Jones Newswires

White House: No Objection To Congress Probe Of Enron

Dow Jones Newswires

WASHINGTON — The Bush administration Friday said it had no objection to calls in Congress to launch hearings into the collapse of Enron and said such a move is well within Congress's jurisdiction in providing oversight.

"The president understands that at all times Congress should exercise its proper oversight role and that includes anything, in a case like this...an investigation into the collapse of a company," White House spokesman Ari Fleischer said.

Fleischer said that other parts of the federal government have already launched their own investigations and the Treasury Department is monitoring these.

-By Alex Keto, Dow Jones Newswires; 202-862-9256; Alex.Keto@dowjones.com

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November 30, 2001

Major Business News

U.S. Attorneys Inform Regulators They Want to Monitor Enron Probe

By **MICHAEL SCHROEDER**
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- Federal prosecutors in two states have told the Securities and Exchange Commission that they are interested in monitoring the agency's investigation into possible accounting fraud at Enron Corp., as a possible precursor to a separate criminal probe, according to a person with knowledge of the situation.

Meanwhile, members of Congress announced new inquiries into the company's activities.

Enron stock's spectacular plunge the past few weeks has attracted the interest of officials in New York and Texas, including the U.S. attorneys' offices in Manhattan and Houston, this person said. Spokesmen for the U.S. attorneys' offices declined to comment.

In late October, Enron disclosed that the SEC had undertaken a formal investigation into the Houston energy company's financial dealings with partnerships headed by its former chief financial officer, Andrew Fastow.

A formal investigation involves the SEC's enforcement branch going to the five-member commission and obtaining formal subpoena power to pursue its inquiry. A person familiar with the SEC probe said the agency felt it needed subpoena power to compel the release of information by parties that have done business with Enron.

Enron's stock price has collapsed from about \$60 a share early in the year to under \$1 amid financial restatements due to improper accounting and a failed merger with crosstown rival **Dynegy Inc.** Shareholder and Enron employee retirement account values have been devastated by the meltdown. Criminal authorities are interested to learn if the SEC finds that malfeasance contributed to the share-price declines.

In 4 p.m. composite trading Thursday on the New York Stock Exchange, Enron was at 36 cents, down 25 cents, or 41%.

If a criminal probe were undertaken, it would be handled by one office, mostly likely in Houston, Enron's hometown. But federal prosecutors in Manhattan, who have experience in securities-fraud cases, could assert jurisdiction because Enron's stock trades on the New York Stock Exchange.

Early this year, Enron came under attack from California politicians and regulators for profiting from spiking energy prices in that state.

One reason authorities haven't begun their own investigations is the fear that a criminal probe might cause witnesses "to clam up," said the person with knowledge of the situation.

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Enron officials have said they are cooperating fully with the SEC, which has only been investigating Enron for about five weeks and hasn't had enough time to assess possible liability of Enron executives. SEC civil allegations could lead to fines and sanctions.

SEC Chairman Harvey Pitt, who has taken some heat for some policies viewed being too soft on business, has made the Enron investigation a top priority to show he will be a tough enforcer. In remarks Thursday to the Consumer Federation of America, Mr. Pitt said promised a thorough and swift probe of Enron. The SEC has a team of a half-dozen enforcement attorneys and accountants working the case.

Gregory Bruch, a former SEC enforcement attorney who has litigated complicated accounting fraud investigations, said Enron's involvement with partnerships and extensive energy derivatives trading likely would take a year for the SEC unravel. He said the SEC would have to "cut corners" to bring a case more quickly, meaning the regulator would name fewer defendants than it might in a broader, more time-consuming case.

On Capitol Hill, the House Energy and Commerce Committee said it would investigate Enron's accounting practices and Senate Commerce Committee announced it would assess the impact on U.S. natural gas and electricity markets.

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December 2, 2001

Dow Jones Newswires

Chronology Of Enron Corp.'s History

HOUSTON (AP)--A look at the history of Enron Corp. (ENE):

July 1985 -Houston Natural Gas merges with InterNorth, a natural gas company based in Omaha, Neb., to form the modern-day Enron, an interstate and intrastate natural gas pipeline company with approximately 37,000 miles of pipe.

1989 -Enron begins trading natural gas commodities. Over the years, the company becomes the largest natural gas merchant in North America and the United Kingdom.

June 1994 -Enron North America trades its first electron. Enron goes on to become the largest marketer of electricity in the U.S.

August 1997 -Enron announces its first commodity transaction using weather derivative products. Enron goes on to market coal, pulp, paper, plastics, metals and bandwidth.

April 1999 -Enron agrees to pay \$100 million over 30 years for the naming rights to Houston's new ballpark, Enron Field. The Astros also sign a 30-year facilities management contract Enron Energy Services.

November 1999 -Enron launches EnronOnline, the first global Web-based commodity trading site.

December 2000 -Enron announces that president and chief operating officer Jeffrey Skilling will take over as chief executive in February. Kenneth Lay will remain as chairman. Shares hit 52-week high of \$84.87 on Dec. 28.

August 2001 -Skilling resigns after running the company for just six months; Lay becomes CEO again.

October 16, 2001 -Enron reports a \$638 million third-quarter loss and discloses a \$1.2 billion reduction in shareholder equity, partly related to partnerships run by chief financial officer Andrew Fastow.

Oct. 22, 2001 -Enron acknowledges Securities and Exchange Commission inquiry into a possible conflict of interest related to the company's dealings with those partnerships.

Oct. 24, 2001 -Enron ousts Fastow.

Oct. 31, 2001 -Enron announces the SEC inquiry has been upgraded to a formal investigation. Enron creates special committee headed by University of Texas law school dean William Powers to respond to the investigation.

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Nov. 6, 2001 -Enron's stock price drops below \$10 a share after reports the financially troubled energy trader was seeking additional financing to shore up confidence.

Nov. 8, 2001 -Enron files documents with SEC revising its financial statements for past five years to account for \$586 million in losses.

Nov. 9, 2001 -Dynergy Inc.(DYN) announces an agreement to buy its much larger rival Enron for more than \$8 billion in stock.

Nov. 14, 2001 -Enron announces it is trying to raise an additional \$500 million to \$1 billion in new private equity to shore up customer and market confidence.

Nov. 19, 2001 -Enron restates its third-quarter earnings and discloses it is trying to restructure a \$690 million obligation that could come due Nov. 27.

Nov. 20, 2001 -Concerns about Enron's ability to weather its spiraling financial problems send the company's stock down nearly 23% to its lowest level in nearly 10 years. Officials from both Enron and Dynergy say the merger was not in trouble.

Nov. 21, 2001 -Enron reaches critical agreement to extend \$690 million debt payment.

Nov. 26, 2001 -Enron shares fall another 15% as investors continued to doubt that the deal will be completed. Shares finish day at \$4.00.

Nov. 28, 2001 -Dynergy backs out of deal after Enron's credit rating is downgraded to junk bond status; analysts say a bankruptcy filing is likely. Enron shares plunge below \$1 amid the heaviest single-day trading volume ever for a NYSE or Nasdaq-listed stock.

Dec. 2, 2001 -Enron files for Chapter 11 bankruptcy protection; sues Dynergy for wrongful termination of merger.

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December 2, 2001

Dow Jones Newswires

Enron Files For Chapter 11 Bankruptcy

HOUSTON, Dec. 2 /PRNewswire/ -- Enron Corp. (NYSE: ENE) announced today that it along with certain of its subsidiaries have filed voluntary petitions for Chapter 11 reorganization with the U.S. Bankruptcy Court for the Southern District of New York. As part of the reorganization process, Enron also filed suit against Dynegy Inc. (NYSE: DYN) in the same court, alleging breach of contract in connection with Dynegy's wrongful termination of its proposed merger with Enron and seeking damages of at least \$10 billion. Enron's lawsuit also seeks the court's declaration that Dynegy is not entitled to exercise its option to acquire an Enron subsidiary that indirectly owns Northern Natural Gas Pipeline. Proceeds from the lawsuit would benefit Enron's creditors.

In a related development aimed at preserving value in its North American wholesale energy trading business, Enron said that it is in active discussions with various leading financial institutions to provide credit support for, recapitalize and revitalize that business under a new ownership structure. It is anticipated that Enron would provide the new entity with traders, back office capabilities and technology from Enron's North American wholesale energy business, and that the new entity would conduct counterparty transactions through EnronOnline, the company's existing energy trading platform. Any such arrangement would be subject to the approval of the Bankruptcy Court.

In connection with the company's Chapter 11 filings, Enron is in active discussions with leading financial institutions for debtor-in-possession (DIP) financing and expects to complete these discussions shortly. Upon the completion and court approval of these arrangements, the new funding will be available immediately on an interim basis to supplement Enron's existing capital and help the company fulfill obligations associated with operating its business, including its employee payroll and payments to vendors for goods and services provided on or after today's filing.

Filings for Chapter 11 reorganization have been made for a total of 14 affiliated entities, including Enron Corp.; Enron North America Corp., the company's wholesale energy trading business; Enron Energy Services, the company's retail energy marketing operations; Enron Transportation Services, the holding company for Enron's pipeline operations; Enron Broadband Services, the company's bandwidth trading operation; and Enron Metals & Commodity Corp.

Enron-related entities not included in the Chapter 11 filing are not affected by the filing. These non-filing entities include Northern Natural Gas Pipeline, Transwestern Pipeline, Florida Gas Transmission, EOTT, Portland General Electric and numerous other Enron international entities.

To conserve capital, Enron will implement a comprehensive cost-saving program that will include substantial workforce reductions. These workforce reductions primarily will affect the company's

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operations in Houston, where Enron currently employs approximately 7,500 people. In addition, the company will continue its accelerated program to divest or wind down non-core assets and operations. Details of the units to be affected will be communicated shortly.

The Dynegy Lawsuit

In its lawsuit filed today in U.S. Bankruptcy Court in New York, Enron alleges, among other things, that Dynegy breached its Merger Agreement with Enron by terminating the agreement when it had no contractual right to do so; and that Dynegy has no right to exercise its option to acquire the entity that indirectly owns the Northern Natural Gas pipeline because that option can only be triggered by a valid termination of the Merger Agreement.

The Chapter 11 Filings

In conjunction with today's petitions for Chapter 11 reorganization, Enron will ask the Bankruptcy Court to consider a variety of "first day motions" to support its employees, vendors, trading counterparties, customers and other constituents. These include motions seeking court permission to continue payments for employee payroll and health benefits; obtain interim financing authority and maintain cash management programs; and retain legal, financial and other professionals to support the company's reorganization actions. In accordance with applicable law and court orders, vendors and suppliers who provided goods or services to Enron Corp. or the subsidiaries that have filed for Chapter 11 protection before today's filing may have pre-petition claims, which will be frozen pending court authorization of payment or consummation of a plan of reorganization.

The Wholesale Energy Trading Business

The discussions currently underway with various leading financial institutions are aimed at obtaining credit support for, recapitalizing and revitalizing Enron's North American wholesale energy trading operations under a new ownership structure in which Enron would continue to have a significant ownership interest.

"If these discussions are successful, they could result in the creation of a new trading entity with a strong and unencumbered balance sheet, the industry's finest trading team, and its leading technology platform, all backed by one or more of the world's leading financial institutions," said Greg Whalley, Enron president and chief operating officer. "We understand that it may take time for counterparties to resume normal trading levels with this entity, but we are confident that this business can be put back on a solid footing. Obviously, our potential partners share our confidence or they would not be at the table with us. We intend to take steps to retain employees who are key to the future success of our wholesale energy trading business and to regain the support and confidence of its trading counterparties."

Comment by Ken Lay

"From an operational standpoint, our energy businesses-including our pipelines and utilities-are conducting normal operations and will continue to do so," said Kenneth L. Lay, chairman and CEO of Enron. "While uncertainty during the past few weeks has severely impacted the market's confidence in Enron and its trading operations, we are taking the steps announced today to help preserve capital, stabilize our businesses, restore the confidence of our trading counterparties, and enhance our ability to pay our creditors." Enron's principal legal advisor with regard to the proposed merger with Dynegy, Enron's Chapter 11 filings, the Dynegy lawsuit, and related matters is Weil, Gotshal & Manges LLP. Enron's principal financial advisor with regard to its financial restructuring is The Blackstone Group.

About Enron Corp.

Enron Corp. markets electricity and natural gas, delivers energy and other physical commodities, and provides financial and risk management services to customers around the world. Enron's Internet address is www.enron.com.

Forward-looking Statements

This press release contains statements that are forward-looking within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and that actual results could differ materially as a result of known and unknown risks and uncertainties, including: various regulatory issues, the outcome of the Chapter 11 process, the outcome of the discussions referred to above, general economic conditions, future trends, and other risks, uncertainties and factors disclosed in the Company's most recent reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. SOURCE Enron Corp.

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/Web site: <http://www.enron.com/>

(ENE DYN)

NEW YORK -- Enron Corp. (ENE) announced Sunday that it and some of its subsidiaries have filed voluntary petitions for Chapter 11 reorganization with the U.S. Bankruptcy Court for the Southern District of New York.

The company said that it had also filed suit against Dynegy Inc. (DYN) in the same court, alleging breach of contract in connection with Dynegy's wrongful termination of its proposed merger with Enron and seeking damages of at least \$10 billion.

Enron's lawsuit also seeks the court's declaration that Dynegy is not entitled to exercise its option to acquire an Enron subsidiary that indirectly owns Northern Natural Gas Pipeline.

Enron said the proceeds from the lawsuit would benefit its creditors.

Enron said that it is in "active discussions" with financial institutions to recapitalize and provide credit support for its North American energy trading business under a new ownership structure.

Enron said in a statement that "it is anticipated" that the company would provide the new entity with traders, back office capabilities and technology. The new entity would conduct counterparty transactions through EnronOnline, the company's existing energy trading platform. Any such arrangement would be subject to the approval of the Bankruptcy Court, Enron said in the statement.

To conserve capital, Enron will implement a comprehensive cost-saving program that will include substantial workforce reductions.

These cuts will primarily affect the company's operations in Houston, where Enron currently employs approximately 7,500 people.

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In addition, the company will continue its accelerated program to divest or wind down non-core assets and operations.

Details of the units to be affected will be communicated shortly, the company said in its statement.

Enron said Chapter 11 filings were made for 14 affiliated entities, including Enron Corp.; Enron North America Corp., the company's wholesale energy trading business; Enron Energy Services, the retail energy marketing business; Enron Transportation Services, the holding company for Enron's pipeline operations; Enron Broadband Services, a bandwidth trading operation; and Enron Metals & Commodity Corp.

Enron-related entities not included in the bankruptcy filing are not affected by the filing, Enron said. These non-filing entities include Northern Natural Gas Pipeline, Transwestern Pipeline, Florida Gas Transmission, EOTT, Portland General Electric and numerous other Enron international entities.

Enron said that "from an operational standpoint, our energy businesses-including our pipelines and utilities-are conducting normal operations and will continue to do so."

The company said that although "uncertainty during the past few weeks has severely impacted the market's confidence in Enron and its trading operations," Enron intends to "help preserve capital, stabilize our businesses, restore the confidence of our trading counterparties, and enhance our ability to pay our creditors."

In connection with Enron's Chapter 11 filings, the company is in "active discussions with leading financial institutions" for debtor-in-possession financing and expects to complete these discussions shortly.

Upon the completion and court approval of these arrangements, the new funding will be available immediately on an interim basis to supplement Enron's existing capital and help fulfill obligations including payroll and payments to vendors, Enron said.

Enron will ask the bankruptcy court to consider a variety of "first day motions" to support its employees, vendors, trading counterparties, customers and other constituents. These include motions seeking permission to continue payments for employee payroll and health benefits; obtain interim financing authority and maintain cash management programs; and retain legal, financial and other professionals.

The company said its legal adviser for the lawsuit and proposed merger with Dynegy and Enron's Chapter 11 filing is Weil Gotshal & Manges LLP. Enron's principal financial adviser for its financial restructuring is The Blackstone Group.

Enron, which hopes to have a "significant ownership interest" in the proposed new entity that owns its North American wholesale energy trading operations, said "we understand that it may take time for counterparties to resume normal trading levels with this entity, but we are confident that this business can be put back on a solid footing."

Dynegy terminated its plan to acquire Enron on Wednesday after credit-rating agencies downgraded a major portion of Enron's debt to "junk" status. Enron's energy trading ground almost to a halt because trading partners became worried about Enron's finances.

Bankers involved in Enron's restructuring discussions estimate that liabilities total \$40 billion, including

\$13 billion in debt on its balance sheet, The Wall Street Journal reported.

Enron shares closed Friday at 26 cents, down 10 cents. The stock reached as high as \$90 little over a year ago.

Company Web site: <http://www.enron.com>

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Enron Asked for Help From Cabinet Officials

CEO Sought Intervention Before Bankruptcy

By Dana Milbank and Peter Behr
Washington Post Staff Writers
Friday, January 11, 2002; Page A01

Bush administration officials yesterday disclosed that the top official of Enron Corp., one of President Bush's biggest campaign donors, sought help from the administration to avoid a bankruptcy filing in the weeks before the giant energy concern collapsed last year, wiping out the pensions of thousands of workers.

Enron Chief Executive Kenneth L. Lay had conversations about his company's dire financial situation with Treasury Secretary Paul H. O'Neill and Commerce Secretary Donald L. Evans. Lay told Evans, Bush's former campaign manager, that he would welcome help stopping a private credit rating agency from downgrading Enron debt -- an event that could force Enron into bankruptcy.

Administration officials said yesterday that Evans did not intervene. Enron filed for bankruptcy protection on Dec. 2, the largest such case in U.S. history.

Also yesterday, Enron's auditor, Arthur Andersen LLP, informed the government that employees at the accounting firm had destroyed a "significant" number of Enron-related documents -- thousands of records, according to congressional investigators. The Securities and Exchange Commission took the unusual step of saying it is widening its investigation of Enron . to include the destruction of those records.

As the controversy grew yesterday, Attorney General John D. Ashcroft and a top aide recused themselves from the Justice Department's just-announced criminal investigation into Enron's collapse. Ashcroft's political committees received \$57,499 from company executives in the last election cycle. The U.S. attorney's staff in Enron's home town of Houston also recused itself because of Enron ties.

The developments significantly expanded the controversy over Enron and its ties to the administration at a time when the White House has sought to limit the political damage. Earlier this month, the White House disclosed that the task force that developed the Bush administration's energy policy last year met six times with Enron officials but said the company's finances were not discussed.

Until yesterday, White House press secretary Ari Fleischer said there was "nobody here that I'm aware of" at the White House who had been informed earlier. The White House said O'Neill and Evans did not notify Bush until yesterday of contacts with Lay about Enron's troubles.

Bush yesterday commissioned task forces to provide recommendations to reform pension laws "to make sure that people are not exposed to losing their life savings as the result of a bankruptcy" and "to analyze corporate disclosure rules and regulations."

On Capitol Hill, Republicans joined Democrats in calling for probes into Enron. The Senate Governmental Affairs Committee will hold a hearing on Jan. 24 and the Senate Commerce, Science and Transportation Committee will begin hearings on Feb. 4. The House Energy and Commerce Committee, whose investigators discovered Andersen employees had destroyed Enron documents, will have hearings in "early February," a committee spokesman said.

The White House faces increased pressure from Congress to disclose all meetings its energy policy task force had with energy industry officials last year. Congress's General Accounting Office said it would decide within the month whether to take the administration to court over its refusal to provide information on who the task force met with.

Lay's name appeared on early lists of possible Bush cabinet secretaries, and he was one of the Bush "Pioneers" who raised at least \$100,000 for the presidential campaign. According to the Center for Public Integrity, a watchdog group, Lay contributed \$44,000 to Bush's presidential campaign, part of \$220,700 in contributions to Bush's presidential efforts by top Enron executives. Between 1999 and 2001, Enron made \$1.9 million in unregulated "soft money" contributions, mostly to Republicans.

The president yesterday said he "never discussed with Mr. Lay the financial problems of the company." Bush added that his "administration will fully investigate issues such as the Enron bankruptcy to make sure we can learn from the past and make sure that workers are protected."

Administration officials said Lay discussed Enron's plight with O'Neill on Oct. 28 and Nov. 8, and Evans on Oct. 29. On Oct. 16, Enron reported a \$638 million loss and the first in a series of damaging errors in its accounting.

Fleischer said Lay called O'Neill "to advise him about his concern about the obligations of Enron." Lay suggested the case of Long-Term Capital Management LP could be a model. In 1998, that firm, a hedge fund, benefited from a government-coordinated bailout by other financial institutions after losing more than \$4 billion in trading of the complex financial instruments known as derivatives.

"Long-Term Capital was unable to meet its obligations and headed to bankruptcy, and he wanted Secretary O'Neill to be aware of that, the Long-Term Capital experience as a guide," Fleischer said. "Secretary O'Neill then contacted Undersecretary [Peter R.] Fisher, Undersecretary Fisher looked at that and concluded there would be no more impact on the overall economy." Fisher had been involved in the Long-Term Capital bailout as a Federal Reserve official.

O'Neill said he considered his conversations with Lay "business as usual." O'Neill told CNN: "I get calls every day from the big players in the world. Enron was the biggest trader of energy in the world."

In addition, Fleischer said, Lay brought to Evans's attention "the problems with the obligations and the bankruptcy. He was having problems with his bond rating and was worried about its impact on the energy sector."

Commerce Department spokesman Jim Dyke said Lay indicated "he would welcome any support the secretary thought was appropriate" persuading Moody's Investors Service not to downgrade Enron's debt. Evans talked to his general counsel and conferred with O'Neill over lunch on Oct. 29, then decided not to act, Dyke said.

Evans told CNBC Lay did not specifically ask him to call Moody's: "He said, 'I want you to know that Moody is currently reviewing it. If there's any kind of support you could give us, we would welcome that.'"

When Lay approached Evans, Moody's was considering downgrading billions of dollars in Enron debt, an action that financial analysts said would drive Enron's stock price down further and cut deeply into its trading business. On Nov. 28, Moody's and other rating services downgraded Enron's bonds to "junk" status, forcing it into bankruptcy court.

Enron's attorney, Robert Bennett, said Lay believed he had an obligation to alert the administration to Enron's precarious condition and the possibility that it could fall into bankruptcy. "He asked them for nothing," Bennett said.

Federal and congressional investigators are probing whether senior Enron executives exaggerated company profits and concealed rapidly mounting debts through hundreds of investment partnerships and offshore corporations.

Andersen's disclosure of destroyed records, which led the firm to hire former senator John Danforth to examine Andersen's records management, infuriated lawmakers. Sen. Carl Levin (D-Mich.), who heads a Senate Governmental Affairs subcommittee investigation of Enron, said the destroyed records would be a new priority.

House Energy and Commerce Committee Chairman Billy Tauzin (R-La.) said of the lost documents: "Anyone who destroyed records simply out of stupidity should be fired. Anybody who destroyed records to try and subvert our investigation should be prosecuted."

Investigators for the committee first requested the records on Dec. 13. But Bennett said Enron was unaware that Andersen was destroying records. "The first they heard of it was today," Bennett said, after checking with a senior Enron executive.

Andersen promised "all appropriate remedial and disciplinary action."

Rep. Henry Waxman (D-Calif.), who has been pressing for more information on White House ties to the energy industry, said Bush should have intervened -- not to help Enron but to help its workers.

Waxman sent a letter to Ashcroft yesterday asking the attorney general to recuse himself before Ashcroft did just that.

The White House sought to preempt congressional inquiries. Fleischer warned Democrats against investigations into the administration's dealings with Enron. "The American people are tired of partisan witch hunts and endless investigations," he said.

Fleischer also said there was no need for a special prosecutor.

But Republican officials on Capitol Hill said they had little desire to defend the administration and suggested the White House make fuller disclosures of contacts with energy officials. "I don't know why they're sitting on it," said a GOP official on the House Government Reform Committee. "By not getting it all out, it makes it look like they're covering something up."

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DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

November 17, 1998

VIA FACSIMILE

The Honorable Pedro Lamport
Finance Minister
Guatemala Ministry of Finance
8 Avenue, 21 Calle Zona 1, Centro Civico
Guatemala City

Minister Lamport:

Rather than continue to exchange messages, I thought I might send you a brief letter as the promised follow-up to our recent conversation regarding proposed changes to Guatemala's Commercial and Agricultural Business Tax (the IEMA.)

First, let me reiterate what I believe Deputy Assistant Secretary Zelikow told you at your meeting with him on October 9th. It is *not* the position of the U.S. Treasury Department that the IEMA should be withdrawn or changed in a manner that adversely affects the revenue it generates. If, however, it were possible to change the tax to make it creditable for U.S. tax purposes while not significantly reducing the revenue collected therefrom, we would welcome such a change.

I would also like to stress that the U.S. Treasury Department has not evaluated the private sector proposal for modification of the IEMA you have received, nor would it do so. Ordinarily, determinations regarding the creditability of foreign taxes are made only by the U.S. Internal Revenue Service with respect to already enacted taxes and upon receipt of a request from a taxpayer subject to the tax. In the case of proposed taxes or proposed changes to an existing tax, foreign governments sometimes rely upon the advice of U.S. tax counsel in crafting a tax that in counsel's opinion would be creditable for U.S. tax purposes. There is, of course, no way to be certain that the IRS would agree with counsel's advice, although the IRS has on occasion met with foreign government representatives to discuss creditability issues generally.

These are the points I had hoped to make to you by phone. I hope they are clear. To help ensure that there is no misunderstanding, we will convey to Enron the substance of this letter. Please feel free to call me if you would like to discuss this matter further.

Sincerely,

Philip R. West
International Tax Counsel

cc: Deputy Assistant Secretary Dan Zelikow

bcc: Deputy Assistant Secretary Joseph H. Guttentag
Richard Johnston, International Economist

00900000000319



8

Enron Corp.
P. O. Box 1188
Houston, TX 77251-1188

GINTY

January 14, 1998

Mr. Philip R. West
International Tax Counsel
U.S. Treasury Department
1500 Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dear Mr. West,

Thank you for taking the time last week to meet with Cullen Duke, Mike Pate, Shannon Ratliff and me to discuss various international tax competitiveness and simplification proposals. In particular, these proposals impact U.S. multinational companies involved in foreign infrastructure projects. We appreciate your diligent review of our proposals and your insightful comments. We will be glad to provide you with any additional information that you may need to perform your analysis of our proposals.

In response to your concerns with our suggested amendment to the Subpart F high-tax exception, we offer the following illustration of the current inequities of the high-tax exception and a modified proposed solution.

ILLUSTRATION OF COMPUTATIONAL PROBLEMS

The House Committee Report to the Tax Reform Act of 1986 stated that the high-tax exception should provide the taxpayer with certainty and should be applied broadly where there is no tax avoidance. As we discussed, the computational methodology adopted in the final high-tax regulations does not achieve these Congressional objectives due primarily to the following: (i) the high-tax exception is based on U.S. earnings and profits which often causes an artificial dilution of the foreign effective tax rate; (ii) the test is computed on a post-'86 pool basis as opposed to the general current year focus of Subpart F; (iii) the utilization of foreign tax loss carryovers is effectively treated as tax avoidance; and (iv) the test must be computed in U.S. dollars which places the U.S. shareholder at the mercy of unpredictable currency exchange rate fluctuations.

To illustrate the unintended results of the current high-tax exception test, we considered whether a U.S. company doing business in the U.S. could meet this exception. Attached as Exhibit A is an example of how the high-tax exception would apply to a U.S. company owned by a Dutch subsidiary of a U.K. multinational assuming that the U.K. had a U.S. style Subpart F regime with the same high-tax exception test as described in Reg. §1.954-1(d). In this example, we assumed

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that the U.S. subsidiary owns and operates a relatively small power plant in the U.S. and is fully subject to U.S. federal tax with no special tax benefits. (The example is based on an actual foreign project.) **Incredibly, the U.S. company would have to defer dividends until its twenty-seventh year of operations in order for the Dutch holding company to meet the high-tax exception on dividends paid by the U.S. company!** Clearly this is an incongruous result that a U.S. computational exception to Subpart F cannot be met when applied to U.S. tax law itself. Nonetheless, this is the situation that we face in numerous foreign countries that have tax rates around 35% and some sort of accelerated depreciation.

MODIFIED PROPOSED SOLUTION

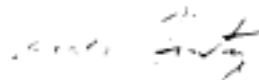
A possible solution to the four computational problems that we noted would be to amend §954(b)(4) as follows,

“...if the taxpayer establishes to the satisfaction of the Secretary that (i) such income was subject to a statutory rate of creditable income tax for that year imposed by a foreign country greater than 90% of the maximum rate of tax specified in §11, and (ii) the actual foreign tax paid on such income was 90% or greater of the theoretical U.S. §11 tax (computed in functional currency of the CFC) that would have been due if such income were earned from sources within the U.S. by a U.S. corporation.”

Using this revised high-tax exception definition, the U.S. company in our example would meet the high-tax exception in every year, including years when no tax is actually paid due to current year tax losses or tax loss carryovers. See Exhibit B. We acknowledge that our proposal would introduce additional complexity (i.e., an “as if” U.S. taxable income calculation), but since the high-tax exception is elective this complexity would be at the taxpayer’s discretion. In our case, we would welcome this complexity since it would provide us with a workable high-tax exception that could be modeled with certainty.

We appreciate your consideration of our proposals. Please do not hesitate to call Cullen at (713) 646-6063 or me at (713) 853-6491 if you have any questions or comments.

Sincerely,



James A. Ginty
General Manager - International Tax

Attachments - as stated

cc: Mr. William Morris (U.S. Treasury)
Ms. Barbara Angus (JCT)

Ms. Brig Pari (Senate Finance Committee)
Mr. Nick Giordano (Senate Finance Committee)
Mr. John Buckley (Ways and Means Committee)
Ms. Judy Hill (Senator Hatch's Office)
Ms. Maria Freese (Senator Baucus' Office)
Mr. David Pearce (Rep. Houghton's Office)
Mr. Craig Kramer (Rep. Levin's Office)

Exhibit A
Example of High Tax Exception of Reselection §1.964-1(d)
 (9997)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
U.S. Tax Computation																
Revenue	21,000	43,000	45,000	45,000	45,000	45,000	45,000	47,000	48,000	49,000	51,000	52,000	53,000	54,000	54,000	56,000
Operating Expenses	(11,000)	(12,000)	(12,000)	(12,000)	(14,000)	(14,000)	(14,000)	(15,000)	(16,000)	(17,000)	(19,000)	(20,000)	(21,000)	(22,000)	(24,000)	(26,000)
Other Income	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Interest Expense	(2,000)	(4,000)	(4,000)	(4,000)	(7,000)	(6,000)	(5,000)	(4,000)	(3,000)	(2,000)	(2,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
U.S. Tax Depreciation	(11,000)	(17,000)	(18,000)	(18,000)	(18,000)	(15,000)	(13,000)	(12,000)	(12,000)	(12,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)
NOL C/F	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Taxable Income (Loss)	(2,000)	(2,000)	(2,000)	(2,000)	(8,000)	0	0	0	0	0	2,000	3,000	3,000	3,000	3,000	3,000
U.S. Tax @ 35%	0	0	0	0	0	0	0	0	0	0	700	1,050	1,050	1,050	1,050	1,050
Avg. M/E Exchange Rate	1.638	1.781	1.642	1.785	1.770	1.784	1.502	1.532	1.578	1.502	1.638	1.638	1.638	1.638	1.638	1.638
Final M/E Tax Paid (L)	0	0	0	0	0	0	0	0	0	0	248	348	348	348	348	348
Beginning Balance	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Current Year Tax	0	0	0	0	0	0	0	0	0	0	248	348	348	348	348	348
Ending Balance (H)	0	0	0	0	0	0	0	0	0	0	248	348	348	348	348	348
Final M/E EIP Paid (L)	0	3,100	4,200	15,300	14,400	19,500	25,600	32,700	40,800	49,900	58,000	66,100	74,200	82,300	90,400	98,500
Beginning Balance	(2,000)	(7,000)	(4,000)	(3,000)	(9,000)	(1,000)	1,000	3,000	6,000	9,000	12,000	15,000	18,000	21,000	24,000	27,000
Current Year Taxable Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Current Year Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
EIP Depreciation Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	3,300	6,200	10,300	14,500	18,500	22,500	26,500	30,500	34,500	38,500	42,500	46,500	50,500	54,500	58,500	62,500
Taxable @ Current Year Rate (H)	(2,881)	(2,581)	(2,281)	(1,981)	(1,681)	(1,381)	(1,081)	(781)	(481)	(181)	119	419	719	1,019	1,319	1,619
High Tax Calculation																
Effective EIP Tax Rate (H-1)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.7%	7.7%	9.5%	11.5%	13.0%	13.8%
High Tax Exception Met	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No

A

Exhibit A
Examples of High Tax Excesses of Regulations 31.994-3(d)
(2007)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
U.S. Tax Computable													
Revenue	\$ 60,000	\$ 62,000	\$ 64,000	\$ 66,000	\$ 68,000	\$ 70,000	\$ 72,000	\$ 74,000	\$ 76,000	\$ 78,000	\$ 80,000	\$ 82,000	\$ 84,000
Operating Expenses	(33,000)	(40,000)	(41,000)	(42,000)	(43,000)	(44,000)	(45,000)	(46,000)	(47,000)	(48,000)	(49,000)	(50,000)	(51,000)
Other Income	300	400	500	600	700	800	900	1,000	1,100	1,200	1,300	1,400	1,500
Interest Expense	(700)	(800)	(900)	(1,000)	(1,100)	(1,200)	(1,300)	(1,400)	(1,500)	(1,600)	(1,700)	(1,800)	(1,900)
U.S. Tax Depreciation	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)
NOL Carry													
Taxable Income (Loss)	\$ 7,000	\$ 8,000	\$ 8,000	\$ 10,000	\$ 27,000	\$ 28,000	\$ 28,000	\$ 27,000	\$ 28,000	\$ 28,000	\$ 30,000	\$ 31,000	\$ 32,000
U.S. Tax @ 35%	\$ 2,450	\$ 2,800	\$ 2,800	\$ 3,500	\$ 9,450	\$ 9,800	\$ 9,800	\$ 9,450	\$ 9,800	\$ 9,800	\$ 10,500	\$ 10,850	\$ 11,200
Avg. 54 Exchange Rate	1.038	1.038	1.038	1.038	1.038	1.038	1.038	1.038	1.038	1.038	1.038	1.038	1.038
Final 36.1 Tax Paid (L)													
Beginning Balance	\$ 10,000	\$ 12,204	\$ 14,071	\$ 16,123	\$ 18,506	\$ 21,217	\$ 24,047	\$ 27,000	\$ 30,268	\$ 33,779	\$ 37,504	\$ 41,442	\$ 45,594
Current Year Tax	1,874	2,128	2,051	2,206	4,628	4,470	4,684	4,467	4,111	4,225	4,538	4,732	4,996
Ending Balance (L)	\$ 11,874	\$ 14,332	\$ 16,122	\$ 18,329	\$ 23,135	\$ 28,577	\$ 34,731	\$ 41,467	\$ 48,379	\$ 55,604	\$ 63,042	\$ 70,714	\$ 78,590
Final 36.1 EIP Paid (L)													
Beginning Balance	\$ 100,240	\$ 108,180	\$ 114,770	\$ 124,010	\$ 143,000	\$ 150,960	\$ 157,290	\$ 164,320	\$ 172,480	\$ 181,060	\$ 190,290	\$ 199,160	\$ 207,770
Current Year Taxable Income	7,000	8,000	8,000	10,000	27,000	28,000	28,000	27,000	28,000	28,000	30,000	31,000	32,000
Current Year Tax	(2,450)	(2,800)	(2,800)	(3,500)	(9,450)	(9,800)	(9,800)	(9,450)	(9,800)	(9,800)	(10,500)	(11,000)	(11,400)
EIP Depreciation Adjustment	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Ending Balance	\$ 100,790	\$ 108,380	\$ 115,270	\$ 127,510	\$ 146,550	\$ 154,360	\$ 161,490	\$ 168,870	\$ 176,680	\$ 184,260	\$ 192,790	\$ 201,160	\$ 209,370
Transferred @ Current Year Rate (R)	\$ 20,000	\$ 26,172	\$ 31,613	\$ 37,451	\$ 43,825	\$ 50,668	\$ 58,040	\$ 65,987	\$ 74,533	\$ 83,712	\$ 93,475	\$ 103,865	\$ 114,910
Final 36.1 Tax Computable													
Effective EIP Tax Rate (see (c))	34.7%	35.8%	35.2%	37.3%	30.2%	33.0%	35.5%	37.7%	39.8%	31.7%	33.8%	33.8%	35.0%
High Tax Exemption Met	No	No	No	No	No	No	No	No	No	No	Yes	Yes	Yes

Exhibit A

Notes

1. The revenue and expense numbers are based on an actual foreign project bid.
2. The power plant has a cost basis of \$285,000.
3. U.S. regular tax depreciation - 20 yrs 150% declining balance per §168 and Rev Proc 87-56 (Asset Class 49.13).
4. U.S. E&P tax depreciation - 28 yrs straight-line per §168 and Rev Proc 87-56 (Asset Class 49.13).
5. The plant is placed in service July 1987.
6. Rounding adjustments were made to final year regular and E&P tax depreciation.

Assumptions

1. The post-1997 \$/£ exchange rate was assumed to be the same as the 1997 exchange rate. (Since the first taxes are not paid until 1996, this assumption neutralizes the effect of exchange rate fluctuations. If actual future exchange rates were used, the effective tax rate in year 2015 would not likely be 35%.)
2. Taxes are paid evenly throughout the year.

**Exhibit B
Financial Statistics**

Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
1. Is the stated tax rate > 80% of U.S. rate?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2. Is actual tax paid > 90% of theoretical U.S. Tax?																	
C Actual	0	0	0	0	0	0	0	0	0	246	1,538	1,774	1,774	1,774	1,844	1,923	1,924
D 80% Theoretical	0	0	0	0	0	0	0	0	0	222	1,385	1,596	1,596	1,596	1,750	1,731	1,709
E Conclusion	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Is the high tax test met (1 & 2 must be "Yes")?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

**Exhibit B
Proposed Solution**

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
1. Is the stated tax rate > 80% of U.S. rate?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2. Is actual tax paid > 80% of theoretical U.S. tax?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
A. Actual	1,838	2,051	2,295	4,829	5,470	5,654	5,807	6,111	6,325	6,538	6,752	6,966
B. 80% Theoretical	1,854	1,844	2,038	4,346	4,823	5,175	5,308	5,500	5,692	5,885	6,077	6,269
C. Conclusion	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Is the higher level met (1 & 2 must be "Yes")?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Kelly, John Jr

From: Angus, Barbara
Sent: Tuesday, January 15, 2002 2:01 PM
To: Weinberger, Mark
Subject: Meeting with Enron

As I mentioned yesterday, I met with representatives of Enron on May 14th to talk about a series of international tax simplification and reform proposals, most of which were items included in the Hatch-Baucus-Houghton-Levin international bills introduced each Congress. Because of the variety of technical issues they wanted to address, Michael Mundaca, Pat Brown and Michael Caballero all participated in the meeting. Participating from the Enron side were Jim Ginty (VP, Tax, Enron Broadband Services), Cullen Duke (VP, International Tax) and Mike Pate (Bracewell and Patterson). They sent a letter in advance of the meeting with a description of each of the issues they wanted to discuss and another letter with follow up materials after the meeting. Both letters were sent for FOIA release.

Please let me know if you would like a description of the issues they raised. Thanks.



DUKE

Cullen A. Duke
Vice President
International Tax

7

Enron Corp.
P.O. Box 1188
Houston, TX 77251-1188
713-646-6301
Fax 713-646-7151
Cullen.Duke@enron.com

May 15, 2001

Ms. Barbara M. Angus
Acting International Tax Counsel
Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, DC 20220

Dear Barbara:

Thank you for taking the time to meet with me yesterday to review the international tax provisions. As promised, enclosed is a copy of the example illustrating how the US corporate income tax on a power plant project would not meet the IRC §954(b)(4) high tax exception under the current regulations.

Please feel free to call me if you or any of your staff have further questions or comments as you review these provisions in detail.

Sincerely,

A handwritten signature in cursive script, appearing to read "Cullen".

Cullen A. Duke

Endless possibilities.™

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Exhibit A

Notes

1. The revenue and expense numbers are based on an actual foreign project bid.
2. The power plant has a cost basis of \$285,000.
3. U.S. regular tax depreciation - 20 yrs 150% declining balance per §168 and Rev Proc 87-56 (Asset Class 49.13).
4. U.S. E&P tax depreciation - 28 yrs straight-line per §168 and Rev Proc 87-56 (Asset Class 49.13).
5. The plant is placed in service July 1987.
6. Rounding adjustments were made to final year regular and E&P tax depreciation.

Assumptions

1. The post-1997 \$/£ exchange rate was assumed to be the same as the 1997 exchange rate. (Since the first taxes are not paid until 1996, this assumption neutralizes the effect of exchange rate fluctuations. If actual future exchange rates were used, the effective tax rate in year 2015 would not likely be 35%.)
2. Taxes are paid evenly throughout the year.

Exhibit A
Example of High Tax Exception of Resolutions 51, 954-110
(2011)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
U.S. Tax Characteristics														
Revenue	\$ 60,000	62,500	64,000	66,000	68,000	70,000	72,000	74,000	76,000	78,000	80,000	82,000	84,000	86,000
Operating Expenses	(30,000)	(40,000)	(41,000)	(42,000)	(43,000)	(44,000)	(45,000)	(46,000)	(47,000)	(48,000)	(49,000)	(50,000)	(51,000)	(52,000)
Other Income	300	400	500	600	700	800	900	1,000	1,100	1,200	1,300	1,400	1,500	1,600
Interest Expense	(700)	(800)	(900)	(1,000)	(1,100)	(1,200)	(1,300)	(1,400)	(1,500)	(1,600)	(1,700)	(1,800)	(1,900)	(2,000)
U.S. Tax Depreciation	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)	(13,000)
Net, C/P	\$ 2,600	3,200	3,800	4,400	5,000	5,600	6,200	6,800	7,400	8,000	8,600	9,200	9,800	10,400
Transfers received(Loss)														
U.S. Tax @ 35%	\$ 2,600	3,200	3,800	4,400	5,000	5,600	6,200	6,800	7,400	8,000	8,600	9,200	9,800	10,400
Avg. 5-C Exchange Rate	1.638	1.638	1.638	1.638	1.638	1.638	1.638	1.638	1.638	1.638	1.638	1.638	1.638	1.638
Excl. 35% Tax Paid (X)	10,610	12,234	14,071	16,123	18,388	20,871	23,577	26,507	29,659	33,032	36,625	40,448	44,500	48,781
Current Year Taxes	1,824	1,838	2,051	2,265	2,478	2,691	2,904	3,117	3,330	3,543	3,756	3,969	4,182	4,395
Ending Balance (H)	\$ 2,224	15,621	18,388	21,212	24,181	27,205	30,284	33,418	36,607	39,850	43,148	46,501	49,909	53,372
Excl. 35% Excl. Paid (X)														
Beginning Balance	108,240	116,180	124,170	134,010	143,900	153,840	163,830	173,870	183,960	194,100	204,290	214,530	224,820	235,160
Current Year Taxable Income	7,600	8,600	9,600	10,600	11,600	12,600	13,600	14,600	15,600	16,600	17,600	18,600	19,600	20,600
Current Year Tax	(2,660)	(2,910)	(3,360)	(3,710)	(4,160)	(4,610)	(5,060)	(5,510)	(5,960)	(6,410)	(6,860)	(7,310)	(7,760)	(8,210)
EXP Depreciation Adjustment	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Ending Balance	\$ 118,580	124,270	134,810	146,300	157,740	169,130	180,470	191,760	203,000	214,190	225,340	236,450	247,520	258,550
Translated @ Current Year Rate (B)	\$ 70,920	76,172	81,812	87,831	94,230	101,007	108,164	115,701	123,618	131,915	140,602	149,689	159,176	169,063
High Tax Character (B)	14.7%	15.8%	16.9%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%	17.2%
Effective EXP Tax Rate (A+B)	No	No	No	No	No	No	No	No	No	No	No	No	No	No
High Tax Exception Met														

**Exhibit B
Proposed Solution**

Item Title/Condition	1887	1888	1889	1890	1891	1892	1893	1894	1895	1896	1897	1898	1899	2000	2001	2002	2003	2004
1. Is the standard rate = 30% of U.S. rate?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2. Is actual tax paid \pm 30% of theoretical U.S. Tax?																		
a. Actual	0	0	0	0	0	0	0	0	0	246	1,528	1,774	1,714	1,844	1,827	1,810	1,810	1,824
b. 30% Theoretical	0	0	0	0	0	0	0	0	0	227	1,385	1,596	1,550	1,730	1,733	1,703	1,703	1,692
c. Conclusion	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Is the taxpayer tax net (0.82 must be "Yes")?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Exhibit B
Proposed Schedule

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1. Is the stated tax rate > 90% of U.S. rate?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2. Is actual tax paid > 90% of theoretical U.S. Tax?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
F - Actual	1,836	2,051	4,829	5,470	6,684	8,007	8,111	6,225	6,338	6,752	6,066
E - 90% Theoretical	1,654	2,038	4,346	4,923	5,115	5,206	5,300	5,892	5,885	6,077	6,209
Is Condition	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Is the high-use test met (1.8.2 must be "Yes")?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes



PATE
3

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May 8, 2001

Ms. Barbara Angus
Acting International Tax Counsel
United States Department of Treasury
1500 Pennsylvania Avenue, NW
Room 1000
Washington, DC 20220

Re: Meeting with Enron on Monday, May 14, 2001 at 3:30 p.m.

Dear Barbara:

Enclosed are materials provided by Enron detailing the issues for the meeting referenced above. We look forward to visiting with you next week, and to discussing the material with you.

The people that will be present are:

1. James ("Jim") Ginty
Vice President, Tax
Enron Broadband Services
DOB: (b)(6)
2. Cullen Andrew Duke
Vice President
International Tax
DOB: (b)(6)
3. Michael L. Pate
DOB: (b)(6)

Please call me at (202) 828-5841 if you have any questions or need additional information. Thank you.

Very truly yours,

Bracewell & Patterson, L.L.P.

Michael L. Pate

MLP/jeb
Enclosures

Reform of Subpart F Treatment of Commodities Income

Energy Risk Management and Similar Industry Problem:

As the energy (and other commodity) markets in the US and in other countries deregulate, both producers and consumers of energy, such as natural gas and electricity, are exposed to market price volatility, supply and other risks. Most of these risks can be managed through various forms of contractual agreements, including contracts for physical delivery as well as financial contracts such as swaps, forwards and notional principal contracts.

Many US and foreign energy companies seek to offer risk management solutions to these producers and consumers. US based companies are currently among the most innovative competitors in offering new and unique forms of risk management products. However, large foreign based energy companies are becoming much more competitive as they gain experience with deregulation in their own countries.

One factor that is also helping foreign based energy companies become more competitive is the US taxation of their US based competitors. Under the Subpart F rules which accelerate the US taxation of certain types of income earned through controlled foreign corporations ("CFC"), a CFC's income from these energy risk management products can be taxed currently to the US shareholder of the CFC under several provisions. For example, the physical delivery of natural gas can be taxed currently as Foreign Personal Holding Company Income ("FPHCI"), Foreign Base Company Sales Income and Foreign Base Company Oil Related Income. It is often the case that changing the terms of such a transaction to meet an exception for one of these Subpart F provisions will cause it to fall within one of the other Subpart F provisions.

While there are conventional structures to mitigate the impact of some of these Subpart F rules, such techniques are cumbersome and add complexity. In addition, recent developments with respect to non-tax issues, such as counter-party credit risk and regulatory capital requirements, make some of these techniques financially costly or even impractical from a commercial standpoint. Thus, the combination of the Subpart F anti-deferral rules and non-tax commercial considerations place US based energy companies at a competitive disadvantage relative to their foreign competitors.

Proposed Solution:

The first suggested solution would be to amend the definition of FPHCI to better coordinate the "commodity exception" for active physical commodity transactions with the "dealer exception" for active financial commodity transactions as both are described in Section 954(c). The second, preferred suggested solution would be to amend the definition of FPHCI as above, but also to make clear that qualifying commodity receipts would be excluded from all other Foreign Base Company Income definitions under Section 954.

Proposed Statutory Language:

Partial solution: Subsection (c) of Section 954 would be amended by revising sub-clause (ii) of existing clause (1)(C) to read as follows:

“(ii) are active business gains or losses from the sale of commodities, but only if substantially all of the controlled foreign corporation’s business is as an active producer, processor, merchant or handler of commodities or as a regular dealer in instruments referenced to commodities (as described in subsection (c)(2)(C) of this section).”

Preferred solution: Subsection (c) of Section 954 would be amended by deleting sub-clause (ii) of existing clause (1)(C) and re-numbering sub-clause (iii) as sub-clause (ii). A new sentence would be added to the end of clause (1)(C) to read as follows:

“This section 954 shall not apply to gains or losses which are active business gains or losses from the sale of commodities, but only if substantially all of the controlled foreign corporation’s business is as an active producer, processor, merchant or handler of commodities or as a regular dealer in instruments referenced to commodities (as described in subsection (c)(2)(C) of this section).”

Analysis, Tax Policy and Revenue Impact:

There are two significant Subpart F problems relative to risk management products offered by CFC’s. First, under the existing Subpart F rules applicable to FPHCI, a seller of energy risk management products could qualify for the financial dealer exception or the physical commodity exception but not both. The seller could qualify for the dealer exception by earning income as a dealer in financial instruments referenced to commodities, such as swaps, forwards, futures, options and notional principal contracts. Alternatively, the seller could qualify for the commodity exception by earning substantially all of its receipts from entering into transactions with respect to physical gas and electricity. However, the term “substantially all” requires 85% of gross receipts to be earned from transactions in the physical commodities. If this same seller earned 16% of its gross receipts from financial transactions that would otherwise qualify it for the dealer exception, the 84% of gross income from physical transactions would generate FPHCI.

Thus, foreign affiliates of US energy companies must offer physical and financial products in separate companies in order to qualify the two types of products for the separate exceptions. This segregation in separate entities causes numerous commercial and back-office difficulties such as i) booking physical and financial positions in separate entities complicates managing counter-party credit risk due to difficulty in offsetting positions in case of bankruptcy; ii) segregating physical and financial positions makes it difficult to adapt to market developments (e.g. the New Energy Trading Arrangements in the UK); and iii) a significant Subpart F inclusion could be inadvertently triggered by failure to record a single material transaction in the correct legal entity.

The lack of integration of the financial dealer exception with the physical commodity exception is probably due to the financial dealer exception being enacted 11 years after the physical commodity exception. From a tax policy perspective, there does not appear to be any reason to prohibit a CFC from acting as a dealer in both financial and physical risk management products. This proposed change is essentially just a technical clarification.

The second significant Subpart F problem relates to the potential application of multiple Subpart F provisions to a commodity transaction. As stated in the Senate Finance Committee Report to the Tax Reform Act of 1986, the intent of the Subpart F rules for commodity transactions is that net income from passive commodity investing should be Subpart F income, but net income derived by an active commodity business should not be Subpart F income. See page 364 of Senate Report 99-313. This is a well stated and desirable goal which is adequately reflected in the Section 954(c) FPHCI rules and Regulation 1.954-2(f).

If a commodity activity meets the stringent requirements of the Regulation 1.954-2(f) active business test, the tax policy goals of the US should be satisfied and there should be no reason to apply other Subpart F provisions. Under the current rules, other Subpart F provisions might apply to an active commodity transaction depending on the type of the commodity, whether a related party is the supplier or customer, where the commodity is purchased and/or delivered, etc. These factors should not be relevant to determining whether a commodity activity generates Subpart F income. The substantive economic activity of an active commodity business occurs where the traders, originators and back-office support personnel are located. Hundreds of employees are required to conduct an active commodity business in each location. These dealers and originators are highly trained and skilled professionals who work out of offices with substantial facilities. For commercial reasons, the operations have to be located in major financial centers such as London, Tokyo, etc. The location of the physical provisioning of the commodity is typically not a major value-added activity.

Furthermore, transactions with related parties should not raise a Subpart F concern. Under the transfer pricing rules of the US and other countries, arm's-length pricing must be used for related party transactions. For an active commodity business, there are typically comparable uncontrolled prices available (i.e., the publicly quoted screen price). It is also clear that active commodity businesses create tax nexus in each country where such businesses are located and such countries require an appropriate profit to be attributed to the operation in each country. It would be difficult to artificially shift profits out of the host countries to low tax jurisdictions. It would be even more difficult to physically locate these substantial risk management dealing operations in a tax haven jurisdiction. In other words, Subpart F has often acted as a "back-stop" to the arm's-length requirement of Section 482. We believe that due to the wealth of reliable, comparable transaction pricing for these types of businesses, Subpart F is not needed for such a back-stop.

The need for reform of the Subpart F commodity rules is driven by strong international competitiveness concerns. Currently, US companies are among the most strongly positioned energy and commodity dealers internationally. This market position has been

achieved largely as a result of the US companies' innovation in creating liquid markets and risk management products. However, foreign based energy and commodity companies are quickly building their dealing capabilities and these foreign based companies do not have home country tax laws equivalent to the Subpart F provisions affecting risk management/dealing income.

There should be little or no revenue loss to the US Treasury as a result of better integrating the physical commodities and financial dealer FPHCI exceptions because US based risk management providers are able to currently structure their operations to meet the separate physical commodities and financial dealer exceptions. However, there could be some revenue loss by subjecting commodity activities exclusively to the FPHCI provisions.

February, 2001

Change Method of Computing High Tax Exception - § 954(b)(4)

Power (and Other Asset Intensive) Industry Problem:

Pursuant to the "high tax exception" to Subpart F, a U.S. corporate shareholder should not be currently taxed on Subpart F income earned by a CFC if such income is subject to foreign tax at a rate at least equal to 90% of the U.S. corporate rate (i.e., currently 31.5%, which is 90% of 35%). The House Committee Report to the Tax Reform Act of 1986 states that the high tax exception is supposed to provide taxpayers with certainty and should be applied broadly where there is no tax avoidance. (See the attachment.) Unfortunately, the final high tax regulations do not achieve these goals.

The final regulations require that the high-tax exception be computed in U.S. dollars using U.S. earnings and profits adjustments. The requirement to use the U.S. dollar translation of taxes introduces uncontrollable exchange rate uncertainties which preclude the use of the high tax exception for pre-investment tax planning purposes. In addition, the U.S. earnings and profits adjustments inappropriately dilute the foreign effective tax rate for asset intensive businesses.

Subsequent to the TRA 1986 corporate rate reduction, many foreign countries have also adjusted their corporate tax rates to the 35% to 40% range. These countries also tend to compute local taxable income in a manner similar to U.S. rules. Thus, one would expect that the high tax exception could be met in the majority of these countries. However, because of the requirements to translate foreign taxes into U.S. dollars and make U.S. earnings and profits adjustments, it is often impossible for asset intensive businesses to meet the high tax exception.

Proposed Solution:

The proposed change would make three clarifications to the high tax exception calculation. First, the exception would be computed in the functional currency of the CFC, thereby avoiding unpredictable exchange rate problems. Second, the computation would be based solely on foreign taxes paid or accrued during the year. Third, the tax rate comparison would be made to the U.S. taxes that would be due if the CFC were conducting the same business in the U.S.

Proposed Statutory Language Change:

Subsection 954(b)(4) would be amended to read as follows:

(4) Exception for Certain Income Subject to High Foreign Taxes. - For purposes of subsection (a) and section 953, foreign base company income and insurance income shall not include any item of income received by a controlled foreign corporation if the taxpayer establishes to the satisfaction of the Secretary that such

income was subject to an effective rate of income tax for that year imposed by a foreign country greater than 90% of the section 11 tax (computed in the functional currency of the controlled foreign corporation) that would have been due if such income were earned by a domestic corporation from U.S. sources. The preceding sentence shall not apply to foreign base company oil-related income described in subsection (a)(5).

Analysis, Tax Policy and Revenue Impact:

1. Subpart F was intended to prevent avoidance or deferral of current U.S. taxation of income that was readily moveable to low-tax foreign jurisdictions. Foreign base company income that is in fact subject to a "high" rate of tax in a foreign country is not the type of income targeted by Subpart F.

Under current Regulation §1.954-1(d), the high tax exception is applied based on the effective rate of tax computed in U.S. dollars on a U.S. earnings and profit basis. That is, the foreign tax paid on an item of income (translated into U.S. dollars) is divided by the sum of the item of net foreign base income (translated into U.S. dollars) and the tax. The existing regulations for post-1986 years require the amount of taxes paid with respect to the item of net foreign base income to be determined using the post-1986 pool of foreign taxes.

The computational methodology adopted in the current regulation creates a number of distortions and inappropriate results. First, differences in the timing of when items of gross income or expense are recognized under foreign tax law and under the U.S. earnings and profits rules will affect the computation and tend to artificially dilute the foreign effective tax rate in early years. This is especially true for the U.S. earnings and profits adjustment for depreciation expense. Second, computing the effective rate in U.S. dollars may distort the effective rate since the amount of the tax and the earnings and profits amount may be computed using different exchange rates. (A computation in the CFC's functional currency would be consistent with the general functional currency E&P tracking rule of Section 986(b)(1).) Third, there is a severe penalty for the utilization of a foreign tax loss carryover because the resulting foreign effective rate is compared to the U.S. statutory rate. Fourth, reference to the post-1986 pool of foreign taxes is inconsistent with the general current year approach of Subpart F.

2. Since the proposed change would compare the actual foreign tax paid to the U.S. tax that would have been paid if the activity were performed in the U.S., the tax policy objective of discouraging avoidance of U.S. tax would be achieved. Businesses are not motivated to artificially shift income to foreign jurisdictions where the actual rate of tax is in excess of 90% of the U.S. rate. At the same time, the proposed change would simplify computations for taxpayers (for example, by computing the exception in the functional currency), resulting in greater certainty. Administration of the exception would also be simplified for the IRS.

3. The current regulations were promulgated to reflect the changes to the high tax exception made by the Tax Reform Act of 1986. The high tax exception was modified in 1986 to change from the pre-1987 subjective "significant purpose" test to an objective test. As noted in the House Committee Report to the Tax Reform Act of 1986, the intent of the change to the high tax exception was to make the application of the high tax exception more certain, especially considering that the scope of income covered by Subpart F was substantially broadened by the 1986 Act. For reasons stated in items 1. and 2. above, the final high tax exception regulation does not meet this Congressional objective.

4. There may be some revenue loss as a result of this change, but it should be insignificant. First, many taxpayers in the power industry structure their projects so as to avoid the need to rely on meeting the high tax exception. However, this structuring is costly and adds to the complexity of U.S. tax reporting and administration. Second, this proposal should be viewed not as a legislative change, but rather as a simplification and rejection of the current Regulation §1.954-1(d) as going beyond the intent of Congress when Section 954(b)(4) was amended in 1986.

February, 2001

Tax Reform Act of 1986 - Extract from the House Committee
Report to Act Section 1221

"The bill modifies the rule of section 954(b)(4), which excludes non-tax avoidance income from current taxation under subpart F, by replacing present law's subjective "significant purpose" test with an objective rule. Under the new rule, subpart F income does not include items of income received by a controlled foreign corporation if it is established to the satisfaction of the Secretary that the income was subject to an effective rate of foreign tax equal to at least 90 percent of the maximum corporate tax rate (36 percent under the bill). However, this exception to subpart F does not apply to foreign base company oil-related income described in section 954(a)(5).

Although this rule applies separately with respect to each "item of income" received by a controlled foreign corporation, the committee expects that the Secretary will provide rules permitting reasonable groupings of items of income that bear substantially equal effective rates of tax in a given country. For example, all interest income received by a controlled foreign corporation from sources within its country of incorporation may reasonably be treated as a single item of income for purposes of this rule, if such interest is subject to uniform taxing rules in that country.

The committee intends, by making the operation of this rule more certain, to ensure that it can be used more easily than the subjective test of present law. This is important because it lends flexibility to the committee's general broadening of the categories of income that are subject in the first instance to current tax under subpart F. The committee's judgement is that because moveable income could often be as easily earned through a U.S. corporation as a foreign corporation, a U.S. taxpayer's use of a foreign corporation to earn that income may be motivated primarily by tax considerations. If, however, in a particular case no U.S. tax advantage is gained by routing income through a foreign corporation, then the basic premise of subpart F taxation is not met, and there is little reason to impose the subpart F tax. Thus, since the scope of transactions subject to subpart F will be broadened, and may sweep in a greater number of non-tax motivated transactions, the committee expects that the flexibility provided by a readily applicable exception for such transactions will become a substantially more important element of the subpart F system." (emphasis added)

Subpart F Look-Through Treatment for Partnership Sales

Power (and Other Infrastructure) Industry Problem:

Many U.S. based utility and energy companies have been pursuing foreign power projects. U.S. based companies have also been pursuing other types of foreign infrastructure projects (e.g., pipelines, roads, dams, airports).

A U.S. based multinational will often structure large foreign infrastructure projects by using a wholly owned foreign holding company (Holdco) to own its interest in the project entity (Project). Project would typically be structured as a partnership for U.S. tax purposes.

Because of the substantial capital investment required for these projects as well as for risk diversification purposes, Holdco will usually not own 100% of Project. However, Holdco may not be able to identify all third party investors for Project until some time after project development has commenced. In these cases, Holdco may sell part of its interest in Project to third parties at a later date.

Under the current Subpart F rules, gain realized by Holdco on the sale of part of its interest in Project would be Subpart F Foreign Personal Holding Company Income, subject to the normal exceptions (e.g., de minimis, high taxed). Because of the Section 864(e) interest expense allocation rules and the Section 904(f) overall foreign loss rules, many U.S. based multinationals engaged in foreign infrastructure activities cannot claim foreign tax credits. Accordingly, if Subpart F applies, there will likely be double taxation.

In certain cases, Subpart F income can be avoided by having Project issue new shares/units to the third party investors. Of course, this is an economically different result since Project, not Holdco, receives the cash.

If the U.S. shareholder of Holdco is not required to pay tax on a Subpart F inclusion, the cash would typically be reinvested by Holdco in other foreign projects or used to pay down Holdco's debt.

Proposed Solution:

The suggested solution would provide for a look-through (i.e., aggregate) rule for the sale of a partnership interest for Subpart F purposes such that the sale of a partnership interest would be treated as a sale of the underlying assets of the partnership provided that the CFC partner owns more than a portfolio interest in the partnership prior to the sale.

Proposed Statutory Language:

New paragraph (4) would be added to Section 954(c) to read as follows:

- (4) Look-through Rule for Dispositions of Partnership Interests. –

(A) **IN GENERAL.** – In the case of any sale or exchange by a controlled foreign corporation of an interest in a partnership with respect to which the corporation is a 10-percent owner, such corporation shall be treated for purposes of this subsection as selling or exchanging the proportionate share of the assets of the partnership attributable to such interest.

(B) **10-PERCENT OWNER.** – For purposes of this paragraph, the term ‘10-percent owner’ means a controlled foreign corporation which owns 10 percent or more of the capital or profits interest in the partnership. The constructive ownership rules of section 958(b) shall apply for purposes of the preceding sentence.

(Substantially similar language was included as Section 108 of the International Tax Simplification for American Competitiveness Act of 1998 (S. 2231, H.R. 4173).)

Analysis, Tax Policy and Revenue Impact:

1. The current Subpart F rules provide foreign multinationals with competitive advantage over U.S. multinationals with respect to foreign infrastructure activities. Foreign multinationals are generally able to structure project sales in a tax efficient and administratively simple manner. On the other hand, U.S. multinationals are frequently faced with double taxation of such income. Because these foreign infrastructure projects are very competitive, a decreased rate of return for a U.S. based multinational due to Subpart F provisions could mean lost projects.

2. The proposed change would conform the Subpart F partnership gain rule with other partnership disposition rules and with U.S. tax policy. Specifically,

a. The current Subpart F rule for gains from partnership sales is directly contrary to the Service’s position in Revenue Ruling 91-32 relative to the disposition of a foreign partner’s interest in a partnership that is engaged in a U.S. trade or business. In this ruling, the IRS stated,

“it is appropriate to treat a foreign partner’s disposition of its interest in a partnership that is engaged in a trade or business through a fixed place of business in the United States as a disposition of an aggregate interest in the partnership’s underlying property for purposes of determining the source and ECI character of the gain or loss realized by the foreign partner”.

The outbound partnership transfer rule of Section 367(a)(4) and the inbound FIRPTA rule of Section 897(g), both statutory provisions, also use a look-through (aggregate) rule for characterizing the gain from the sale or exchange of a partnership interest. There is no tax policy reason why this same look-through treatment should not apply for Subpart F purposes.

Similarly, Section 751 provides a look-through (aggregate) rule to re-characterize capital gain from the disposition of a partnership interest as ordinary income to the extent of the partner's share of "tainted" ordinary income assets held by the partnership. Subpart F should have an analogous rule for "tainted" passive assets and income, but the rule should be likewise limited by such a look-through.

b. Subpart F could be avoided if an interest in the assets of the partnership were sold and the cash distributed to the CFC partner. However, this is frequently not feasible due to burdensome and costly foreign country legal requirements and considerations.

U.S. tax policy includes the principle that two economically similar transactions (i.e., a sale of a partnership interest and a sale of partnership assets followed by a cash distribution) should not result in diametrically opposite tax results. For example, the IRS stated in the preamble to the final and temporary Section 367 regulations (T.D. 8770, June 19, 1998) that "The IRS and Treasury Department believe that substantially similar transactions ... should not be treated in markedly different manners."

c. The legislative history to the existing rule of Section 954(c)(1)(B) does not indicate why partnership gains were added to Subpart F. See the House Committee Report to the Technical and Miscellaneous Revenue Act of 1988. Presumably, this provision was directed at partnership gains realized by portfolio investors. If so, the proposed change would address this concern by limiting look-through treatment to 10% or greater partners.

d. With a look-through rule, gain attributable to passive Subpart F type assets (e.g., stock investments, and securities) would continue to be subject to Subpart F.

3. It is difficult to imagine how a look-through rule could be used by taxpayers to obtain abusive results since the Subpart F provisions would apply to the deemed sale of the partnership's assets.

4. This issue was not addressed by the so-called Brown Group regulations re-issued last fall as proposed regulations. However, we believe that a look-through rule for a disposition of partnership interests would be completely consistent with such regulations.

5. The proposed change could result in some revenue loss to the U.S. Treasury, but it should not be significant. As noted, gains from portfolio investments and gains from other passive Subpart F assets would continue to be subject to Subpart F.

6. Substantially similar language was included as Section 107 of the International Tax Simplification for American Competitiveness Act of 1999, introduced in the 1st session of the 106th Congress as S. 1164 by Senators Hatch and Baucus and as H.R. 2018 by Representatives Houghton and Levin.

February, 2001

Exclude Pipeline Transportation from Subpart F

Pipeline Industry Problem:

Many countries in South America, Europe and elsewhere are adopting open access pipeline transportation, as in the U.S. Most of these pipeline systems will involve transporting natural gas across national borders. The subpart F rules accelerating U.S. taxation of foreign base company oil related income ("FBCORI") include a CFC's income from pipeline transportation of hydrocarbons. Exceptions are provided for 1) transportation income earned in the country where the hydrocarbons are extracted or 2) transportation income earned in the destination country but only if the CFC or a related person sells the hydrocarbons for use or consumption in that country. This makes it difficult for the CFC owner of a multinational open access pipeline to fall within one of these exceptions. In such a case, the CFC is unlikely to be involved in extraction activities or own an interest in the hydrocarbons (either directly or through a related party).

Furthermore, if the hydrocarbons are transported across a third country which is neither a producer nor a consumer there is no possible exception to Subpart F. (The Section 954(b)(4) high tax exception does not apply to FBCORI.) See the attached map (Attachment A), which is representative of an open access pipeline project under development that would fall within this latter category.

The intent of the FBCORI provisions in Subpart F was to currently tax the sales and distribution income of U.S. based integrated petroleum companies where such income was easily shifted to low tax jurisdictions from the countries where the petroleum products were extracted or consumed. The ironic aspect of the current rules as applied to the described situation is that the absence of ownership in the hydrocarbons prevents the CFC pipeline from benefiting from the consumption exception. It is clear from the legislative history that multinational oil and gas company income and not pipeline transportation income was the target of the FBCORI rules. Nonetheless, the current rules capture U.S. developers of foreign pipelines which make them non-competitive in bids for these pipeline opportunities.

Proposed Solution:

The proposed change would add a third exception to FBCORI for pipeline transportation of oil or gas. Thus, the exception would apply whether or not the CFC owner of the pipeline owns any interest in the hydrocarbons. In addition, the exception would apply to income earned from transportation across a country where the hydrocarbons were neither extracted nor consumed.

Proposed Statutory Language Change:

Subsection (g)(1) of Section 954 would be amended by adding the clause "(C) the pipeline transportation of oil or gas within such foreign country." After amendment, subsection (g)(1) would read as follows:

Foreign Base Company Oil Related Income-For purposes of this section -
(1) In General - Except as otherwise provided in this subsection, the term "foreign base company oil related income" means foreign oil related income (within the meaning of paragraphs (2) and (3) of section 907(c)) other than income derived from a source within a foreign country in connection with - (A) oil or gas which was extracted from an oil or gas well located in such foreign country, (B) oil, gas, or a primary product of oil or gas which is sold by the foreign corporation or a related person for use or consumption within such country or is loaded in such country on a vessel or aircraft as fuel for such vessel or aircraft, or (C) the pipeline transportation of oil or gas within such foreign country.

Analysis, Tax Policy and Revenue Impact:

1. A gas transportation system of the scope existing in the U.S. and Canada will be developed in South America. Pipeline systems are also being developed in Africa, Eastern Europe, Central Asia, India and elsewhere. Most of these countries are adopting open access transportation. Under the present rules dealing with FBCORI, only a limited amount of income from such pipeline systems would qualify for deferral from U.S. income taxation. The FBCORI rules place U.S. developers of such pipelines at a competitive disadvantage, which makes it more likely that foreign competitors will play the major role in the development and ownership of such pipeline systems.
2. When section 954(g) was enacted, Congress was concerned that under the then existing foreign base company income rules, U.S.-based multinational oil companies were avoiding U.S. income taxes on their foreign activities (see Attachment B). Because oil can be easily transported around the world by tanker, it was possible to produce in one country, sell at posted price, transport by ship to a refinery located where there is no income tax, take an additional marketing profit offshore and further transport the refined products to market, all without paying significant foreign or U.S. taxes. This is the type of easily moveable (and often passive) income which Subpart F was originally intended to target.
3. However, this opportunity for tax avoidance is less likely when pipeline transportation is involved. Unlike the refinery, which could be located anywhere and avail itself of inexpensive transportation by sea, pipelines can not choose their locations to avoid income taxes. (The path of a pipeline is influenced by geographic, political and market factors rather than by tax planning.) Further, title (and the source of income) to oil and refined products transported by sea can be transferred where convenient to avoid

foreign tax. Pipeline transportation income, on the other hand, will be taxed by the country or countries where the pipeline is physically located.

This type of open access pipeline transportation income was not contemplated at the time the FBCORI rules were first enacted. The proposed amendment would not be inconsistent with the policy goal of the FBCORI rules, and it would put U.S. based companies on a level playing field with their foreign competitors.

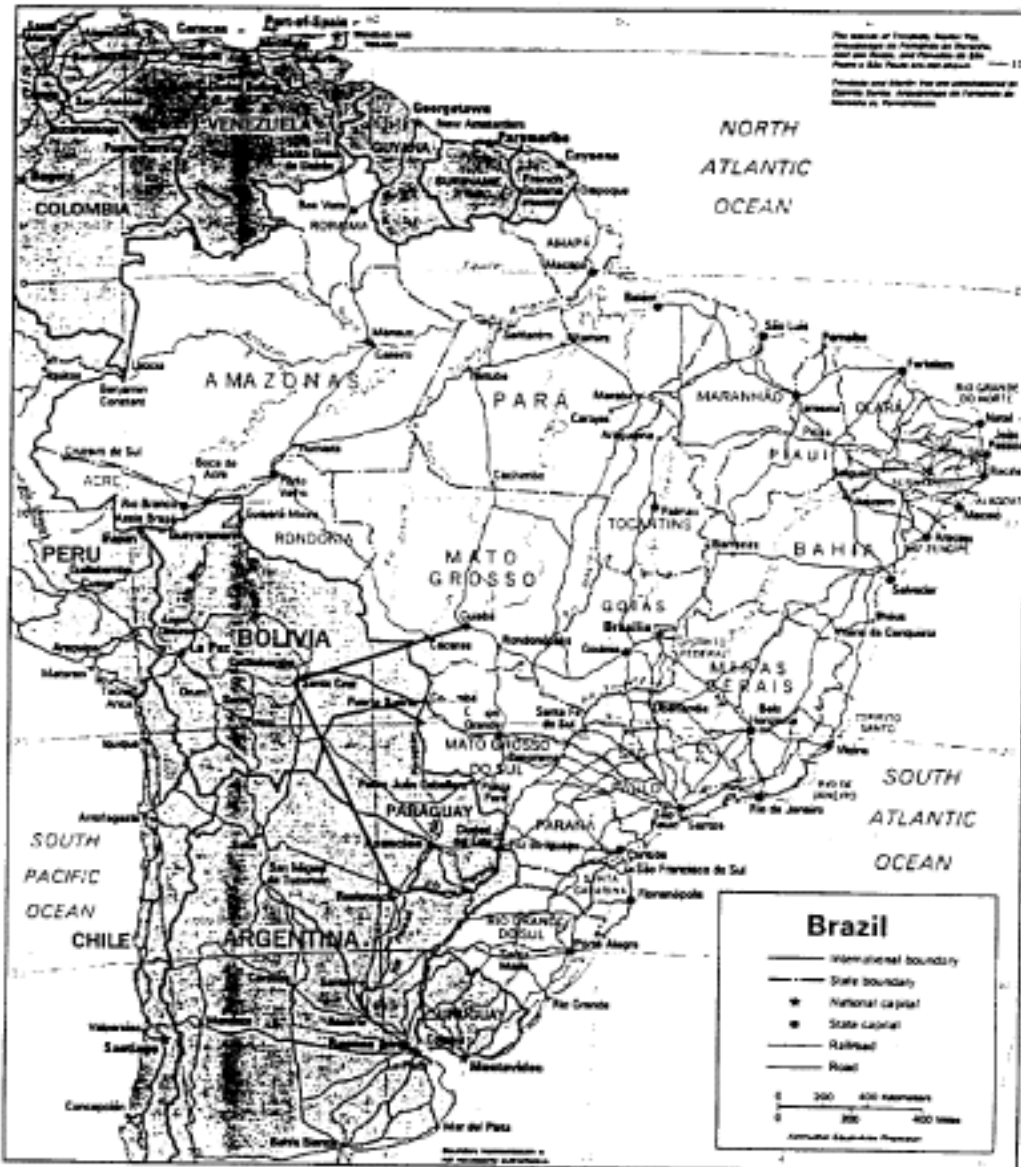
4. There should be an insignificant revenue impact from this change. There are a few foreign pipeline projects which have been developed by U.S. multinational pipeline companies. However, these few have fallen within the current limited exception to the FBCORI rules by, for example, being wholly within the country where the hydrocarbons are produced. Where the exceptions have not been met and Subpart F would apply, U.S. based pipeline companies have generally failed to be the chosen developer. In fact, the JCT has estimated the revenue impact as a loss of only \$75 million over ten years, and that estimate principally reflects an indirect revenue loss as a result of the fixed GDP revenue estimating convention.

5. This proposed change was included as Section 903 of the Taxpayer Refund & Relief Act of 1999, as passed by the Congress.

February, 2001

Argentina to Brazil Pipeline Example

Subpart F Result: The income earned from the transportation through Paraguay and Bolivia is FBCORI with no exception available. The income earned from the transportation in Brazil may not be FBCORI only if the country of consumption exception can be met.



"Even with the changes made in 1975 and succeeding years that limited the opportunity to use excess credits to shelter non-extraction income, *multinational oil companies had paid relatively little U.S. tax on their foreign operations.* In part, this was due to the special per country extraction loss rule, which provided that in computing the 46-percent limitation on extraction taxes, extraction losses were not taken into account if they arose in a country for which the taxpayer had a net extraction loss for the year, and which this Act repeals (Section 907(c)(4)). When the downstream activities were conducted in a foreign subsidiary, however, U.S. tax generally could be avoided even if foreign income taxes were not sufficient to shelter all of the foreign income, since income of a U.S.-controlled foreign subsidiary was not subject to U.S. tax until that income was paid to its shareholders. Also, *because of the fungible nature of oil and because of the complex structures involved, oil income is particularly suited to tax have type operations.* In addition, *because oil is fungible, downstream income can be manipulated* - directly, if the taxpayer produced the oil, or indirectly, through swapping or similar practices. Therefore Congress did not limit Subpart F treatment to oil income associated with oil produced by the taxpayer.

The net result has been that petroleum companies have paid little or no U.S. tax on their foreign subsidiaries' operations despite their extremely high revenue. *Congress believed that all integrated oil companies should pay U.S. tax on foreign oil related income earned in countries with taxes on that income below the U.S. rate.* Accordingly, the Act applies the present law anti-tax have provisions (Subpart F) to tax currently *certain low taxed foreign oil related income* earned by foreign corporations controlled by U.S. persons."¹

¹ Extract from the Report of the Joint Committee on Taxation to Public Law 97-248; 97th Congress; H.R. 4961 (emphasis added)

Exclude High Voltage Electricity Transmission from Subpart F

Industry Problem:

Many countries in South America, Europe and elsewhere are opening their electricity markets to competition, including privatizing assets and opening access to high voltage transmission systems. Much of the growth in these systems involves the linkage of high voltage transmission systems across national borders to create regional electricity grids. However, in order to foster the development of competitive electricity markets, the regulations being adopted generally prohibit vertical integration. Thus, electricity generation companies are often prohibited from directly owning the high voltage transmission and low voltage distribution systems.

U.S. companies participating in the development of these generation and transmission projects almost always co-venture with other investors. This may help to reduce the level of common ownership sufficiently to allow a U.S. investor to own interests in both generation and transmission companies while complying with the vertical integration restrictions under foreign law. Nonetheless, the separate project entities may still be treated as related under Subpart F.

The Subpart F rules which accelerate US taxation of foreign base company services income ("FBCSI") include a CFC's income from performance of services on behalf of a related person outside the CFC's country of incorporation. The definition of services is sufficiently broad to potentially cover the transmission of electricity generated by a related person, although the issue is not certain. See the example on the attached map which is representative of a high voltage transmission project under development that would encounter this issue.

If the income from such services were treated as FBCSI under Subpart F, such income would be taxed currently to the U.S. shareholders of the CFCs. Such current taxation would adversely impact the project economics, making it difficult for U.S. based multinationals to compete for these projects in the international marketplace.

Proposed Solution:

The proposed change would add a clause to the definition of FBCSI to clarify that it excludes income from the transmission of high voltage electricity.

Proposed Statutory Language Changes:

Subsection (e) of Section 954 would be amended by adding clause (3) "Exception for Income from Transmission of High Voltage Electricity" to read as follows:

- (3) EXCEPTION FOR INCOME FROM TRANSMISSION OF HIGH VOLTAGE ELECTRICITY. – The term 'foreign base company services income'

does not include income derived in connection with the performance of services which are related to the transmission of high voltage electricity.

Analysis, Tax Policy and Revenue Impact:

1. Electricity systems throughout the world have been generally operated by monopolistic, vertically integrated companies for most of this century. Outside the U.S., these companies have often been state-owned in contrast to mostly private ownership in the U.S. While deregulation and competition are gradually being introduced in the U.S., many foreign countries have already opened their markets to competition. This has been accompanied by partial or complete privatization of the state-owned companies in most cases. The developing regulatory environment is attempting to promote competition and inhibit the creation of monopolies by prohibiting vertical integration through the direct common ownership of generation, transmission and distribution assets.
2. The U.S. has long had a national electricity "grid" linking the proprietary transmission systems of most electric utilities, allowing for movement of electricity from areas with surplus electricity to those area electricity shortages. Due to the separate national ownership of electricity assets, lack of development capital and other factors, these large geographic transmission grids have not developed to the same extent outside the U.S. With the privatization of electricity systems as described in paragraph 1., these grids are starting to develop outside the U.S.
3. Under the current U.S. tax rules dealing with FBCSI, it is possible that the transmission of electricity on behalf of a related party could be considered as foreign base company services income. Thus, if a CFC owned a cross-border transmission system which carried electricity generated by a related CFC, the income earned in the destination country (i.e. outside the country where the electricity was generated) could possibly be taxed currently under Subpart F. The Subpart F issue could be avoided, in theory, by owning the portion of the transmission facilities in the destination country through a CFC incorporated in that country. However, this is often not feasible due to non-tax, commercial or regulatory requirements.
4. If the FBCSI rules were applied in this situation, it would place U.S. developers of these systems at a competitive disadvantage, making it more likely that foreign competitors will play the major role in developing these systems. Participation in these foreign projects is important to U.S. based energy companies to help mitigate the economic disruptions likely to occur as a result of U.S. deregulation of this industry.
5. The intent of the FBCSI provisions in Subpart F was to currently tax easily moveable income from personal services that could be earned through tax haven jurisdictions. In many cases, the income from such personal services might be performed in a third jurisdiction that would not tax the income. In such situations, the income would escape all taxation until repatriated to the U.S.

6. It is clear that income from transmission of high voltage electricity is not the type of income targeted by Subpart F. First, it is not of the same character as personal services income such as "technical, managerial, engineering... or like services" as listed in IRC § 954(e)(1). Second, it is not easily moveable, as it is only earned from the ownership and operation of substantial, permanently affixed, high voltage transmission lines, switchyards and complementary equipment. Third, the resulting income will generally be subject to substantial income taxes in the countries where the assets are physically located and the income is earned.

7. This type of income was not contemplated at the time Subpart F and the FBCSI rules were first enacted in 1962. The proposed amendment would not be inconsistent with the policy goal of the FBCSI rules, and it would put US based companies on a level playing field with their foreign competitors.

8. There should be no revenue impact from this change. As alluded to previously, it is not clear that income from the transmission of electricity falls within FBCSI as currently defined in the statute and regulations. The proposed change should be considered a technical clarification. Even if it were considered a legislative change, there should be no revenue impact. There are few cross-border transmission system projects that have been developed by multinational companies, as the projects are only now being started on a large scale. Without this proposed change, though, it is unlikely that U.S. based multinational companies will be chosen to develop many, if any, of these projects due to the adverse impact on the project economics caused by the current U.S. taxation that would occur under the existing Subpart F rules.

9. This proposed change was included as Section 904 of the Taxpayer Refund & Relief Act of 1999, as passed by the Congress.

February, 2001

Argentina to Brazil Transmission Example

Subpart F Result: Income from the transmission of electricity in Brazil on behalf of a related electricity generation company in Argentina would potentially be FBCSI.



INTEREST EXPENSE ALLOCATION RULES

IMPLICATIONS TO U.S. BASED POWER COMPANIES

Background

Prior to the 1990's, the electricity and gas industries in most foreign countries were either state owned or regulated. However, in recent years, many foreign countries have begun to privatize and deregulate these industries. This phenomenon has created opportunities for U.S.-based utilities and energy companies to pursue foreign power and pipeline infrastructure projects.

A typical foreign power or pipeline project involves hundreds of millions of dollars of capital outlay and large project specific bank borrowings. The foreign project is usually subject to significant local country income tax.

The foreign power and pipeline infrastructure industry is highly competitive. U.S.-based companies face stiff competition from foreign-based companies. Currently, due to the application of the U.S. tax system, foreign-based companies have a competitive advantage over U.S.-based companies. To compete effectively for these projects, it is crucial that U.S.-based companies avoid significant U.S. double taxation related to these projects. If there is double tax, the U.S.-based company will most likely lose the project.

U.S. Foreign Tax Credit (FTC)

A U.S. company is subject to U.S. tax on dividends paid by its foreign subsidiaries. In addition, the U.S. has an elaborate set of rules that can cause the earnings of a foreign subsidiary to be currently taxed to a U.S. shareholder on an accelerated basis regardless of whether an actual dividend has been paid (i.e., the "Subpart I" rules).

In theory, the U.S. tax on actual or deemed Subpart F dividends should be reduced by a foreign tax credit (FTC) for income taxes paid by the foreign subsidiary. If the FTC worked properly, the U.S. shareholder would only be subject to U.S. tax to the extent that the U.S. tax rate exceeds the foreign tax rate of the country where the foreign subsidiary operates. (In practice, the FTC does not work properly. See next section relative to the application of the FTC rules to the power industry.)

In order to prevent foreign taxes from offsetting the U.S. tax on domestic source income, the FTC is limited to foreign source taxable income multiplied by the U.S. tax rate (i.e., FTC limitation). To determine foreign source taxable income, the U.S. taxpayer is required to annually allocate a portion of its U.S. interest expense to foreign source income based on a ratio of foreign assets to total assets. If there is a net overall foreign loss (OFL) for a year (i.e., allocated interest expense exceeds current year foreign source dividends), the OFL carries forward to reduce the FTC limitation in future years.

Many U.S. multinationals are able to partially or fully offset the negative FTC impact of the interest expense allocation rules due to the "export sourcing" rule. The export sourcing rule allows a U.S. company to treat approximately 50% of the income from an export sale as foreign source income. Since export sales typically do not attract foreign tax, the effect of this rule is to increase the FTC limitation.

Application of the FTC Rules to Power Companies

Most power companies (whether utilities or independent energy companies) have the worst possible FTC profile imaginable. First, large capital investments in foreign projects cause the interest expense allocated to foreign source income to be high. Specifically, the interest expense allocation calculation compares the tax value of new foreign assets to the tax value of depreciated historical domestic assets, which causes a disproportionate amount of interest to be allocated to foreign sources¹. Second, most power companies do not have any export sales (or other types of low taxed foreign source income). Thus, unlike many other U.S. multinationals, power companies generally do not benefit from the export sourcing rule. Third, due to the capital intensive and regulatory nature of their domestic operations, power companies tend to have relatively high debt-to-equity ratios in their domestic operating companies. Accordingly, the amount of U.S. interest expense subject to allocation to foreign source income is relatively high. Fourth, the foreign energy projects have significant project level debt for which there is no adjustment in the U.S. interest expense allocation calculation. In other words, the FTC limitation for a power company is effectively charged twice with interest expense – once at the foreign subsidiary level and again at the U.S. shareholder level. Fifth, as an end result of the above factors, power companies tend to build-up OFL's.

Due to these FTC problems, most power companies cannot efficiently claim FTC's. Accordingly, to avoid U.S. double taxation, power companies must attempt to structure their foreign operations to avoid paying dividends to the U.S. and to avoid the tax acceleration rules of Subpart F. In many cases, this is simply not possible and the projects are lost to foreign competitors that are not subject to similar harsh tax results in their home countries.

Conclusion

The interest expense allocation rules have a serious adverse effect on the ability of a U.S.-based power company to compete for foreign projects. There does not seem to be any tax policy reason why power companies should be effectively precluded from claiming FTC's. Substantial and meaningful reform of the interest expense allocation (and/or FTC) rules is urgently needed.

February, 2001

¹ The interest expense allocation regulations allow taxpayers to elect to allocate interest on a fair market value basis. Because of the significant out-of-pocket appraisal costs required to support this election and the fact that it only provides some marginal benefit, most power companies do not make the election.

Specifically Exclude "Non-binding Intent Agreements" from Section 367(d)

Power (and Other Infrastructure) Industry Problem:

Many U.S. based utility and energy companies have been pursuing foreign power projects. U.S. based companies have also been pursuing other types of foreign infrastructure projects (e.g., pipelines, roads, dams, airports).

In the early stages of a foreign infrastructure development project, the potential developer will often sign one or more preliminary non-binding agreements (e.g., a Memorandum of Understanding (MOU), a Letter of Intent (LOI), a Heads of Agreement (HOA), a Joint Development Agreement (JDA)) with potential development partners and/or with the potential foreign customer.

Under the current Section 367(a)(3) and 367(d) rules relative to the outbound transfer of intangibles, there is arguably exposure to U.S. taxation if a U.S. corporation executes a preliminary non-binding agreement and final awarded contracts are executed by a foreign project company. In this case, the IRS might attempt to deem a transfer of the preliminary non-binding agreements from the U.S. company to the foreign project company. If the IRS were successful, the deemed transfer would be taxable to the extent of any gain.

Because of this theoretical Section 367 exposure, U.S. multinationals typically form separate foreign project company structures for each potential foreign infrastructure deal at a very early stage, and all project related agreements and contracts are executed by such foreign project companies. This approach is not just a conservative defensive position adopted by corporate tax department professionals, but is also advocated publicly by experienced counsel.

Many foreign infrastructure business opportunities never result in a final contract. The success rate for most U.S. multinationals is less than 10%. Thus, U.S. multinationals that are engaged in foreign development activities form numerous foreign corporations that will eventually become dormant and worthless.

The process of forming foreign corporations for opportunities that never materialize into awarded contracts is an administrative, legal, accounting and tax compliance burden. (For example, several major internationally accepted accounting systems cannot accommodate the number of legal entities often owned by infrastructure companies as a result of this issue.) Furthermore, because the potential foreign customer may take several years to decide who should be awarded the project, a U.S. multinational developer is forced to maintain its foreign structures for many years.

In summary, it is expensive, time consuming and counterproductive for U.S. multinationals to form, maintain and eventually liquidate foreign entities with respect to foreign business opportunities that do not progress beyond a preliminary stage. We

estimate that these entities each cost \$5,000 to \$10,000 per year in administrative and compliance costs.

Proposed Solution:

Specifically exclude preliminary non-binding agreements such as MOUs, LOIs, HOAs, and JDAs from the definition of "intangibles" for purposes of Sections 367 and 482.

Proposed Statutory Language Change:

The Section 963(h)(3)(B) definition of an intangible could be modified to exclude MOUs, LOIs, HOAs, JDAs and similar preliminary non-binding agreements from the definition of a "contract" by adding at the end a new sentence to read as follows:

"Such term shall not include any preliminary agreement which is not legally enforceable."

The legislative history to this change should indicate that the change is intended to also apply for the cross-referenced purposes of Sections 367 and 482.

(Similar language was included as Section 306 of the International Tax Simplification for American Competitiveness Act of 1998 (S. 2231, H.R. 4173).)

Analysis, Tax Policy and Revenue Impact:

1. There are two key non-tax reasons for supporting this proposal. First, the proposal would reduce the administrative, legal, accounting, tax compliance and other out-of-pocket costs of forming, maintaining, liquidating, etc. foreign corporations for foreign business opportunities that do not progress beyond a preliminary stage.

Second, the current tax rules inhibit the ability of U.S. multinationals to react quickly and efficiently to foreign business opportunities. For example, in the early stages of a development project, a potential foreign customer (e.g., a governmental entity) may not want to execute preliminary agreements with a newly formed foreign affiliate of a U.S. multinational. This puts U.S. multinationals at competitive disadvantage vis-à-vis foreign competitors.

2. The proposed change is best viewed as a technical correction (or clarification of existing law), not a substantive change to Section 367. The proposal is consistent with U.S. tax policy for the following reasons:

a. Preliminary non-binding agreements are the result of investigatory costs, not valuable intangible property that should be subject to the super-royalty provisions of Section 367(d).

b. Due to the contingent, non-binding nature of MOUs, LOIs, etc., these agreements should have little or no economic value. Thus, even if there were an actual assignment of a MOU, LOI, etc. from a U.S. company to a foreign project company, any Section 367 gain should be negligible.

c. Unlike most Section 367 intangibles, non-binding agreements (LOIs, MOUs, etc.) are usually project or country specific and do not have worldwide application.

d. This proposal would simplify and clarify a provision that is currently a "trap for the unwary".

e. The proposal would avoid tax audit disputes that could be costly and time consuming for both taxpayers and the IRS.

f. Bidding rights, awarded contracts and similar contracts that are executed with customers would continue to be subject to Section 367(d).

3. There should be no revenue cost to the U.S. Treasury since there is usually no tax paid under the current rules for a couple of reasons. First, most U.S. multinational groups cause their foreign project companies to execute all agreements and contracts such that any potential Section 367 taxation is avoided. Second, in the event that a preliminary agreement is inadvertently signed by a U.S. entity and subsequently transferred to a foreign project company, most appraisers would advise that there is little or no taxable gain.

Additionally, there should be no revenue loss since Section 367(d) applies solely to outbound transfers by U.S. transferors. Thus, there is no exposure that this proposal could be used by foreign-owned U.S. companies to avoid U.S. tax.

The proposal would also eliminate IRS and Treasury administrative time associated with processing Forms 5471 for inactive foreign entities that are formed to execute the preliminary agreements.

4. The reference to Section 482 is necessary to avoid inconsistent treatment. For example, extending the change to Section 482 would be necessary to avoid any "whipsaw" to the U.S. Treasury by foreign investors into the U.S.

5. A similar change was included as Section 306 of the International Tax Simplification for American Competitiveness Act of 1999, introduced in the 1st session of the 106th Congress as S. 1164 by Senators Hatch and Baucus and as H.R. 2018 by Representatives Houghton and Levin.

February, 2001

Canter, Virginia

From: Schmalzbach, Kenneth
Sent: Wednesday, November 28, 2001 5:26 PM
To: Canter, Virginia
Subject: WATCH OFFICE



3PRS1128.doc

Ginny: Note the Enron story.

WATCH OFFICE

F2

F3

AFTERNOON PRESS SUMMARY

WEDNESDAY, NOVEMBER 28,
2001

F1

Enron:

The Treasury Department is monitoring the potential market impact of Enron Corp's<ENE.N>, financial difficulties, according to the White House. [Reuter]

1

Economy:

Chicago Fed President Moskow said the economy would likely pick up next year but the exact timing of such a rebound was unclear. [Reuter]

2

President Bush sought to break a partisan impasse over how to jump-start the economy, meeting with congressional leaders and demanding that "the Senate must pass a stimulus package." [AP]

3

Prospects for passage of an economic stimulus package improved after the White House said it could support a proposed payroll tax holiday and Senate Democrats offered to scale back their demands for spending on homeland security. [Reuter]

6

Budget:

The House blocked a Democratic effort to add billions to what President Bush wants for national security and aid to New York and moved toward approving a bipartisan \$20 billion anti-terrorism package. [AP]

8

The federal budget is unlikely to return to a balanced state for some years, Office of Management and Budget Director Daniels said. [Reuter]

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January 11, 2002

Enron's President Said to Have Asked Treasury Official for Help

By ELISABETH BUMILLER

WASHINGTON, Jan. 11 — The Treasury Department disclosed today that the president of Enron Corporation (news/quote) asked a top department official last year for help to obtain a credit extension to stave off bankruptcy.

A department spokeswoman, Michele Davis, said that Under Secretary Peter Fisher spoke to Enron's president, Lawrence (Greg) Whalley, six or eight times in late October and early November.

"As Enron's negotiations with its bankers for an extension of credit neared a decision point, the president of Enron asked Under Secretary Fisher to call the banks," Ms. Davis said. She said that Mr. Fisher "inferred he was being asked to encourage the banks to extend credit."

As Under Secretary for domestic finance, Mr. Fisher has considerable influence. Ms. Davis said she did not know exactly when Mr. Whalley asked Mr. Fisher to intervene with banks.

Ms. Davis emphasized that Mr. Fisher made "no such calls."

Enron, which not so long ago was a high-flying energy company, recently filed for bankruptcy protection. Its stock, which rose above \$80 a share less than a year ago, last traded at 67 cents Thursday; it did not trade today.

Today's disclosure of Mr. Whalley's contacts with an influential Treasury Department official came a day after the White House disclosed that Kenneth L. Lay, the chairman of Enron and one of President Bush's biggest political contributors, telephoned two cabinet officers last fall, and that one of them said Mr. Lay had sought government help with its dire financial condition.

Both cabinet secretaries said they declined to offer government aid.



Attorney General John Ashcroft has excused himself from all matters involving Enron because of campaign contributions he received from it.

Thursday's wave of disclosures included the revelation that Enron's chief financial auditor, the giant accounting firm Arthur Andersen & Company, said it had destroyed numerous company documents and electronic data.

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the company's numerous company documents and electronic communications.

Today, the House Energy and Commerce Committee asked for the files of six Andersen partners involved in the audit. And the Senate's Permanent Subcommittee on Investigations subpoenaed documents from both Enron and Andersen.

Also today, Enron said it had selected the investment bank UBS Warburg as the winning bidder for its wholesale energy trading business after a private auction overseen by a federal bankruptcy court. The deal, which must be approved by the court, is aimed at helping Enron reorganize under Chapter 11 bankruptcy protection. Details of the terms of the deal are to be disclosed on Monday in bankruptcy court.

The Justice Department said on Wednesday that it had created a nationwide task force to conduct a criminal investigation into the collapse of Enron, an energy trading company with close ties to Mr. Bush and many top administration officials.

On Thursday, the entire United States Attorney's office in Houston recused itself from the investigation, saying many of its approximately 100 lawyers, including the chief prosecutor, Michael T. Shelby, had family or other relationships with people affected by Enron's filing on Dec. 2 for reorganization under Chapter 11 of the bankruptcy law.

The White House moved quickly to contain the damage. The White House spokesman said Mr. Bush was made aware of the phone calls to the cabinet members only Thursday morning during an Oval Office meeting.

"What you have here is a case where a contributor called up and asked for something but did not get it," said Ari Fleischer, the White House press secretary.

Yet the two cabinet secretaries who received calls from Mr. Lay described somewhat different conversations. Commerce Secretary Donald L. Evans said that Mr. Lay had indicated he would welcome any government help with its bond ratings, while Treasury Secretary Paul H. O'Neill said the Enron chairman requested no assistance at all.

Before the disclosure today of Mr. Whalley's calls to Mr. Fisher at Treasury, Enron officials disputed the White House version of events about Mr. Lay's calls and said Mr. Lay was not asking for assistance from the Bush administration in calling Mr. O'Neill and Mr. Evans, Mr. Bush's presidential campaign chairman and chief fund-raiser. Enron officials also said Mr. Lay had called Alan Greenspan, the chairman of the Federal Reserve, to alert him to the company's problems.

Mr. Lay was simply informing the government about the possible

Enron Stock

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bankruptcy filing of the nation's seventh largest company, Enron officials said, as has been the practice of executives of other large companies whose collapse could affect worldwide markets.

"He did not ask for anything," said Mark Palmer, an Enron spokesman.

Enron's troubles and its numerous links to the Bush administration threatened to consume president's time and attention even as he enjoys high approval ratings for his conduct of terrorism.

Mr. Bush summoned reporters to the Oval Office on Thursday to declare that he had instructed his economic advisers to develop a plan to protect workers' pensions from similar corporate collapses. Thousands of Enron employees lost their life savings and much of their retirement accounts when the company's stock became virtually worthless last November.

Enron's auditor, Arthur Andersen, then said that it had destroyed a "significant" volume of documents related to Enron. The firm said it was still gathering information about the episode before it would discipline the employees involved.

The Securities and Exchange Commission, which is investigating both Enron's collapse and Andersen's conduct, said its inquiry would be expanded to include the destruction of documents. In addition to looking into whether it had created off-the-books private partnerships that distorted the true financial condition of the company.

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The New York Times
ON THE WEB

January 11, 2002

Enron's President Said to Have Asked Treasury Official for Help

By ELISABETH BUMILLER

WASHINGTON, Jan. 11 — The Treasury Department disclosed today that the president of the Enron Corporation (news/quote) asked a top department official last year for help in obtaining a credit extension to stave off bankruptcy.

A department spokeswoman, Michele Davis, said that Under Secretary Peter Fisher spoke with Enron's president, Lawrence (Greg) Whalley, six or eight times in late October and early November.

"As Enron's negotiations with its bankers for an extension of credit neared a decision point, the president of Enron asked Under Secretary Fisher to call the banks," Ms. Davis said. She went on to say that Mr. Fisher "inferred he was being asked to encourage the banks to extend credit."

As Under Secretary for domestic finance, Mr. Fisher has considerable influence. Ms. Davis did not say exactly when Mr. Whalley asked Mr. Fisher to intervene with banks.

Ms. Davis emphasized that Mr. Fisher made "no such calls."

Enron, which not so long ago was a high-flying energy company, recently filed for bankruptcy protection. Its stock, which rose above \$80 a share less than a year ago, last traded at 67 cents on Thursday; it did not trade today.

Today's disclosure of Mr. Whalley's contacts with an influential Treasury Department official came a day after the White House disclosed that Kenneth L. Lay, the chairman of Enron and one of President Bush's biggest political contributors, telephoned two cabinet officers last fall, and that one of them said Mr. Lay had sought government help with its dire financial condition.

Both cabinet secretaries said they declined to offer government aid.

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Thursday's wave of disclosures included the revelation that Enron's auditor, the giant accounting firm Arthur Andersen & Company, said it had destroyed numerous company documents and electronic communications.



Today, the House Energy and Commerce Committee asked for the files of six Andersen partners involved in the audit. And the Senate's Permanent Subcommittee on Investigations subpoenaed documents from both Enron and Andersen.

Also today, Enron said it had selected the investment bank UBS Warburg as the winning bidder for its wholesale energy trading business after a private auction overseen by a federal bankruptcy court. The deal, which must be approved by the court, is aimed at helping Enron reorganize under Chapter 11 bankruptcy protection. Details of the terms of the deal are to be disclosed on Monday in bankruptcy court.

The Justice Department said on Wednesday that it had created a nationwide task force to conduct a criminal investigation into the collapse of Enron, an energy trading company with close ties to Mr. Bush and many top administration officials.

On Thursday, the entire United States Attorney's office in Houston recused itself from the investigation, saying many of its approximately 100 lawyers, including the chief prosecutor, Michael T. Shelby, had family or other relationships with people affected by Enron's filing on Dec. 2 for reorganization under Chapter 11 of the bankruptcy law.

The White House moved quickly to contain the damage. The White House spokesman said Mr. Bush was made aware of the phone calls to the cabinet members only Thursday morning during an Oval Office meeting.

"What you have here is a case where a contributor called up and asked for something but did not get it," said Ari Fleischer, the White House press secretary.

Yet the two cabinet secretaries who received calls from Mr. Lay described somewhat different conversations. Commerce Secretary Donald L. Evans said that Mr. Lay had indicated he would welcome any government help with its bond ratings, while Treasury Secretary Paul H. O'Neill said the Enron chairman requested no assistance at all.

Before the disclosure today of Mr. Whalley's calls to Mr. Fisher at Treasury, Enron officials disputed the White House version of events about Mr. Lay's calls and said Mr. Lay was not asking for assistance from the Bush administration in calling Mr. O'Neill and Mr. Evans, Mr. Bush's presidential campaign chairman and chief fund-raiser. Enron officials also said Mr. Lay had called Alan Greenspan, the chairman of the Federal Reserve, to alert him to the company's problems.

Mr. Lay was simply informing the government about the possible bankruptcy filing of the nation's seventh largest company, Enron officials said, as has been the practice of executives of other large companies whose collapse could affect worldwide financial markets.

"He did not ask for anything," said Mark Palmer, an Enron spokesman.

Enron's troubles and its numerous links to the Bush administration threatened to consume the president's time and attention even as he enjoys high approval ratings for his conduct of the war on terrorism.

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"And she named him the head of the Governor's Business Council," Mr. Bush said. "And I decided to leave him in place, just for the sake of continuity. And that's when I first got to know Ken and worked with Ken."

Mr. Bush said that he had never discussed the financial problems of Enron with Mr. Lay and that he had last seen him in the spring, at a fund-raising event in Houston. Mr. Fleischer said Mr. Bush had not talked to Mr. Lay since the spring.

It was Mr. Fleischer who first told reporters Thursday morning, almost as an afterthought at a sparsely attended early news briefing, that Mr. Lay had called both Mr. O'Neill and Mr. Evans last fall to alert them about the company's financial straits.

Officials at the Treasury and Commerce Departments said Mr. Lay had spoken to Mr. O'Neill about Enron's condition on Oct. 28 and Nov. 8 and had spoken to Mr. Evans on Oct. 29. Although Mr. Lay had maintained until late October an optimistic public face about Enron's future, on Oct. 16 the company reported a third-quarter net loss of \$618 million. On the same day, Moody's Investors Service announced that Enron's long-term debt obligations were on review.

The dates of the calls and the announcements of the bad financial news about the company are significant. If Mr. Lay had made the calls earlier in October, before the state of the company was widely known, the Bush administration would have been aware of the true condition of Enron while Mr. Lay was promoting a different story on Wall Street.

In an interview on CNBC Thursday night, Mr. O'Neill said Mr. Lay had not asked for a government bailout or other intervention to save the company.

"He called me to advise me that Enron's problems were mounting and to offer access for our technical people to talk with his technical people about the contracts that they had that were causing them problems," Mr. O'Neill said. "I subsequently asked the undersecretary of the Treasury to speak with the Enron people, which he did, so that we could satisfy ourselves that the Enron affairs were not going to have a negative impact on U.S. capital markets."

Asked whether Mr. Lay asked for government assistance, Mr. O'Neill said "Absolutely not."

On the same CNBC program, Mr. Evans said Mr. Lay had told him that Moody's Investors Service was likely downgrade its rating of the company's debt.

Mr. Lay then said that if there was anything Mr. Evans could do to help the company deal with Moody's (news/quote) "we would welcome that." But, Mr. Evans added, Mr. Lay did not ask him specifically to intervene with Moody's.

"I listened to him and listened to their condition and listened to the issues he wanted to raise," Mr. Evans said. "Subsequent to that I talked to Secretary O'Neill and told him I had the call. It was a pretty easy decision to make. I don't think there was anything for us to do. Secretary O'Neill agreed with me there was not so we didn't do anything."

A Commerce Department official said on Thursday that in Mr. Lay's call with Mr. Evans, "there was no information discussed that wasn't already in the public domain."

Mr. Fleischer said that Mr. Bush was first told Thursday morning in the Oval Office by Mr. O'Neill and Mr. Evans that Mr. Lay had made the calls to them and that they had not been willing to intervene to help. The president then told Mr. O'Neill and Mr. Evans, according to Mr. Fleischer's account, "You did the right thing."

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Enron Asked Treasury for Credit Aid

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By *MARCY GORDON, AP Business Writer*

WASHINGTON (AP) - The president of Enron Corp. asked a top Treasury official last year to intervene with bankers with whom the company was negotiating for a credit extension to avoid bankruptcy.

The disclosure Friday was the first indication that the energy firm had sought the direct intervention of administration officials as it faced collapse.

The cascade of revelations about Enron's dealings with Bush administration officials has raised questions about potential conflicts of interest. The Justice Department (news - web sites), the Securities and Exchange Commission (news - web sites) and five congressional committees are investigating the politically connected company.

In one inquiry, Senate investigators on Friday finished issuing 51 subpoenas for documents from Enron's current and former directors and senior managers and from its auditing firm, Arthur Andersen LLP. The big accounting firm disclosed Thursday that

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its employees had destroyed a "significant" number of documents related to Enron.

The White House has ordered federal agencies that might have had dealings with Enron to find any contacts between Enron and government officials. White House officials say they expect Enron made repeated requests of the government to help its financial situation, and they want the information out as quickly as possible to curb political fallout.

Enron President Lawrence "Greg" Whalley telephoned Treasury's undersecretary for domestic finance, Peter Fischer, six or eight times in late October and early November, Treasury spokeswoman Michele Davis said Friday.

"As Enron's negotiations with its bankers for an extension of credit neared a decision point, the president of Enron asked Undersecretary Fisher to call the banks," Davis said.

That is in addition to calls that Enron Chairman Kenneth L. Lay made to Treasury Secretary Paul O'Neill and Commerce Secretary Don Evans about the company's financial woes. Lay told Evans that he would welcome any support in helping the company deal with a bond-rating firm that was considering downgrading Enron, administration officials said.

Enron said Lay also called Alan Greenspan (news - web sites), chairman of the Federal Reserve (news - web sites).

The administration said no government action was taken in response to the calls.

Fisher "inferred he was being asked to encourage the banks to extend credit," Davis said. "He made no such calls." She did not say exactly when the calls were made.

White House spokesman Ari Fleischer (news - web sites) said Friday the collapse of the company "needs to be fully investigated to determine if there was any criminal wrongdoing by Enron."

But he disputed suggestions that the expanding inquiries could harm the president politically. "This dog won't hunt. That's a reference to the politics of it," Fleischer said.

Enron was one of Bush's biggest political contributors.

On Thursday, Enron's auditing firm, whose work is under investigation by federal regulators, disclosed that its employees had destroyed a significant number of documents - a

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White House-Enron love affair goes blooey - The Philadelphia Inquirer (Jan 11, 2002)

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Investigating Enron. - Baltimore Sun (Jan 11, 2002)

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Enron - company site. Includes a FAQ on the bankruptcy filing, a look at the company's history, and press releases.

House Committee on Government Reform - Minority Office - probing contacts between Enron executives and the White House energy task force. Site includes a facsimile of a Jan 3 letter from VP Cheney to Rep. Waxman, in pdf format.

Graphic: Enron Executives' 2001 stock, option trades - from the Houston Chronicle.

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Congressional Panels Turn Attention to Enron - NPR (Jan 4, 2002)

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congressional source said it was thousands of pages - related to the company.

In another development, Attorney General John Ashcroft (news - web sites) disqualified himself from Justice's criminal inquiry into Enron's conduct. The energy-trading company donated thousands of dollars to Ashcroft's Senate campaign in 2000. In Houston, Enron's hometown, U.S. Attorney Michael Shelby announced that his entire office disqualified itself from the investigation because he and other local prosecutors "have family relationships with individuals who are arguably affected by the Enron bankruptcy."

Bush has pledged to pursue aggressively the investigation into whether the company defrauded investors, including 401(k) plan holders, by concealing vital information about its finances.

"Ken Lay is a supporter," the president said. "But what anybody's going to find 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 that workers are protected."

Treasury Secretary Paul O'Neill said Friday: "On first blush it looks like Enron operated within the rules and regulations ... with regard to how they managed their 401(k) plan, and if they did, then we need to look and see if there are appropriate changes we could make." He was interviewed on ABC's "Good Morning America."

Lay denied that he sought help from administration officials. Enron said Lay's calls to O'Neill, Evans and Greenspan were simply to give them a "heads-up" about Enron's problems.

"He felt an obligation to let them know what was going on," Enron said in a statement. "At no time did he ask for any assistance from the government, nor did he intend to leave the impression that he was asking for assistance."

Dave Skidmore, a spokesman for the Federal Reserve, said Lay contacted Greenspan on Oct. 26, and "the chairman did nothing in response to the call. It would have been inappropriate."

Lay also first reached out to Evans on Oct. 26. The two eventually spoke three days later. The first of Lay's two conversations with O'Neill was Sunday, Oct. 28.

"It is now clear the White House had knowledge that Enron was likely to collapse but did nothing to try to protect innocent employees and shareholders who ultimately lost their life savings," said Rep. Henry Waxman (news), D-Calif.

The bankruptcy has forced White House officials to face questions once posed to the scandal-tainted Clinton White House.

Would Bush support naming a special prosecutor to investigate? Fleischer said no. He also said he did not know any White House aides who had hired lawyers.

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And there was a development reminiscent of Clinton's Whitewater: missing documents.

The big accounting firm that audited Enron's books, Arthur Andersen LLP, notified investigators that it had destroyed a "significant" number of documents related to the company. Andersen said it didn't know whether its directive to preserve documents demanded by government investigators was violated.

At the Securities and Exchange Commission, already investigating Andersen's auditing work for Enron, Enforcement Director Stephen Cutler said destruction of documents was "an extremely serious matter" but would not deter the SEC from pursuing its probe.

As for the company's contacts last fall, administration officials said Lay told Evans on Oct. 29 that he would welcome any support to help the company deal with a bond-rating firm that was considering downgrading Enron. Enron's credit rating was critical because, if lowered, \$3.9 billion in debt would come due. Of that amount, \$2.4 billion previously had been hidden in partnerships that were created to keep debt off Enron's books.

In one of two conversations with O'Neill, Lay discussed a past example in which the Federal Reserve pressured several large financial institutions to bail out a Connecticut hedge fund, Fleischer said.

The calls to Evans and O'Neill came after investors and the public learned of the extent of Enron's problems, when the company posted major losses Oct. 16.

Enron filed for bankruptcy Dec. 2, after months of conjecture about its finances.

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Mr. Fleischer said the president expressed no surprise, regret or annoyance that he had not been informed of the calls from Mr. Lay until more than two months after they occurred.

"Bankruptcies happen in our economy," Mr. Fleischer said. "And it's not uncommon for people who are in the community, business community or in the labor community, to talk to a cabinet secretary to tell them about the financial status of their business and it ends there."

Democrats on Capitol Hill moved immediately to question the White House statements. "It is now clear the White House had knowledge that Enron was likely to collapse but did nothing to try to protect innocent employees and shareholders who ultimately lost their life savings," said Representative Henry A. Waxman, the California Democrat who is his party's senior member on the House Government Reform Committee.

Mr. Fleischer said that he hoped that any Congressional inquiry would be even-handed and that if it became "a one-party witch hunt, I think the Congress is going again to remind the country on why people soured and tired of those types of partisan investigations."

Mr. Lay and Enron executives have given more than \$550,000 to Mr. Bush's various campaigns, and Mr. Lay also gave \$100,000 to Mr. Bush's inaugural committee.

But Mr. Lay does not appear to have been a frequent recent visitor to the White House, based on publicly available records. He visited the White House only twice during the first five months of Mr. Bush's presidency, according to Secret Service access control records obtained by The New York Times (news/quote) under the Freedom of Information Act. The first visit occurred on Feb. 22, 2001, the day Enron officials met with the staff of Vice President Dick Cheney's energy task force.

The second visit, the records show, was on April 17, the day Mr. Lay and other Enron officials met with Mr. Cheney for about a half-hour. Enron officials freely discussed the meeting last year with reporters, providing a copy of the memorandum on electricity issues the company presented to Mr. Cheney.

One month later, Mr. Cheney's energy policy task force issued its final report. In the section on deregulation of the electricity markets, the report's recommendations resembled much of what Enron had advocated. They also tracked with policies advocated by Mr. Bush during the 2000 presidential campaign.

Mr. Cheney, in an interview last year, denied that Enron had improperly influenced the task force's deliberations, saying the task force would "make decisions based on what we think makes sound public policy," not what "Enron thinks."

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Democrats on Capitol Hill moved immediately to question the White House statements. "It is now clear the White House had knowledge that Enron was likely to collapse but did nothing to try to protect innocent employees and shareholders who ultimately lost their life savings," said Representative Henry A. Waxman, the California Democrat who is his party's senior member on the House Government Reform Committee.

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The second visit, the records show, was on April 17, the day Mr. Lay and other Enron officials met with Mr. Cheney for about a half-hour. Enron officials freely discussed the meeting last year with reporters, providing a copy of the memorandum on electricity issues the company presented to Mr. Cheney.

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The New York Times
ON THE WEB

January 11, 2002

Enron Contacted 2 Cabinet Officers Before Collapsing

By ELISABETH BUMILLER

WASHINGTON, Jan. 10 — The White House disclosed today that Kenneth L. Lay, the chairman of the Enron Corporation ([news/quote](#)) and one of President Bush's biggest political contributors, telephoned two cabinet officers last fall, and one of them said Mr. Lay had sought government help with its dire financial condition.

Both said they declined to offer government aid.

In a day of rapid-fire developments, Attorney General John Ashcroft excused himself from all matters involving Enron because of campaign contributions he received from it.

In addition, Enron's auditors said they had destroyed numerous company documents and electronic communications.

The Justice Department said on Wednesday that it had created a nationwide task force to conduct a criminal investigation into the collapse of Enron, an energy trading company with close ties to Mr. Bush and many top administration officials.

Today, the entire United States Attorney's office in Houston recused itself from the investigation, saying many of its approximately 100 lawyers, including the chief prosecutor, Michael T. Shelby, had family or other relationships with people affected by Enron's filing on Dec. 2 for reorganization under Chapter 11 of the bankruptcy law.

The White House moved quickly to contain the damage. The White House spokesman said Mr. Bush was made aware of the phone calls to the cabinet members only this morning during an Oval Office meeting.

"What you have here is a case where a contributor called up and asked for something but did not get it," said Ari Fleischer, the White House press secretary.

Yet the two cabinet secretaries who received calls from Mr. Lay described somewhat different conversations. Commerce Secretary Donald L. Evans said that Mr. Lay had indicated he would welcome any government help with its bond ratings, while Treasury Secretary Paul H. O'Neill said the Enron

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chairman requested no assistance at all.

Enron officials disputed the White House version of events this evening and said Mr. Lay was not asking for assistance from the Bush administration in calling Mr. O'Neill and Mr. Evans, Mr. Bush's presidential campaign chairman and chief fund-raiser. Enron officials also said Mr. Lay had called Alan Greenspan, the chairman of the Federal Reserve, to alert him to the company's problems.

Mr. Lay was simply informing the government about the possible bankruptcy filing of the nation's seventh largest company, Enron officials said, as has been the practice of executives of other large companies whose collapse could affect worldwide financial markets.

"He did not ask for anything," said Mark Palmer, an Enron spokesman.

Enron's troubles and its numerous links to the Bush administration threatened to consume the president's time and attention even as he enjoys high approval ratings for his conduct of the war on terrorism.

As morning newspapers announced the expanding Justice Department investigation today, Mr. Bush summoned reporters to the Oval Office to declare that he had instructed his economic advisers to develop a plan to protect workers' pensions from similar corporate failures. Thousands of Enron employees lost their life savings and much of their retirement accounts when the company's stock became virtually worthless last November.

Enron's auditor, the giant accounting firm Arthur Andersen, then said that it had destroyed a "significant" volume of documents related to Enron. The firm said it was still gathering information about the episode before deciding if it would discipline the employees involved.

The Securities and Exchange Commission, which is investigating both Enron's collapse and Andersen's conduct, said its inquiry would be expanded to include the destruction of documents, in addition to looking into whether it had created off-the-books private partnerships that disguised the true financial condition of the company.

Almost simultaneously, Attorney General Ashcroft said he was recusing himself from oversight of the criminal investigation of the company's collapse because of his relationship with Enron. Common Cause reported today that a canvass of federal election records showed that Mr. Ashcroft had received a total of \$54,499 from the company and Mr. Lay for his 2000 Senate campaign.

Enron, which pioneered deregulation of the nation's power business and grew to be one of the world's largest energy companies before its sudden fall, has long nurtured close ties to Mr. Bush. But in the Oval Office today, the president went to some length to distance himself from Mr. Lay, who he said had been a supporter of Governor Ann Richards of Texas when Mr. Bush

defeated her in 1994.

"And she named him the head of the Governor's Business Council," Mr. Bush said. "And I decided to leave him in place, just for the sake of continuity. And that's when I first got to know Ken and worked with Ken."

Mr. Bush said that he had never discussed the financial problems of Enron with Mr. Lay and that he had last seen him in the spring, at a fund-raising event in Houston. Mr. Fleischer said Mr. Bush had not talked to Mr. Lay since the spring.

It was Mr. Fleischer who first told reporters this morning, almost as an afterthought at a sparsely attended early news briefing, that Mr. Lay had called both Mr. O'Neill and Mr. Evans last fall to alert them about the company's financial straits.

Officials at the Treasury and Commerce Departments said Mr. Lay had spoken to Mr. O'Neill about Enron's condition on Oct. 28 and Nov. 8 and had spoken to Mr. Evans on Oct. 29. Although Mr. Lay had maintained until late October an optimistic public face about Enron's future, on Oct. 16 the company reported a third-quarter net loss of \$618 million. On the same day, Moody's Investors Service announced that Enron's long-term debt obligations were on review.

The dates of the calls and the announcements of the bad financial news about the company are significant. If Mr. Lay had made the calls earlier in October, before the state of the company was widely known, the Bush administration would have been aware of the true condition of Enron while Mr. Lay was promoting a different story on Wall Street.

In an interview on CNBC tonight, Mr. O'Neill said Mr. Lay had not asked for a government bailout or other intervention to save the company.

"He called me to advise me that Enron's problems were mounting and to offer access for our technical people to talk with his technical people about the contracts that they had that were causing them problems," Mr. O'Neill said. "I subsequently asked the undersecretary of the Treasury to speak with the Enron people, which he did, so that we could satisfy ourselves that the Enron affairs were not going to have a negative impact on U.S. capital markets."

Asked whether Mr. Lay asked for government assistance, Mr. O'Neill said "Absolutely not."

On the same CNBC program, Mr. Evans said Mr. Lay had told him that Moody's Investors Service was likely downgrade its rating of the company's debt.

Mr. Lay then said that if there was anything Mr. Evans could do to help the company deal with Moody's ([news/quote](#)) "we would welcome that." But,

Mr. Evans added, Mr. Lay did not ask him specifically to intervene with Moody's.

"I listened to him and listened to their condition and listened to the issues he wanted to raise," Mr. Evans said. "Subsequent to that I talked to Secretary O'Neill and told him I had the call. It was a pretty easy decision to make. I don't think there was anything for us to do. Secretary O'Neill agreed with me there was not so we didn't do anything."

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Canter, Virginia

From: Canter, Virginia
Sent: Saturday, January 12, 2002 11:50 AM
To: Aufhauser, David; Schmalzbach, Kenneth
Subject: Fourteen Top Bush Officials Owned Stock in Enron.html

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JANUARY 10, 2002

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Fourteen Top Bush Officials Owned Stock in Enron

By Derrick Wetherell

(WASHINGTON, Jan. 11) Fourteen of the top 100 officials in the Bush administration owned stock in embattled energy services firm Enron, according to a Center for Public Integrity analysis of Bush administration personal financial disclosure forms. Their holdings were worth-at the time of their filings-between \$284,016 and \$886,000. (See the table below.)

Revelations about Enron's financial losses and accounting practices caused the share price to plunge significantly since the officials filed their disclosure forms. Some of the 14 officials have sold their shares since they filed their personal disclosure forms.

These findings are from an unprecedented Center analysis of the finances and professional affiliations of the top 100 Bush administration officials, from the President to cabinet undersecretaries to the heads of independent agencies. The full report and searchable database will be released on the *Public i* site Monday morning, Jan. 14.

In addition to the 14 who owned stock in Enron, two officials had professional ties to Enron. National Economic Council Director Lawrence Lindsey served as a consultant to Enron when he was managing director of Economic Strategies, Inc., a consulting firm. He also served on Enron's board of advisers. U.S. Trade Representative Robert Zoellick, who owned stock in Enron, also served on its advisory council, earning a \$50,000 fee for his time.

Among the largest Enron shareholders, according the personal financial disclosure forms, are senior adviser to the President Karl Rove and Undersecretary of State Charlotte Beers, who each held between \$100,001 and \$250,000 of stock when their forms were filed. Others include Zoellick and Undersecretary of Commerce Grant Aldonas, who each owned between \$15,001 and \$50,000 of stock when they were nominated.

Aldonas' boss, Commerce Secretary Donald Evans, and Treasury Secretary Paul O'Neill were the two officials contacted by Enron CEO Kenneth Lay last October. The first calls came after Enron reported a third quarter loss of \$618 million and revealed that the Securities and Exchange Commission was investigating the company.

White House Press Secretary Ari Fleischer said Enron, in its contacts with O'Neill and Evans, suggested that its dire financial situation could have broad implications for the economy.

NEW REPORT

The Center for Public Integrity will release on Monday a report analyzing the finances and professional affiliations of 100 high-ranking Bush administration officials, from the President down to cabinet undersecretaries and the heads of independent agencies.

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Fleischer said that O'Neill, in response to the calls from Enron, "contacted Undersecretary [Peter R.] Fisher, Undersecretary Fisher looked at that and concluded there would be no more impact on the overall economy."

Fisher was one of the 14 who owned stock in Enron at the time he filed his financial disclosure. He valued his holdings within a range of \$1,001 and \$15,000.

Among the report's other significant findings was that the largest sector in which the administration is invested, in terms of maximum dollar value, is the energy sector, with some 221 investments worth up to \$144.6 million.

The rest of the study's results will be released Monday on the Center's on-line investigative report, The Public i, www.public-i.org.

Officials Who Owned Enron Stock

Name	Position	Asset Name	Minimum	Maximum	Asset Type
Fisher, Linda	Deputy EPA Administrator	Enron	1001	15000	Stock
Fisher, Linda*	Deputy EPA Administrator	Enron	15001	50000	Stock
Fisher, Peter	Undersecretary of Treasury	Enron	1001	15000	Stock
Beers, Charlotte	Undersecretary of State	Enron	100001	250000	Stock
Cooper, Kathleen	Undersecretary of Commerce	Enron	1001	15000	Stock
Dorr, Thomas	Undersecretary of Agriculture	Enron	1001	15000	Stock
Dorr, Thomas*	Undersecretary of Agriculture	Enron	1001	15000	Stock
Marburger, John	Dir., Office of Science and Technology Policy	Enron	1001	15000	Stock
Rumsfeld, Donald	Secretary of Defense	Enron	1001	15000	Stock
Deely, Linnet	Deputy U.S. Trade Representative	Enron	15001	50000	Stock
Deely, Linnet*	Deputy U.S. Trade Representative	Enron	0	1000	Stock
Aldonas, Grant	Undersecretary of Commerce	Enron	15001	50000	Stock
Calio, Nicholas	Asst. to the President, Dir. Of Legislative Affairs	Enron	1001	15000	Stock
Libby, I. Lewis	Vice President's Chief of Staff	Enron	1001	15000	Stock
Zoellick, Robert	US Trade Representative	Enron	15001	50000	Stock
Tutweiler, Margaret	Advisor to the President for	Enron	15001	50000	Stock

Manager	Company	Enron	100001	250000	Stock
Rove, Karl	Senior Adviser to the President	Enron	100001	250000	Stock

* Two separate holdings

Derrick Wetherell is a senior writer at the Center. To write a letter to the editor for publication, send to letters@publicintegrity.org. Please include a daytime telephone number.

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Thornton, Sean

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



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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: 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?

O'NEILL: You know, I guess I don't remember two conversations back to back. You're telling me something new.

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 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...

SNOW: I'm sorry. Go ahead.

O'NEILL: I don't think that's a correct characterization. My recollection is that Long-Term Capital had a problem, and the New York Fed, I think it's true, played a role in convening the banks that were at risk, but I don't think the federal government provided anything at all, Tony.

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 right.

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

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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November 30, 2001

Review & Outlook

Investigating Enron

You can cut the Schadenfreude with a machete these days as Enron careens toward failure. Like any fast-rising, innovative business, the energy trader made enemies, some with a fair grievance and some not. We hope the inevitable (and necessary) investigations keep in mind the difference.

Enron was a forthright advocate of competition, as every obituary of the past few days has noted. Some see the firm's collapse as discrediting the market economics it championed, though the opposite is closer to the truth.

It strikes us that Enron was partly a victim of its own success. Its revenues quadrupled in a year, thanks to the filip that California's troubles provided to the wholesale power market. But profits were up much less -- i.e., Enron was earning thinner margins in the energy-trading business it pioneered. The new industry quickly became too competitive and transparent to afford any windfalls, just as deregulation admirers would have predicted.

Enron does not own U.S. power plants and generally did not seem to make outsized profits on power for resale in, say, California. But that didn't stop California's eccentric attorney general, Bill Lockyer, from blaming Enron CEO Ken Lay for that state's electricity mismanagement. Last summer he told a Wall Street Journal reporter that, "I would love to personally escort Lay to an 8x10 cell that he could share with a tattooed dude who says, 'Hi my name is Spike, honey.'" Consider that an unfair grievance.

Accounting matters are more troubling. The struggle for a century has been to make sure corporate managers don't pursue their own agendas at the expense of owners. The emergence of special partnerships, controlled and owned by Enron's own senior officers, with which the company did some of its murkiest deals, would cause even libertarians to wonder what's been going on. Clearly Mr. Lay didn't fully understand what former Enron CEO Jeffrey Skilling was up to, and shareholders weren't told either.

At the same time, Enron officers had a large amount of personal wealth tied up in Enron stock, which has fallen from \$90 to 61 cents. So the mere existence of these partnership deals does not automatically indicate corrupt intent. Only a detailed investigation can resolve whether these deals were honestly motivated, and whether Enron's (and Arthur Andersen's) interpretation of accounting rules was defensible. In any case, trial lawyers will descend to squeeze every penny out of Enron's troubles for themselves (and for shareholders or employees who held Enron stock in their 401(k)s).

As for the investigations, we hope they won't be influenced one way or another by long connections between Mr. Lay and President Bush. Even the hint of special treatment would be a political disaster, especially for an Administration that promised to clean up after Bill Clinton.

While tradition has been not to make criminal matters out of accounting scandals, exceptions have arisen recently. Federal prosecutors in New York have gone after Walter Forbes, who sold his company to Cendant, giving rise to what before Enron was the nation's most costly stock meltdown due to bad accounting. San Francisco prosecutors recently extracted guilty pleas from executives of Aurora Foods

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over their treatment of trade promotion expenses for their portfolio of "orphan" brands as capital expenditures.

Enron is an opportunity for the Bush team to show it can police similar financial chicanery, if some is found. Sorting the capitalists from the crooks is one way of protecting capitalism.

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November 29, 2001

Major Business News

Enron CEO's Political Connections Run Silent During Company's Crisis

By **BOB DAVIS**

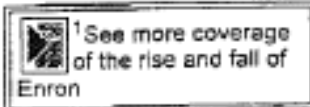
Staff Reporter of THE WALL STREET JOURNAL

For years, Enron Corp. Chairman Kenneth Lay has been George W. Bush's best friend in the board rooms of America's top corporations.

Since 1993, Mr. Lay and Enron have donated nearly \$2 million to Mr. Bush's political career, making them Mr. Bush's biggest backers. When Mr. Bush was Texas governor, Mr. Lay, a Houston resident, helped him win passage of a state education-reform plan that brought Mr. Bush national acclaim. During that fight, Mr. Lay got to know aides who became power players in the Bush White House.

Mr. Lay was confident enough of his friendship with Mr. Bush that he even needed him for needing arthroscopic surgery to repair a jogging injury. "I want you to know that at least one jogger [me] got past 50 without that surgery," Mr. Lay scribbled in a note to then governor in 1997.

Still, as Enron faces its greatest crisis, Mr. Lay's influence and personal relationships with the administration have amounted to little. There appears to be no effort by the White House or Congress to bail Enron out of its difficulties, which are widely seen as self-inflicted. The White House had no comment on Mr. Lay's predicament, a spokeswoman said. Indeed, short of an actual bailout to help Enron meet its obligations -- such as an aid package approved by Congress or organized by government officials from private sources, similar to the rescue of the Long Term Capital Management hedge fund -- there is little Washington can do at this stage to help the company. Nor is there likely to be a bailout, since Enron has burned many bridges on Capitol Hill with its history of strong-arm lobbying tactics, some congressional aides say.



See more coverage
of the rise and fall of
Enron

That may reassure a cynical public, says Robert Mosbacher, Commerce Secretary in the first Bush administration and a longtime friend of the current president as well as Mr. Lay. "I don't see anybody being let off the hook," he said.

Mr. Mosbacher says he introduced Mr. Lay to the Bush family around 1987, when he persuaded Mr. Lay to help raise money for George H.W. Bush's successful presidential bid in 1988. Mr. Lay contributed \$461,000 to the younger Mr. Bush's two successful gubernatorial campaigns. He also made Enron's fleet of corporate jets available to Mr. Bush and won his help in lobbying officials in other states considering Enron projects.

His influence with then-Gov. Bush was based on more than money. Mr. Lay was one of the state's leading business executives and deeply involved in Texas politics. Under Mr. Bush's predecessor, Democrat Ann Richards, Mr. Lay headed the Governor's Business Council, a state advisory board. Mr. Bush asked him to stay on the job to help develop an educational reform plan and sell it to the Texas Legislature.

In that capacity, Mr. Lay became close to several Bush aides, including political guru Karl Rove and communications adviser Karen Hughes, who have taken positions at the White House. He also got to know another leading Texas businessman: Dick Cheney, then CEO of Dallas oil concern Halliburton Co., who would become Mr. Bush's pick for vice president.

Against this backdrop, Mr. Lay was widely considered a top candidate for Treasury Secretary in the younger Bush's administration. Ultimately though, he was disqualified, Bush insiders say, as too closely identified with Mr. Bush, Mr. Cheney and others who worked in the Texas energy business for an administration that wanted to show it wasn't in the pocket of big oil companies.

Early on, Mr. Lay had unrivaled access to the administration. When the president's advisers debated a new energy policy in the spring, Mr. Lay was the only energy executive to be invited for a one-on-one session with Mr. Cheney, who led the effort. Mr. Lay also worked with Mr. Rove and others to successfully push for appointments to the Federal Energy Regulatory Commission, which oversees much of Enron's business.

As Enron's problems multiplied and its fortunes plummeted, however, the White House was silent. During a several-hour long interview in the spring, Mr. Lay mused that his Bush connections could boomerang someday. "It could hurt, from the standpoint that, at some point, they lean in the other direction to make sure they don't face criticism," he said.

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November 30, 2001

Dow Jones Newswires

White House: No Objection To Congress Probe Of Enron

Dow Jones Newswires

WASHINGTON — The Bush administration Friday said it had no objection to calls in Congress to launch hearings into the collapse of Enron and said such a move is well within Congress's jurisdiction in providing oversight.

"The president understands that at all times Congress should exercise its proper oversight role and that includes anything, in a case like this...an investigation into the collapse of a company," White House spokesman Ari Fleischer said.

Fleischer said that other parts of the federal government have already launched their own investigations and the Treasury Department is monitoring these.

-By Alex Keto, Dow Jones Newswires; 202-862-9256; Alex.Keto@dowjones.com

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November 30, 2001

Major Business News

U.S. Attorneys Inform Regulators They Want to Monitor Enron Probe

By **MICHAEL SCHROEDER**
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- Federal prosecutors in two states have told the Securities and Exchange Commission that they are interested in monitoring the agency's investigation into possible accounting fraud at Enron Corp., as a possible precursor to a separate criminal probe, according to a person with knowledge of the situation.

Meanwhile, members of Congress announced new inquiries into the company's activities.

Enron stock's spectacular plunge the past few weeks has attracted the interest of officials in New York and Texas, including the U.S. attorneys' offices in Manhattan and Houston, this person said. Spokesmen for the U.S. attorneys' offices declined to comment.

In late October, Enron disclosed that the SEC had undertaken a formal investigation into the Houston energy company's financial dealings with partnerships headed by its former chief financial officer, Andrew Fastow.

A formal investigation involves the SEC's enforcement branch going to the five-member commission and obtaining formal subpoena power to pursue its inquiry. A person familiar with the SEC probe said the agency felt it needed subpoena power to compel the release of information by parties that have done business with Enron.

Enron's stock price has collapsed from about \$60 a share early in the year to under \$1 amid financial restatements due to improper accounting and a failed merger with crosstown rival **Dynegy Inc.** Shareholder and Enron employee retirement account values have been devastated by the meltdown. Criminal authorities are interested to learn if the SEC finds that malfeasance contributed to the share-price declines.

In 4 p.m. composite trading Thursday on the New York Stock Exchange, Enron was at 36 cents, down 25 cents, or 41%.

If a criminal probe were undertaken, it would be handled by one office, mostly likely in Houston, Enron's hometown. But federal prosecutors in Manhattan, who have experience in securities-fraud cases, could assert jurisdiction because Enron's stock trades on the New York Stock Exchange.

Early this year, Enron came under attack from California politicians and regulators for profiting from spiking energy prices in that state.

One reason authorities haven't begun their own investigations is the fear that a criminal probe might cause witnesses "to clam up," said the person with knowledge of the situation.

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Enron officials have said they are cooperating fully with the SEC, which has only been investigating Enron for about five weeks and hasn't had enough time to assess possible liability of Enron executives. SEC civil allegations could lead to fines and sanctions.

SEC Chairman Harvey Pitt, who has taken some heat for some policies viewed being too soft on business, has made the Enron investigation a top priority to show he will be a tough enforcer. In remarks Thursday to the Consumer Federation of America, Mr. Pitt said promised a thorough and swift probe of Enron. The SEC has a team of a half-dozen enforcement attorneys and accountants working the case.

Gregory Bruch, a former SEC enforcement attorney who has litigated complicated accounting fraud investigations, said Enron's involvement with partnerships and extensive energy derivatives trading likely would take a year for the SEC unravel. He said the SEC would have to "cut corners" to bring a case more quickly, meaning the regulator would name fewer defendants than it might in a broader, more time-consuming case.

On Capitol Hill, the House Energy and Commerce Committee said it would investigate Enron's accounting practices and Senate Commerce Committee announced it would assess the impact on U.S. natural gas and electricity markets.

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December 2, 2001

Dow Jones Newswires

Chronology Of Enron Corp.'s History

HOUSTON (AP)--A look at the history of Enron Corp. (ENE):

July 1985 -Houston Natural Gas merges with InterNorth, a natural gas company based in Omaha, Neb., to form the modern-day Enron, an interstate and intrastate natural gas pipeline company with approximately 37,000 miles of pipe.

1989 -Enron begins trading natural gas commodities. Over the years, the company becomes the largest natural gas merchant in North America and the United Kingdom.

June 1994 -Enron North America trades its first electron. Enron goes on to become the largest marketer of electricity in the U.S.

August 1997 -Enron announces its first commodity transaction using weather derivative products. Enron goes on to market coal, pulp, paper, plastics, metals and bandwidth.

April 1999 -Enron agrees to pay \$100 million over 30 years for the naming rights to Houston's new ballpark, Enron Field. The Astros also sign a 30-year facilities management contract Enron Energy Services.

November 1999 -Enron launches EnronOnline, the first global Web-based commodity trading site.

December 2000 -Enron announces that president and chief operating officer Jeffrey Skilling will take over as chief executive in February. Kenneth Lay will remain as chairman. Shares hit 52-week high of \$84.87 on Dec. 28.

August 2001 -Skilling resigns after running the company for just six months; Lay becomes CEO again.

October 16, 2001 -Enron reports a \$638 million third-quarter loss and discloses a \$1.2 billion reduction in shareholder equity, partly related to partnerships run by chief financial officer Andrew Fastow.

Oct. 22, 2001 -Enron acknowledges Securities and Exchange Commission inquiry into a possible conflict of interest related to the company's dealings with those partnerships.

Oct. 24, 2001 -Enron ousts Fastow.

Oct. 31, 2001 -Enron announces the SEC inquiry has been upgraded to a formal investigation. Enron creates special committee headed by University of Texas law school dean William Powers to respond to the investigation.

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Nov. 6, 2001 -Enron's stock price drops below \$10 a share after reports the financially troubled energy trader was seeking additional financing to shore up confidence.

Nov. 8, 2001 -Enron files documents with SEC revising its financial statements for past five years to account for \$586 million in losses.

Nov. 9, 2001 -Dynergy Inc.(DYN) announces an agreement to buy its much larger rival Enron for more than \$8 billion in stock.

Nov. 14, 2001 -Enron announces it is trying to raise an additional \$500 million to \$1 billion in new private equity to shore up customer and market confidence.

Nov. 19, 2001 -Enron restates its third-quarter earnings and discloses it is trying to restructure a \$690 million obligation that could come due Nov. 27.

Nov. 20, 2001 -Concerns about Enron's ability to weather its spiraling financial problems send the company's stock down nearly 23% to its lowest level in nearly 10 years. Officials from both Enron and Dynergy say the merger was not in trouble.

Nov. 21, 2001 -Enron reaches critical agreement to extend \$690 million debt payment.

Nov. 26, 2001 -Enron shares fall another 15% as investors continued to doubt that the deal will be completed. Shares finish day at \$4.04.

Nov. 28, 2001 -Dynergy backs out of deal after Enron's credit rating is downgraded to junk bond status; analysts say a bankruptcy filing is likely. Enron shares plunge below \$1 amid the heaviest single-day trading volume ever for a NYSE or Nasdaq-listed stock.

Dec. 2, 2001 -Enron files for Chapter 11 bankruptcy protection; sues Dynergy for wrongful termination of merger.

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December 2, 2001

Dow Jones Newswires

Enron Files For Chapter 11 Bankruptcy

HOUSTON, Dec. 2 /PRNewswire/ -- Enron Corp. (NYSE: ENE) announced today that it along with certain of its subsidiaries have filed voluntary petitions for Chapter 11 reorganization with the U.S. Bankruptcy Court for the Southern District of New York. As part of the reorganization process, Enron also filed suit against Dynegy Inc. (NYSE: DYN) in the same court, alleging breach of contract in connection with Dynegy's wrongful termination of its proposed merger with Enron and seeking damages of at least \$10 billion. Enron's lawsuit also seeks the court's declaration that Dynegy is not entitled to exercise its option to acquire an Enron subsidiary that indirectly owns Northern Natural Gas Pipeline. Proceeds from the lawsuit would benefit Enron's creditors.

In a related development aimed at preserving value in its North American wholesale energy trading business, Enron said that it is in active discussions with various leading financial institutions to provide credit support for, recapitalize and revitalize that business under a new ownership structure. It is anticipated that Enron would provide the new entity with traders, back office capabilities and technology from Enron's North American wholesale energy business, and that the new entity would conduct counterparty transactions through EnronOnline, the company's existing energy trading platform. Any such arrangement would be subject to the approval of the Bankruptcy Court.

In connection with the company's Chapter 11 filings, Enron is in active discussions with leading financial institutions for debtor-in-possession (DIP) financing and expects to complete these discussions shortly. Upon the completion and court approval of these arrangements, the new funding will be available immediately on an interim basis to supplement Enron's existing capital and help the company fulfill obligations associated with operating its business, including its employee payroll and payments to vendors for goods and services provided on or after today's filing.

Filings for Chapter 11 reorganization have been made for a total of 14 affiliated entities, including Enron Corp.; Enron North America Corp., the company's wholesale energy trading business; Enron Energy Services, the company's retail energy marketing operations; Enron Transportation Services, the holding company for Enron's pipeline operations; Enron Broadband Services, the company's bandwidth trading operation; and Enron Metals & Commodity Corp.

Enron-related entities not included in the Chapter 11 filing are not affected by the filing. These non-filing entities include Northern Natural Gas Pipeline, Transwestern Pipeline, Florida Gas Transmission, EOTT, Portland General Electric and numerous other Enron international entities.

To conserve capital, Enron will implement a comprehensive cost-saving program that will include substantial workforce reductions. These workforce reductions primarily will affect the company's

-WSJ.com

operations in Houston, where Enron currently employs approximately 7,500 people. In addition, the company will continue its accelerated program to divest or wind down non-core assets and operations. Details of the units to be affected will be communicated shortly.

The Dynegy Lawsuit

In its lawsuit filed today in U.S. Bankruptcy Court in New York, Enron alleges, among other things, that Dynegy breached its Merger Agreement with Enron by terminating the agreement when it had no contractual right to do so; and that Dynegy has no right to exercise its option to acquire the entity that indirectly owns the Northern Natural Gas pipeline because that option can only be triggered by a valid termination of the Merger Agreement.

The Chapter 11 Filings

In conjunction with today's petitions for Chapter 11 reorganization, Enron will ask the Bankruptcy Court to consider a variety of "first day motions" to support its employees, vendors, trading counterparties, customers and other constituents. These include motions seeking court permission to continue payments for employee payroll and health benefits; obtain interim financing authority and maintain cash management programs; and retain legal, financial and other professionals to support the company's reorganization actions. In accordance with applicable law and court orders, vendors and suppliers who provided goods or services to Enron Corp. or the subsidiaries that have filed for Chapter 11 protection before today's filing may have pre-petition claims, which will be frozen pending court authorization of payment or consummation of a plan of reorganization.

The Wholesale Energy Trading Business

The discussions currently underway with various leading financial institutions are aimed at obtaining credit support for, recapitalizing and revitalizing Enron's North American wholesale energy trading operations under a new ownership structure in which Enron would continue to have a significant ownership interest.

"If these discussions are successful, they could result in the creation of a new trading entity with a strong and unencumbered balance sheet, the industry's finest trading team, and its leading technology platform, all backed by one or more of the world's leading financial institutions," said Greg Whalley, Enron president and chief operating officer. "We understand that it may take time for counterparties to resume normal trading levels with this entity, but we are confident that this business can be put back on a solid footing. Obviously, our potential partners share our confidence or they would not be at the table with us. We intend to take steps to retain employees who are key to the future success of our wholesale energy trading business and to regain the support and confidence of its trading counterparties."

Comment by Ken Lay

"From an operational standpoint, our energy businesses—including our pipelines and utilities—are conducting normal operations and will continue to do so," said Kenneth L. Lay, chairman and CEO of Enron. "While uncertainty during the past few weeks has severely impacted the market's confidence in Enron and its trading operations, we are taking the steps announced today to help preserve capital, stabilize our businesses, restore the confidence of our trading counterparties, and enhance our ability to pay our creditors." Enron's principal legal advisor with regard to the proposed merger with Dynegy, Enron's Chapter 11 filings, the Dynegy lawsuit, and related matters is Weil, Gotshal & Manges LLP. Enron's principal financial advisor with regard to its financial restructuring is The Blackstone Group.

About Enron Corp.

Enron Corp. markets electricity and natural gas, delivers energy and other physical commodities, and provides financial and risk management services to customers around the world. Enron's Internet address is www.enron.com.

Forward-looking Statements

This press release contains statements that are forward-looking within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and that actual results could differ materially as a result of known and unknown risks and uncertainties, including: various regulatory issues, the outcome of the Chapter 11 process, the outcome of the discussions referred to above, general economic conditions, future trends, and other risks, uncertainties and factors disclosed in the Company's most recent reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission. SOURCE Enron Corp.

CONTACT: Mark Palmer, +1-713-853-4738, or Karen Denne, +1-713-853-9757, both of Enron/

Web site: <http://www.enron.com/>

(ENE DYN)

NEW YORK -- Enron Corp. (ENE) announced Sunday that it and some of its subsidiaries have filed voluntary petitions for Chapter 11 reorganization with the U.S. Bankruptcy Court for the Southern District of New York.

The company said that it had also filed suit against Dynegy Inc. (DYN) in the same court, alleging breach of contract in connection with Dynegy's wrongful termination of its proposed merger with Enron and seeking damages of at least \$10 billion.

Enron's lawsuit also seeks the court's declaration that Dynegy is not entitled to exercise its option to acquire an Enron subsidiary that indirectly owns Northern Natural Gas Pipeline.

Enron said the proceeds from the lawsuit would benefit its creditors.

Enron said that it is in "active discussions" with financial institutions to recapitalize and provide credit support for its North American energy trading business under a new ownership structure.

Enron said in a statement that "it is anticipated" that the company would provide the new entity with traders, back office capabilities and technology. The new entity would conduct counterparty transactions through EnronOnline, the company's existing energy trading platform. Any such arrangement would be subject to the approval of the Bankruptcy Court, Enron said in the statement.

To conserve capital, Enron will implement a comprehensive cost-saving program that will include substantial workforce reductions.

These cuts will primarily affect the company's operations in Houston, where Enron currently employs approximately 7,500 people.

In addition, the company will continue its accelerated program to divest or wind down non-core assets and operations.

Details of the units to be affected will be communicated shortly, the company said in its statement.

Enron said Chapter 11 filings were made for 14 affiliated entities, including Enron Corp.; Enron North America Corp., the company's wholesale energy trading business; Enron Energy Services, the retail energy marketing business; Enron Transportation Services, the holding company for Enron's pipeline operations; Enron Broadband Services, a bandwidth trading operation; and Enron Metals & Commodity Corp.

Enron-related entities not included in the bankruptcy filing are not affected by the filing, Enron said. These non-filing entities include Northern Natural Gas Pipeline, Transwestern Pipeline, Florida Gas Transmission, EOTT, Portland General Electric and numerous other Enron international entities.

Enron said that "from an operational standpoint, our energy businesses-including our pipelines and utilities-are conducting normal operations and will continue to do so."

The company said that although "an uncertainty during the past few weeks has severely impacted the market's confidence in Enron and its trading operations," Enron intends to "help preserve capital, stabilize our businesses, restore the confidence of our trading counterparties, and enhance our ability to pay our creditors."

In connection with Enron's Chapter 11 filings, the company is in "active discussions with leading financial institutions" for debtor-in-possession financing and expects to complete these discussions shortly.

Upon the completion and court approval of these arrangements, the new funding will be available immediately on an interim basis to supplement Enron's existing capital and help fulfill obligations including payroll and payments to vendors, Enron said.

Enron will ask the bankruptcy court to consider a variety of "first day motions" to support its employees, vendors, trading counterparties, customers and other constituents. These include motions seeking permission to continue payments for employee payroll and health benefits; obtain interim financing authority and maintain cash management programs; and retain legal, financial and other professionals.

The company said its legal adviser for the lawsuit and proposed merger with Dynegy and Enron's Chapter 11 filing is Weil Gotshal & Manges LLP. Enron's principal financial adviser for its financial restructuring is The Blackstone Group.

Enron, which hopes to have a "significant ownership interest" in the proposed new entity that owns its North American wholesale energy trading operations, said "we understand that it may take time for counterparties to resume normal trading levels with this entity, but we are confident that this business can be put back on a solid footing."

Dynegy terminated its plan to acquire Enron on Wednesday after credit-rating agencies downgraded a major portion of Enron's debt to "junk" status. Enron's energy trading ground almost to a halt because trading partners became worried about Enron's finances.

Bankers involved in Enron's restructuring discussions estimate that liabilities total \$40 billion, including

\$13 billion in debt on its balance sheet. The Wall Street Journal reported.

Enron shares closed Friday at 26 cents, down 10 cents. The stock reached as high as \$90 little over a year ago.

Company Web site: <http://www.enron.com>

URL for this Article:

<http://interactive.wsj.com/archive/retrieve.cgi?id=DI-CO-20011202-000436.djm>

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An Investigative Report of the Center for Public Integrity

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Fourteen Top Bush Officials Owned Stock in Enron

By Derrick Wetherell

(WASHINGTON, Jan. 11) Fourteen of the top 100 officials in the Bush administration owned stock in embattled energy services firm Enron, according to a Center for Public Integrity analysis of Bush administration personal financial disclosure forms. Their holdings were worth-at the time of their filings-between \$284,016 and \$886,000. (See the table below.)

Revelations about Enron's financial losses and accounting practices caused the share price to plunge significantly since the officials filed their disclosure forms. Some of the 14 officials have sold their shares since they filed their personal disclosure forms.

These findings are from an unprecedented Center analysis of the finances and professional affiliations of the top 100 Bush administration officials, from the President to cabinet undersecretaries to the heads of independent agencies. The full report and searchable database will be released on the *Public i* site Monday morning, Jan. 14.

In addition to the 14 who owned stock in Enron, two officials had professional ties to Enron. National Economic Council Director Lawrence Lindsey served as a consultant to Enron when he was managing director of Economic Strategies, Inc., a consulting firm. He also served on Enron's board of advisers. U.S. Trade Representative Robert Zoellick, who owned stock in Enron, also served on its advisory council, earning a \$50,000 fee for his time.

Among the largest Enron shareholders, according the personal financial disclosure forms, are senior adviser to the President Karl Rove and Undersecretary of State Charlotte Beers, who each held between \$100,001 and \$250,000 of stock when their forms were filed. Others include Zoellick and Undersecretary of Commerce Grant Aldonas, who each owned between \$15,001 and \$50,000 of stock when they were nominated.

Aldonas' boss, Commerce Secretary Donald Evans, and Treasury Secretary Paul O'Neill were the two officials contacted by Enron CEO Kenneth Lay last October. The first calls came after Enron reported a third quarter loss of \$618 million and revealed that the Securities and Exchange Commission was investigating the company.

White House Press Secretary Ari Fleischer said Enron, in its contacts with O'Neill and Evans, suggested that its dire financial situation could have broad implications for the economy.

CENTER REPORT

The Center for Public Integrity will release on Monday a report analyzing the finances and professional affiliations of 100 high-ranking Bush administration officials, from the President down to cabinet undersecretaries and the heads of independent agencies.

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Fleischer said that O'Neill, in response to the calls from Enron, "contacted Undersecretary [Peter R.] Fisher, Undersecretary Fisher looked at that and concluded there would be no more impact on the overall economy."

Fisher was one of the 14 who owned stock in Enron at the time he filed his financial disclosure. He valued his holdings within a range of \$1,001 and \$15,000.

Among the report's other significant findings was that the largest sector in which the administration is invested, in terms of maximum dollar value, is the energy sector, with some 221 investments worth up to \$144.6 million.

The rest of the study's results will be released Monday on the Center's on-line investigative report, The Public i, www.public-i.org.

Officials Who Owned Enron Stock

Name	Position	Asset Name	Minimum	Maximum	Asset Type
Fisher, Linda	Deputy EPA Administrator	Enron	1001	15000	Stock
Fisher, Linda*	Deputy EPA Administrator	Enron	15001	50000	Stock
Fisher, Peter	Undersecretary of Treasury	Enron	1001	15000	Stock
Beers, Charlotte	Undersecretary of State	Enron	100001	250000	Stock
Cooper, Kathleen	Undersecretary of Commerce	Enron	1001	15000	Stock
Dorr, Thomas	Undersecretary of Agriculture	Enron	1001	15000	Stock
Dorr, Thomas*	Undersecretary of Agriculture	Enron	1001	15000	Stock
Marburger, John	Dir., Office of Science and Technology Policy	Enron	1001	15000	Stock
Rumsfeld, Donald	Secretary of Defense	Enron	1001	15000	Stock
Deily, Linnet	Deputy U.S. Trade Representative	Enron	15001	50000	Stock
Deily, Linnet*	Deputy U.S. Trade Representative	Enron	0	1000	Stock
Aldonas, Grant	Undersecretary of Commerce	Enron	15001	50000	Stock
Calio, Nicholas	Asst. to the President, Dir. Of Legislative Affairs	Enron	1001	15000	Stock
Libby, I. Lewis	Vice President's Chief of Staff	Enron	1001	15000	Stock
Zoellick, Robert	US Trade Representative	Enron	15001	50000	Stock
Tutweiler, Margaret	Advisor to the President for	Enron	15001	50000	Stock

Communications

Rove, Karl Senior Adviser to Enron 100001 250000 Stock
the President

* Two separate holdings

Derrick Wetherall is a senior writer at the Center. To write a letter to the editor for publication, send to letters@publicintegrity.org. Please include a daytime telephone number.

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Barber, Francine

From: Salladin, Anne
Sent: Friday, November 30, 2001 10:36 AM
To: Barber, Francine
Subject: FW: A Dow Jones Newswires Column: Enron's Derivatives Could Test Courts (discusses bankruptcy netting issues)

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

From: Carleton, Norman
Sent: Thursday, November 29, 2001 6:09 PM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, HeidiLynne; Sharer, James; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Elett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: A Dow Jones Newswires Column: Enron's Derivatives Could Test Courts (discusses bankruptcy netting issues)

November 29, 2001	
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IN THE MONEY: Enron's Derivatives Could Test Courts

By **CAROL S. REMOND** and **PHYLLIS PLITCH**

A Dow Jones Newswires Column

NEW YORK -- Prepare for the largest test in bankruptcy history of safe harbors designed to protect the liquidity of the nations' financial system.

Enron Corp.'s (ENE) much-anticipated bankruptcy filing, if it indeed comes, is certain to be precedent setting. First, in terms of sheer magnitude, we're talking about \$62 billion in assets. But also because it's likely to involve hundreds, if not thousands, of counterparties intertwined with **Enron** in various financial and energy derivative transactions.

Unlike other creditors whose claims will be stayed under U.S. bankruptcy laws, those counterparties will vie to unwind their trades, may they be "power forwards" or credit derivative contracts, in order to find more worthy hedging partners.

Built in the bankruptcy code are exemptions for securities or commodities contracts. These safe harbors were developed over the years as a sort of security blanket for the vital hedging functions that these transactions provide.

"These special rules are designed to avoid a domino effect," said a bankruptcy lawyer, who like many contacted for this column, declined to be identified given the likelihood that he'll end up representing one or many parties involved in Enron's expected Chapter 11 filing.

Counterparties claiming redress through these exemptions should be able to net out their various derivative contracts with **Enron**, attempting to use whatever collateral was pledged under those transactions to quantify how much money they owe to or are owed by **Enron**. All of that is normally done on the side, without prior bankruptcy court approval.

The problem is that **Enron** will likely question attempts to unwind those trades and take issue with the manner in which its counterparties netted their exposure to the company, observers say.

Given the large number of parties involved and the magnitude of Enron's recent losses, the treatment of

derivative contracts could be further complicated by the market's lack of understanding of just how much value is left in Enron's assets. That's an issue that will permeate the proceedings with all of Enron's stunned creditors. On top of its derivative exposure, **Enron** is on the hook for roughly \$13 billion in debt.

As part of its energy trading operations, **Enron** was a party to billions of dollars of derivative contracts designed to enable the company and its trading partners to hedge, among other things, against rapidly fluctuating energy prices and foreign exchange volatility - stabilizing otherwise uncertain markets. By its own account, as of December 2000, **Enron** was involved in roughly \$20 billion of derivative contracts on which it owed its counterparties. More recent numbers aren't available.

Thoughts of an **Enron** bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for **Enron** and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

Meanwhile, although **Enron** has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue **Enron** all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. **Enron** shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, **Enron** is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint.

Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although **Enron** and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that Enron's fondness for EEI agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that Enron's business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of Enron's derivative transactions were collateralized. But lawyers familiar with

the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by **Enron** on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of **Enron** took a nose dive after Dynegy rescinded its merger offer, with trading levels indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to **Enron**.

-By Carol S. Remond, 201-938-2074; Dow Jones Newswires; carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

1-7-01
Enron calls in
New Delhi debt

JW
 GC
 GC
 GS
 File India

JRW
 GC
 GS
 File: INDIA

By Khosm Merchant
 in Bombay

Enron, the US power company, yesterday invoked a sovereign guarantee to demand \$17m in unpaid bills from the Indian government, at a time when the country is counting the human and economic cost of the Gujarat earthquake.

Enron, whose \$3bn plant is the biggest foreign investment in India, said it had already delayed its demand for payment because of the earthquake, but that the situation was not tenable.

The company said its decision was the "inevitable" conclusion to months of delayed, and now non-payment of bills by Maharashtra State Electricity Board, which owes Rs2.5bn (\$50m) for power consumed from Enron's plant at Dabhol.

However, Enron said it had donated tents, medical supplies and communications equipment to earthquake victims, while staff had given a day's wages to an earthquake appeal.

Enron's sovereign guarantee allows it to demand payment from the national government in the case of non-payment.

Enron officials said they expected the Indian government to honour its contractual obligations, which New Delhi is expected to offset by

reducing central government allocations to Maharashtra. It has 30 days to pay, otherwise the case goes to arbitration in London.

Last night a foreign banker said: "If the government pays up it will show that sanctity of contract does mean something in India. If not, then foreign investment flows could be a casualty."

Maharashtra's electricity board says it cannot afford to pay what it describes as Enron's high tariffs, which are typically three times greater than those levied by other independent power producers in India. Last week, Enron invoked a state guarantee against Maharashtra, which responded by paying Rs100m.

Enron has come under increasing pressure from its bankers, which include Citibank, Credit Suisse First Boston and Fujibank, to resolve the crisis. More than 50 per cent of the \$2bn in debt raised for both phases of the plant was provided by Indian financial institutions.

The latest development at Enron also marks a disappointing juncture in India's ambitious plans for the power sector.

A decade ago, eight power proposals were given fast track approvals. But besides Enron, only two others have achieved financial closure.

howNottoNameAco

NAMING a child is one of the most testing things new parents do. So many family sensitivities to consider, so much need to pick something that will be memorable but not mocked. Companies find it even more traumatic, partly because they often hunt for a new name when they are in the throes of a disturbing merger, or when an old name has become devalued.

This week, for example, Glaxo unveiled a new identity developed by Future, a design company that is the intermediate upper has joins the illustrious PricewaterhouseCoopers and Chrysler as examples of names that merge but cannot die which is the underdog and consigned to oblivion. Paul Barrebrand's creative director, has with a new logo built around the 'ix', which is presumably what it stood up calling the company.

But are initials a way to gloss over an awkward past? British Petroleum, gobbling up Amoco and Arco, managed to avoid becoming BritishAmocoArco. Prudently, it decided that the "British" was a burden-

some legalised for with ads as is over so

this was the company's moniker.

A name that is widely recognised does



not need much meaning. When a telecoms company asked John Williamson of Wolff Olins, a consultancy, what he thought of Microl as a name for a wireless network, he thought it was terrible and suggested Orange instead. It turned out to be one of the branding triumphs of the past decade. Not many people know that Starbucks was the coffee-drinking first mate of "Moby Dick", says Julie Conineau, director of naming at Interbrand in New York, but the

To	Greg C.	From	Geetha
Date/Agency		Phone #	
Fax #	2-0391	Fax #	
GENERAL SERVICES ADMINISTRATION			

...to be available as a domain name. It also has to squeak through trademark law, and to avoid an undesirable meaning in a foreign language (like GM's Nova, whose name meant "No go" in Spanish). And it has to pass muster with the corporate top brass, who are likely to be deeply conservative. How else to explain why Andersen Consulting should reject the vivid and memorable name of Mind Rocket and settle instead for the meaningless Accenture?

These days, a new name has to be available as a domain name. It also has to squeak through trademark law, and to avoid an undesirable meaning in a foreign language (like GM's Nova, whose name meant "No go" in Spanish). And it has to pass muster with the corporate top brass, who are likely to be deeply conservative. How else to explain why Andersen Consulting should reject the vivid and memorable name of Mind Rocket and settle instead for the meaningless Accenture?

Enron in India

Generation gaps

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Enron's Maharashtra power project continues to spark controversy

SINCE its conception nearly a decade ago, the Dabhol power project in the Indian state of Maharashtra has generated more problems than power. Dabhol and its main shareholder, Enron Corp. based in Texas, were accused of bribing Indian officials in order to get the project approved, and of tolerating police brutality to get it built, charges Enron says were dismissed by the courts. This week its sole customer, the Maharashtra State Electricity Board (MSEB), came close to default on 1.1 billion rupees (\$33m) of bills owed to Dabhol since last October.

Catastrophe was averted on January 9th when the state came up with the money to meet the bill, but the crisis is not over. Dabhol's power will become even more expensive when a second phase of the project goes into operation later this year. It is hard to say which is the bigger worry: the burden on Maharashtra of a power plant that it cannot afford, or the damage that would be done to India's reputation as a destination for foreign investment were the state to default.

Enron's investment in India was supposed to flatter both. India liberalised its economy in 1991 and Enron looked brave for pioneering foreign investment in the country's power sector. But the Dabhol project, on the Malabar coast, caused so much controversy that in subsequent elections it helped to defeat the state government that had approved it.

The World Bank refused to finance it, saying that Maharashtra could not absorb the additional power at the price which Dabhol would charge. Yet in 1996 the new, ostensibly anti-Dabhol government approved a 740 megawatt plant costing \$1.1 billion that went into operation in May 1999 ("Phase One"), and a second 1,440-megawatt plant costing \$1.9 billion, which is 80% built ("Phase Two"). "India had no experience in negotiating," says a top Indian government official dealing with electricity. "Enron was a savvy negotiator." The process was secret, deepening suspicions.

Phase One supplies champagne power

to a customer whose budget does not even extend to beer. As India insisted, its fuel is naphtha, which unexpectedly doubled in price after the agreement was negotiated, driving up the variable component of Dabhol's tariff. MSEB is also obliged to pay a fixed "capacity charge" of 940m rupees a month—covering debt, fixed running costs, and the profits of Enron and other shareholders—even if it takes no electricity from Dabhol. Even when the plant is operating at close to full capacity, its electricity is more expensive than that from other sources available to MSEB, mostly old coal-fired and hydro-electric plants. The state's electricity regulator has ordered MSEB to favour cheaper sources of supply; the resulting drop in Dabhol's output makes each unit ridiculously expensive.

Naphtha prices have again receded, so variable costs should drop soon. But with the tripling of capacity, Dabhol will switch from naphtha to liquefied natural gas. This is a cheaper fuel, but it is bought under a 20-year contract. Dabhol's fixed charge to MSEB will therefore soar. The worried state government has set up a committee to review the project.

MSEB's financial plight is not entirely Dabhol's fault. As in other states, Maharashtra's politicians oblige the electricity board to supply power at below cost to farmers and other favoured consumers. Moreover, MSEB

loses a third of the electricity it buys to theft and leakage. The combined annual losses of India's state electricity boards are staggering.

Doubts remain about the wisdom of the Dabhol project, if not the ethics of its promoters (which, Enron insists, met the highest standards). Maharashtra has a power shortage, which it now copes with by cutting off many of its customers for hours every day. But a plant designed to kick in at periods of peak demand rather than a base-load plant like Dabhol could have dealt with this. If MSEB cannot pay, it will not be the shareholders who suffer but the public in India and abroad: payments are guaranteed by India's state and central governments as well as by agencies in investors' home countries.

Now that MSEB has met its October bill,

the tension has subsided—for a time. K. Wade Cline, Enron's managing director in India, says the company will "see if there is room to negotiate" as long as MSEB continues to meet its obligations. If it does not, there is a "big danger" that lenders will stop financing the second phase. There is talk that Enron may even sell its stake in Dabhol altogether.

Reforms could help. A bill pending in parliament would encourage full-fledged trading of electricity, which would allow Dabhol to seek customers besides MSEB (and Enron to move into a business that it is keen to enter). It would also encourage MSEB and its bankrupt counterparts in other states finally to meter and price electricity properly. If that happens, perhaps Dabhol will turn out to be more of a blessing than a curse.

sions, and the big-wigs will meet again at the weekend to try to finalise a pact.

Any solution has to contain a number of elements. For a start, the utilities need to be given more time to pay the debts that they have accumulated. Some bridging arrangement, whether arranged as a loan from creditors or via the issue of a bond securitising anticipated revenues, will stave off the immediate liquidity crunch and postpone bankruptcy. Then suppliers will probably have to agree to provide power at fixed prices under long-term contracts, rather than entirely through spot markets on which prices fluctuate rapidly.

Next comes the medium-term question of who will pay the utilities' bills. It seems certain that Californian consumers will end up paying some of them, both though the politicians may be to pass them on through further rate hikes. The beleaguered shareholders of the utilities can also expect to take a further beating. However, a federal bailout looks unlikely; the present administration has said it may be prepared to buy power at an "attractive fixed rate" from generating companies to help stabilise the market, but the new administration owes California, which voted against Mr Bush, few favours. In any case, it believes that states should have more management of their own affairs. Phil Gramm, a powerful Republican senator from Texas, says he will "vigorously oppose" any efforts to "let California politicians off the hook".

That moves on to the third, longer-term component of any solution: fixing the muddled regulatory morass that passes for "deregulation" in California. James Hoecker, chairman of the Federal Energy Regulatory Commission (FERC), put it bluntly: "As disappointing as it may seem to some, we cannot 'price cap' California out of a supply shortage... and generators should not expect future earnings that dramatically outdis-

count the industry's historical performance." He added that fixing things will require work "on several fronts over a period of time—in California's case, three to five years."

This is sensible, straight talk that California's irresponsible politicians and regulators would do well to heed. That is because, while Mr Hoecker proved no knight in shining armour for them, he was more sympathetic to some sort of federal role in solving California's crisis than were other commissioners of the FERC. On January 10th, however, Mr Hoecker resigned. It is now crystal clear that only California can get California out of this mess.

Power in California Light on solutions

DAVID FRANKFORD

California's politicians are not resolving the state's energy crisis

CALIFORNIANS have been enduring the latest in a string of power "emergencies" that have become so routine that they are announced alongside the weather forecast on the evening news. Southern California Edison and Pacific Gas & Electric, the state's two giant power utilities, have been forced to buy power for far more than they are legally allowed to charge their retail customers in recent months, so they are bleeding red ink. At the latest count, they had outstanding debts of over \$10 billion. With credit-rating agencies warning that the utilities are within days of bankruptcy, the state's governor, Gray Davis, has been under intense pressure to come up with a solution.

Mr Davis delivered his "state of the state" speech on January 8th; it was mostly devoted to the power crisis. He went on a rampage against the power marketing firms, calling them out-of-state criminals, and he threatened to cut off the state from the regional electricity-trading markets (ignoring the fact that California gets a quarter of its power from outside the state). He also branded deregulation a "dangerous and colossal failure" that had produced an "energy nightmare", and raised the spectre of some sort of state control over power distribution and generation assets.

His speech did not, therefore, do anything to improve the crisis. Creditors were cheered that the governor

said explicitly that he would not let the utilities go broke, but they noted that he refused to reveal how exactly that could be avoided. Standard & Poor's, a rating agency, warned that "the governor's message lacked constructive solutions to the utilities' financial crisis."

Undeterred, Mr Davis flew the next day to Washington to plead his case for some sort of bail-out. At a special emergency summit called by Bill Richardson, the energy secretary, and Larry Summers, the treasury secretary, the governor's officials sat down with the utilities and the main suppliers of power to California in the hope of forging some sort of a compromise. No final deal was reached, but lower-level folk will continue discus-



Before California's lights go out

McGivern, Tom

From: Vagle, Steven
Sent: Tuesday, December 19, 2000 6:34 PM
To: McGivern, Tom; Vagle, Steven; Levy, Ronald; Dorsey, Karen; Anderson, Judy; Kenrick, Brian; Foss, Robert; Ramsey, Jeanne; Ladds, Julia
Subject: fy: WSJ story: "Wall St Uncomfortable With Non-Street Treasury Secretary"

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December 19, 2000

Wall St Uncomfortable With Non-Street Treasury Secretary

By STEVEN VAMES

OF DOW JONES NEWSWIRE

NEW YORK -- Wall Street is casting a leery eye at some of the decidedly non-Wall Street cast of characters who are being considered for President-elect George W. Bush's Treasury Secretary.

At issue is whether several of the potential appointees being talked about would be a good fit for the job, given that their backgrounds are not directly related to financial markets.

One major factor will be the fate of the "strong dollar policy," a major hallmark of the recent rein of former Secretary Robert Rubin and current Secretary Lawrence Summers.

In recent years, Wall Street has applauded that policy, noting that it maintained overseas confidence in U.S. markets, staved off inflation, and helped keep interest rates in check.

But some on Wall Street wonder whether a Secretary with more of a corporate or industrial background would be as committed to the strong dollar, given that the currency's strength in recent years has been a drag on profits for U.S. corporations that operate overseas.

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Additionally, they're anxious about how well a market-outsider can manage day-to-day scrutiny from the markets, which will pick through the Secretary's every word to find hidden meanings and changes in sentiment.

"The reason Wall Street prefers to see its own type of people is that they understand fundamentals of how words and sentiment mix," said James Glassman, senior economist at Chase Securities in New York.

"A guy who has had no exposure to the trading world can think 'what's the big deal' about saying something off the top of his head without realizing the market is listening carefully for small subtleties," he added.

Recently, Bush advisors have stated that the search for the top **Treasury** post is focussed on candidates from the private sector, but not necessarily from Wall Street.

As a list of potential candidates have emerged, some prominent names from off-Wall Street have emerged, including Alcoa chairman Paul O'Neill, Enron chief executive Kenneth Lay, and financier Gerald Parsky, chairman of Aurora Capital Group in California.

Some of the names from Wall Street have included Walter Shipley, former chairman of Chase Manhattan and John Hennessey, former CEO of Credit Suisse First Boston. New York Federal Reserve president William McDonough is also said to be under consideration.

Corporate America Has A Different View

Some industry types have been vocal of their support for an appointee with a corporate background.

"Paul O'Neill and other representatives of industry are at a great advantage of running enterprises that take close notice of energy prices, foreign competition, exchange-rate fluctuations and the turmoil in credit markets," said Jerry Jasinowski, president of the National Association of Manufacturers.

Jasinowski said that the association is not necessarily in favor of a weaker dollar, but added that "high interest rates combined with excessive praise for a strong dollar from the **Treasury**," could be seen as counter to the best interest of many U.S. industries.

Despite Wall Street's skepticism over the outsiders on Bush's list, most Wall Street players note they will give an equally warm reception to whoever is chosen.

"Virtually all of the candidates are highly qualified business people who will fit with the administration's support for free trade and global

markets. We're basically waiting for the new Secretary's policy speech before we make any assessments about his abilities," said Joe Lavorgna, economist at Deutsche Bank in New York.

But others say that Bush may have already signaled that his administration, while not advocating outright protectionism for U.S. markets, might be more focussed on domestic policy and stimulus at the expense of a strong dollar.

Bush's appointee for White House Chief of Staff, Andrew Card, was the former head of the lobby group American Automobile Manufacturers Association, a now-defunct group which had lobbied hard to maintain a more moderate dollar stance to maintain U.S. auto exports.

"An appointment of someone from outside Wall Street would tend to signal to the markets, as well as foreign countries, a renewed emphasis on domestic policy. The **Treasury** Secretary is only part of that picture," said Marc Chandler, chief currency strategist at Mellon Bank in New York.

Regardless of the **Treasury** Secretary's policy, however, some market watchers say the fate of the dollar versus other currencies is in the hands of the markets.

"With dollar policy, there is action and there is rhetoric. It's almost certain that the new Secretary is going to be advocating a strong dollar in rhetorical terms - that's just a way of saying that they favor low inflation and a currency that holds its value," said Kevin Logan, senior economist at Dresdner Kleinwort Benson.

"Rubin repeated constantly that the strong dollar was in the best interest of the economy, so when he intervened to help the yen, it wasn't seen as a huge change of sentiment," added Logan.

-Steven Vames; Dow Jones Newswires; 201-938-2206;
steven.vames@dowjones.com

The bad news is you can't beat the market.

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March 14, 2000

Norman K. Carleton
Policy Director
Office of Federal Finance
U.S. Department of the Treasury
Room 2034
Washington, DC 20220

Dear Mr. Carleton:

Norm

The Bond Market Association very much appreciates the important work of the U.S. Department of the Treasury and the President's Working Group regarding cross-product netting and asset-backed securitization reforms.

I would like to clarify the Association's position regarding a memo sent to you by Enron on March 1. The characterization of our Association's position concerning changes favored by Enron is inaccurate. Specifically, the memo states that "we expect ISDA and The Bond Market Association to agree to these provisions, as they had approved the earlier draft." As my staff communicated to you last fall when we were asked to review an earlier version of these proposals, the Association does not support the Enron proposals and Enron has no reason to imply or anticipate our approval of their proposed changes. We deferred entirely to the President's Working Group on these provisions and endorsed only the weather-derivatives amendment once it was accepted by the Working Group. We continue to defer to the President's Working Group on these proposals.

Enron did not discuss their March 1 memo with us prior to sending it to you, nor have they responded to numerous inquiries my staff has made with them since they sent it. Unfortunately, I therefore find it necessary to burden you with this clarification.

Thank you again for your leadership and support.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Vogt".

John R. Vogt
Executive Vice President

Cadwalader, Wickersham & Taft

1333 New Hampshire Avenue, NW

Washington, DC 20036

(202) 862-2256

Fax number: (202) 862-2400

FROM: Ellen Levinson

No. of Pages: 5

Date: March 1, 2000

FOR IMMEDIATE DELIVERY

TO:	Name: Norman Carleton Department of the Treasury	Fax No.: 202-622-0974 Phn No.: 202-622-1855
cc)	Name: Carol St. Clair ENRON	Fax No.: 713-646-3393 Phn No.: 713-853-3989
cc)	Name: Jeff Keeler ENRON	Fax No.: 202-828-3372 Phn No.: 202-466-9157

Dear Norm:

As we previously discussed, Enron has revised its proposed amendments and report language to the Bankruptcy Reform Act. I have attached the current version for review and consideration by the Financial Products Working Group. We expect ISDA and the Bond Market Association to agree to these provisions, as they had approved the earlier draft.

We would appreciate discussing these amendments with you early next week. Please let me know a time that would be most convenient.

Sincerely,



Ellen S. Levinson

February 14, 2000

AMENDMENTS TO THE FINANCIAL CONTRACT PROVISIONS
of the
BANKRUPTCY REFORM BILL, H.R. 833

Background and Summary

In 1990, amendments were made to the Bankruptcy Code to give legal certainty to the treatment of certain financial transactions in the case of bankruptcy. The amendments particularly addressed transactions, such as swaps and other over-the-counter derivatives, that are subject to fluctuations because they derive their values from an underlying commodity, rate, index or other item. The insolvency of a party to such a transaction could pose systemic risks.

Both the House and Senate Bankruptcy Reform Bills update the financial contract provisions of the Code. Among other things, the purposes are to catch up with new developments in the market, to anticipate continued innovation and growth of derivatives and to provide greater legal certainty that financial transactions can be closed out, netted and settled in a timely manner in case of bankruptcy.

The following amendments and report language to H.R. 833 are needed (1) to revise the definition of "swap agreements" to accommodate the introduction of new swap products, (2) to avoid any confusion regarding the netting rights for different types of transactions by providing consistency in the statutory language, and (3) to clarify how the "cross-product" netting provisions should be applied.

The Amendments, Report Language and Explanations

The amendments and report language below refer to Section 1007 of the House-passed bill.

1) Revise the definition of "swap agreements" in the bills to accommodate the introduction of new swap products.

a) Amend the definition of "swap agreement" in Section 1007(a)(1)(E) by:

- ok** i) on page 299, line 16, deleting "or" after "agreement;" ;
- ok** ii) on page 299, line 18, inserting after "agreement;" the following: "or a weather swap, weather derivative, or weather option;" ;
- AD** iii) on page 299, lines 23 and 24, deleting the words "in the swap market" and inserting instead "by swap participants" ;
- ok** iv) on page 300, line 8, inserting "or other" after the word "economic"; and
- ok** v) on page 300, line 9, inserting "or other" after the word "economic".

b) Conference Report Statement of Managers:

The current statutory definition of "swap agreement" in Section 101(53B) includes an enumerated list of products and a catch-all phrase for "any similar agreement." The catch-all phrase was included in the 1990 Amendments to ensure that the definition would be broad enough to encompass future types of swaps that the financial marketplace would develop. The revised definition in H.R. 833 also adopts this approach.

- i) The conferees believe that a swap definition limited to specifically enumerated transactions would soon be rendered obsolete by the ingenuity of financial engineers. The conferees have taken the approach used in the 1990 Amendments a step further, however. Specifically, the revised catch-all phrase in Section 1007(a)(1)(E) of H.R. 833 refers to "any agreement or transaction similar" to one of the enumerated types of transaction that, "is presently, or in the future becomes, regularly entered into by swap participants ... and ... is a forward, swap, future or option on one or more rates, currencies, commodities, equity securities, or other equity instruments, or on an economic or other index or measure of economic or other risk or value".
- ii) The additional language in the catch-all phrase is for purpose of clarification only. It is not designed to limit the circumstances in which a transaction may qualify as a "swap agreement." The conferees in no way intend to exclude from this revised definition any transaction or agreement that is considered a swap agreement under the version of the definition adopted in 1990.
- iii) The use of the phrase "regularly entered into" in clause A(ii)(I) of the definition of "swap agreement" is not intended to preclude from the scope of sections 362(b), 560, 561(a)(5), and other provisions relating to swap agreements, transactions that have as their underlying items novel or unusual rights, services, interests or other measures of value, whether or not such rights, services, interests or other measures of value have previously been used or are thereafter used in any other transaction or by any other parties. The conferees believe and intend that so long as the transaction or the underlying item is vulnerable to market fluctuations, the same systemic risks sought to be avoided by permitting non-debtor counterparties to liquidate, terminate and accelerate swap agreements pursuant to contractual rights apply to such transactions.

c) Explanation:

In both the House and Senate bills the statutory definition of "swap agreement," which was established in 1990, is updated by (i) adding to the existing list of swap products, types of transactions that have been introduced since 1990, and (ii) modifying the "catch-all" phrase to provide flexibility to avoid the need to amend the definition as the nature and uses of swap agreements matures.

The updated definition of swap agreements in H.R. 833 inadvertently did not cover some legitimate transactions, and this amendment remedies this problem. First, the list of swaps is amended to include "weather derivatives," an important type of transaction that allows end-users, such as energy companies, agricultural producers and agribusinesses, to

manage their weather-related business risks. Second, the catch-all clause is revised to ensure that the new definition (a) is not limited to products that address "economic" risk, which could inadvertently narrow the current definition, and (b) refers to transactions entered into "by swap participants" rather than "in the swaps market" since swap transactions do not take place on federally-regulated markets; swaps are entered into by agreements between parties "over-the-counter."

To ensure that the intent of the amendments to the swap definition is clear, report language in the Statement of Managers is necessary.

2) Protection of netting rights for commodity, securities and forward contracts and repurchase agreements.

a) At the appropriate place in each bill add the following amendments to the Bankruptcy Code:

Amend 11 U.S.C. § 362(b)(6) by (i) replacing "a margin payment, as defined in section 101, 741, or 761 of this title, or settlement payment, as defined in section 101 or 741 of this title, arising out of" in the sixth through eighth lines thereof with "any payment or transfer due from the debtor under or in connection with" and (ii) inserting between the words "against" and "cash" in the eighth line thereof: "against any payment due to the debtor from a commodity broker, forward contract merchant, stockbroker, financial institution, or securities clearing agency under or in connection with commodity contracts, forward contracts or securities contracts or against".

Amend 11 U.S.C. § 362(b)(7) by (i) replacing "a margin payment, as defined in section 741 or 761 of this title, or settlement payment, as defined in section 741 of this title, arising out of" in the third through fifth lines thereof with "any payment or transfer due from the debtor under or in connection with" and (ii) inserting between the words "against" and "cash" in the fifth line thereof "against any payment due to the debtor from such repo participant under or in connection with repurchase agreements or against".

b) Explanation:

Under current law, a safe harbor from the application of the automatic stay in bankruptcy proceedings is provided for several types of financial transactions. This safe harbor is intended to provide legal certainty to the enforceability of netting rights in the case of bankruptcy of a counterparty to one of these types of transactions. For swap agreements, netting rights in connection with "any payment or transfer" arising in connection with the transactions are protected in current law. However, for commodity, securities and forward contracts and for repurchase agreements, under current law the protection is more limited -- it only applies to netting rights related to "margin payments" and "settlement payments." This inconsistency in statutory language can create legal uncertainty about the exercise of netting rights in bankruptcy.

To remedy this problem, the amendment would apply the same protection for commodity, securities and forward contracts and repurchase agreements that is already provided for swap agreements.

3) Conference Report Statement of Managers ("cross-product" netting).

a) Language:

Sections 561(a) and (c) of the Code; Section 1007(k) of H.R. 833
Section 362(b)(32) of the Code; Section 1007(d)(1)(F) of H.R. 833

Section 561(a) will protect the exercise of any "contractual right" to "offset or net termination values, payment amounts or other transfer obligations" in connection with certain enumerated types of transactions free from any stay or any order of a court or administrative agency. Under subsection (c), "the term contractual right includes ... a right, whether or not evidenced in writing, arising by reason of normal business practice".

- i) Section 561(a), therefore, will protect netting and setoff rights between, *e.g.*, repurchase agreements and swap agreements, swap agreements and forward contracts, and cash-settled and physically-settled forward contracts, even without implementation of an umbrella "master master" agreement tying the agreements together, as long as such netting and setoff is consistent with "normal business practice". The determination of what constitutes "normal business practice" in any particular case will, of course, depend on the facts and circumstances. Nevertheless, the drafters anticipate that where the normal practice in an industry is not to implement master master agreements, but the participants in the industry nevertheless rely on the enforceability of their "cross product" netting rights when entering into transactions and making attendant credit determinations, such participants will be protected under Section 561.
- ii) The new Section 362(b)(32) established under Section 1007(d)(1)(F) will complement Section 561 by protecting netting and setoff and collateral foreclosure rights in connection with master netting agreements. The protections afforded by Section 362(b)(32), on the one hand, and Section 561, on the other, are cumulative. Accordingly, the absence in Section 362(b)(32) of explicit protection for rights arising by virtue of "normal business practice" is not in derogation of such rights arising under Section 561.

b) Explanation:

Both bills have provisions to protect netting and setoff rights between different types of agreements, such as repurchase agreements and swap agreements, swap agreements and forward contracts, and cash-settled and physically-settled forward contracts, even without implementation of an umbrella agreement tying the agreements together, as long as such netting and setoff is consistent with "normal business practice." To clarify the intent of these provisions the report language states that where the normal practice is not to implement umbrella agreements, but the participants in the industry nevertheless rely on the enforceability of their "cross-product" netting rights when entering into transactions and making attendant credit determinations, such participants will be protected.

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From: Ellen Levinson	No. of pages:	Date: September 10, 1999
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FOR IMMEDIATE DELIVERY TO:

1)	Name: Norman Carleton Department of the Treasury	Fax No.: 202-622-0974 Phn No.: 202-622-1855
2)	Name: Oliver Ireland Federal Reserve Board	Fax No.: 202-452-3101 Phn No.: 202-452-3625
cc)	Name: Jeff Keeler ENRON	Fax No.: 202-828-3372 Phn No.: 202-466-9157
cc)	Name: David Mitchell CWT - New York	Fax No.: 212-504-5641 Phn No.: 212-504-6285
cc)	Name: Lech Kalembka CWT - New York	Fax No.: 212-504-6666 Phn No.: 212-504-6918

Dear Messrs. Carleton and Ireland:

I have attached, for your information and review, the latest versions of the amendments proposed by Enron to Section 901 of S.625 (the Bankruptcy Reform Bill). These amendments are supported by ISDA. Enron has submitted these amendments to the Senate Judiciary Committee staff for consideration. We would like the opportunity to discuss these provisions with you at your earliest convenience.

Sincerely,



Ellen S. Levinson

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**EXPLANATION OF AMENDMENTS TO S. 625
TO UPDATE SWAPS DEFINITION AND TO CLARIFY NETTING RIGHTS FOR
CERTAIN FINANCIAL AGREEMENTS**

Section 901(a)(1) – Definition of “Swap Agreement”

As reported by Committee, the definition of “swap agreement” in current law is updated by (i) adding to the existing list of swap products, types of transactions that have been introduced since the last time the definition was amended, and (ii) including a “catchall” phrase to cover the potential for development of new swap products. Since this is a rapidly evolving industry, the catchall phrase is intended to provide flexibility to avoid the need to amend the definition as the nature and uses of swap agreements matures.

As reported, the definition of swap agreement inadvertently did not cover some legitimate transactions, and this amendment remedies this problem. First, the list of swaps is amended to include “weather derivatives,” an important type of transaction that allows end-users, such as energy companies, agricultural producers and agribusinesses, to manage their weather-related business risks. Second, the “catchall” clause is revised to ensure that the new definition (a) is not limited to products that address “economic” risk, which could inadvertently narrow the current definition, and (b) is flexible enough to accommodate swaps that are not traded “regularly” because they are new or innovative developments. The phrase “entered into in the swap market” is changed to “entered into by swap participants” since swap transactions do not take place on federally-regulated markets; swaps are entered into by agreements between parties “over-the-counter.”

Section 901(d) – Netting Rights in Bankruptcy

Under current law, a safe harbor from the application of the automatic stay in bankruptcy proceedings is provided for several types of financial transactions. This safe harbor is intended to provide legal certainty to the enforceability of netting rights in the case of bankruptcy. This amendment rectifies an inconsistency between the safe harbor for swaps and the safe harbor for several other types of financial transactions which, if not addressed, could undermine legal certainty for commodities, securities and forward contracts and repurchase agreements.

For swap agreements, netting rights in connection with “any payment or transfer” arising in connection with the transactions are protected in current law. However, for commodity, securities and forward contracts and for repurchase agreements, under current law the protection is more limited -- it only applies to netting rights related to “margin payments” and “settlement payments.” This inconsistency in statutory language can create some confusion about the exercise of netting rights in bankruptcy. To remedy this problem, the amendment would apply the same protection for commodity, securities and forward contracts and repurchase agreements that is already provided for swap agreements.

**AMENDMENTS TO S. 625 TO UPDATE SWAPS DEFINITION AND TO CLARIFY
NETTING RIGHTS FOR CERTAIN FINANCIAL AGREEMENTS**

Update to the Definition of Swap Agreement:

Section 901(a)(1) of S. 625 is amended –

- a) on page 239, line 8, by deleting “or” after “agreement;”;
- b) on page 239, line 11, by inserting “or (VIII) a weather swap, weather derivative, or weather option;” after “agreement;”
- c) on page 239, line 16, by striking the words “regularly entered into in the swap market” and inserting “entered into by swap participants”;
- d) on page 240, line 1, by inserting “or other” after “economic”;

Clarifying Netting Rights for Certain Financial Agreements:

Section 901(d) of S. 625 is amended –

- a) on page 248, line 17, by inserting “(i)” after the comma;
- b) on page 248, line 19, by inserting before the semicolon, “(ii) by striking the words ‘a margin payment’ through ‘arising out of’ and inserting ‘any payment or transfer due from the debtor under or in connection with’, and (iii) by inserting ‘any payment due to the debtor from a commodity broker, forward contract merchant, stockbroker, financial institutions, or securities clearing agency under or in connection with commodity contracts, forward contracts or securities contracts or against’ after ‘contracts against’”;
- c) on page 248, line 20, by inserting “(i)” after the comma: and
- d) on page 248, line 22, by inserting before the semicolon “(ii) by striking the words ‘a margin payment’ through ‘arising out of’ and inserting ‘any payment or transfer due from the debtor under or in connection with’, and (iii) by inserting ‘any payment due

to the debtor from such repo participant under or in connection with repurchase agreements or against' after 'contracts against'.

Lebryk, David

From: Jones, Janet
Sent: Thursday, November 09, 2000 9:31 AM
To: Carter, Ted; Dom13.DOPO7.ArkinS; Dom13.DOPO7.BAKERR; Conly, Sonia; Dom13.DOPO7.CUMBYR; Dom13.DOPO7.DAVIEB; Dom13.DOPO7.DELAVINAL; Dom13.DOPO7.FLANAGANR; Dom13.DOPO7.GERARDIG; Dom13.DOPO7.HOLTZBLATTJ; Dom13.DOPO7.IWRYM; Dom13.DOPO7.KNOPFK; Dom13.DOPO7.MCCUBBINJ; Dom13.DOPO7.MIKRUTJ; Talisman, Jon; Dom13.DOPO7.VandivierD; Dom13.DOPO7.WALKERD; Atkinson, Caroline; Baukol, Andrew; Budington, Michele; Cetina, Jill; Dom13.DOPO8.CHAVESM; Eichenberger, Joe; Fall, James; Geithner, Timothy; Gelpert, Anna; John, James; Lee, Nancy; Lowery, Clay; Ludden, Ken; Schuerch, William; Stedman, Louellen; Truman, Ted; Walsh, Helen; Alagiri, Priya; Andrews, Lisa; Arnold, Thomas; Bordoff, Jason; Cameron, Art; Carter, Jana; Cohen, Alan; Comstock, Neal; Decker, Larry; Desler, Anne; Egolf, Brian; Eizenstat, Stuart; Fant, William; Flanders, Stephanie; Gathers, Shirley; Grayson, Cherry; Harvey, Reavie; Herold, Valerie; Johnson, Linda; Joseph, Verlene; Keene, Carolyn; Keller, Alan; Kim, Carol; Klasky, Helaine; Levine, Marne; Longbrake, John; Luce, Ed; Matera, Cheryl; McAuliffe, Laura; Mejia, Annabella; Moore, Holly; Muldoon, Lara; Nisanci, Didem; Powell, Linda; Robertson, Linda; Sandberg, Sheryl; Smith, Michelle A.; Starks, Ora; Stern, Todd; Summers, Larry; Toohey, Frank; Valentic, Marsha; Barber, Francine; Barbour, Gaylen; Bieger, Peter; Carro, Richard; Cohen, David; Edsall, Alexandra; Greene, Michelle; Joy, David; Kellogg, Cliff; McGivern, Tom; McHale, Stephen; McInerney, Roberta; Sachs, Lee; Wolin, Neal; ex.mail.JONESM; ex.mail.VJORSTAD; Adashek, Jonathan; Affleck-Smith, Joan; Baer, Gregory; Barr, Michael; Bell, Rochelle; Beresik, Michael; Bresee, Elisabeth; DeMarco, Edward; Foote, Norman; Gensler, Gary; Johnson, James; Lebryk, David; Ross, Lisa
Subject: Linda Robertson's info.

Linda L. Robertson
Vice President, Federal Government Affairs
Enron
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Lebryk, David

From: Lebryk, David
Sent: Friday, November 30, 2001 10:45 AM
To: Wiss, Barbara
Subject: FW: IN THE MONEY-2:Collateral Key To Counterparties

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

From: Lori.Santamorena@bpd.treas.gov [mailto:Lori.Santamorena@bpd.treas.gov]
Sent: Friday, November 30, 2001 8:01 AM
To: david.lebryk@do.treas.gov; donald.hammond@do.treas.gov
Subject: DJ: IN THE MONEY-2:Collateral Key To Counterparties Recovery

this is a good article

----- Forwarded by Lori Santamorena/BPD on 11/30/01 07:58 AM -----

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11/29/01 06:13 PM

cc:
Subject: DJ: IN THE MONEY-2:Collateral Key To Counterparties Recovery

November 29, 2001

IN THE MONEY-2:Collateral Key To Counterparties Recovery

Dow Jones Newswires

Thoughts of an Enron bankruptcy jogged memories of past filings, such as the case of Drysdale Government Securities Inc., which involved public entities being left on the hook for millions of dollars in uncollateralized government repurchase agreements.

But bankruptcy laws have evolved significantly since the 1982 collapse of Drysdale sent shockwaves through the financial community and forced banks to pay out tens of millions of dollars to cover Drysdale's obligations to other government securities firms.

More recently, Orange County's 1994 bankruptcy following its derivatives debacle and the bitter dispute surrounding German's Metallgesellschaft Ag for breach of forward petroleum contracts suggests that acrimonious and lengthy litigations might be in the offing. In the latter case, many counterparties settled out of court and took "haircuts" after a judge ruled that independent petroleum marketers who entered into long-term hedging contracts as protection against escalating fuel prices could sue the metals and engineering conglomerate for breach of contract.

But the extent to which those cases provide any lessons for Enron and its derivative counterparties remains to be seen, experts said, depending on what sticky and complex issues might arise in potential court actions.

01/18/2002

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Meanwhile, although Enron has yet to file for bankruptcy, most of its derivative counterparties are likely already scrambling to exit their trades.

That's because Dynegy Inc.'s (DYN) decision Wednesday to abandon its plan to rescue Enron all but sealed the fate of the ailing Houston energy trader which has been hobbled by accounting irregularities and unquantified off-balance-sheet liabilities. Enron shares plummeted from about \$90 a share last summer to 36 cents Thursday.

Derivative contracts are built around master agreements developed by the International Swaps and Derivatives Association. As far as its power purchase deals go, Enron is said to have favored master agreements drafted by the Edison Electric Institute, which draws heavily on ISDA's blueprint.

Those master agreements include certain events under which a counterparty can terminate a transaction. Among those are failure to pay, failure to deliver and, of course, bankruptcy.

Whether counterparties will be able to claim exemption from the automatic stay that prevents anyone from terminating contracts with a company that filed for bankruptcy will hinge on the type of deals they're a party to and whether they meet certain statutory requirements. Although Enron and its lawyers are likely to nitpick the unwinding of each and every contract involving the company, legal experts noted that Enron's fondness for ERI agreements should help those entangled in power purchase agreements to liquidate their positions since these contracts treat all participants as forward contracts merchants. Such merchants are exempt from the stay stipulated by section 362A of the bankruptcy code.

Key to how well or poorly counterparties will make out now that Enron's business has been all but dried out, is how much if any collateral protects their transactions.

So far, it's unclear how much of Enron's derivative transactions were collateralized. But lawyers familiar with the matter said it was likely that a large amount of those contracts were not collateralized.

That's likely to be bad news for some counterparties. Because if they're owed money by Enron on their netted derivative exposure, they'll have to join other unsecured creditors, likely receiving little of their claims. The bonds and bank debt of Enron took a nose dive after Dynegy rescinded its merger offer, with trading levels indicating that those mostly unsecured creditors thought they would recoup only 20% to 25% of the money loaned to Enron.

-By Carol S. Renond, 201-938-2074; Dow Jones Newswires;
carol.remond@dowjones.com

(Phyllis Plitch contributed to this column.)

01/18/2002

0110000000018

Lebryk, David

From: Lebryk, David
Sent: Friday, November 30, 2001 3:48 PM
To: Hammond, Donald
Subject: FW: 1BN) Wall Street Firms, Pension Funds Face Enron Losses

Thought you'd be interested in the Duke Power connection.

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

From: Lori.Santamorenabpd@treas.gov [mailto:Lori.Santamorenabpd@treas.gov]
Sent: Friday, November 30, 2001 2:23 PM
To: david.lebryk@do.treas.gov
Cc: barbara.wiss@do.treas.gov
Subject: 1BN) Wall Street Firms, Pension Funds Face Enron Losses (U

----- Forwarded by Lori Santamorenabpd on 11/30/01 02:22 PM -----

"PUBLIC DEBT, US DEPT OF TREASURY"

<GSR@bloomberg.net>

To: LSANTAMORENA@BPD.TREAS.GOV

cc:

Subject: 1BN) Wall Street Firms, Pension Funds Face Enron Losses (U

11/30/01 02:10 PM

Wall Street Firms, Pension Funds Face Enron Losses [Update3]
 2001-11-30 11:44 (New York)

Wall Street Firms, Pension Funds Face Enron Losses [Update3]

(Updates with Calpers losses.)

New York, Nov. 30 (Bloomberg) -- Wall Street firms such as Bear Stearns Cos., European banks and pension funds including the California Public Employees' Retirement System disclosed losses from investments Enron Corp. expected to top billions of dollars.

Bear Stearns Cos., the sixth-biggest securities firm by capital, said its exposure to Enron is \$69 million. Duke Energy Corp., J.P. Morgan Chase & Co., Williams Cos. and other companies together may lose more than \$1.4 billion from a collapse of Enron. ABN Amro Holding NV, Abbey National Plc, National Australia Bank Ltd. and other lenders disclosed potential losses.

Enron would be the biggest bankruptcy ever -- and a blow for banks and securities firms already suffering because of an economic slowdown. Enron had more than \$15 billion of debt and less than \$2 billion of cash as of last week. It must pay \$690 million to lenders by mid-December.

"This is having a ripple effect across the world," said Robert Penaloza, a fund manager at Aberdeen Asset Management Asia in Singapore.

At least 14 companies have reported exposure to possible losses from Enron tied to either loans or contracts with the Houston-based company.

ABN Amro, the largest Dutch bank, said it may set aside 110 million euros (\$97.5 million) to cover loans to the U.S. energy trader. Britain's Abbey National said it's owed almost \$165 million. National Australia and other Australian lenders said their Enron exposure totals about \$350 million. France's Credit Lyonnais SA said it has \$250 million of loans to Enron.

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ING to J.P. Morgan

ING Groep NV, the biggest Dutch financial-services company, Dutch financial-services company, said it holds about \$195 million in unsecured loans and bonds of Enron. Canadian Imperial Bank of Commerce, the country's third-biggest bank, said Enron owes it \$215 million, more than half in unsecured loans, letters of credit and derivatives.

Almost two dozen electricity and natural gas companies said Enron owed them about \$700 million as of Wednesday, when Dynegy Inc. abandoned a merger, depriving Enron of cash it needs to avoid insolvency.

Ambac Financial Group Inc., XL Capital Ltd. and other bond and property-casualty insurers may absorb losses of more than \$2 billion if Enron files for bankruptcy protection, said Morgan Stanley Dean Witter & Co. analyst Alice Schroeder.

ABN Amro is one of the lenders behind Enron's \$1 billion Indian power plant. Enron owns 65 percent of the Dabhol Power Co. project outside of Bombay, which has been hampered by cost overruns, penalty claims for undelivered power, and conflicts with its only client, the Maharashtra State Electricity Board.

"Should the Enron situation escalate into a full-fledged bankruptcy, we may need to make a provision for 110 million euros for our direct exposure," ABN Amro spokesman Martin Winn said. "Should there be a need to provide for it, we will do so in the fourth quarter of this year."

London-based Abbey National said it may have to set aside 95 million pounds (\$135 million) to cover possible losses from loans to Enron. Profit may be "down" in the second half from the year-earlier period because of Enron, said Finance Director Mark Pain in an interview.

Australia to Germany

National Australia said it has A\$200 million (\$104 million) in secured and unsecured exposure to Enron. "We had already factored in provisions for this kind of event, and it is consistent with our bad debt outlook for this year," said Majella Allen, a spokeswoman.

Australia & New Zealand Banking Group Ltd., the fourth-largest Australian bank, said its direct exposure is \$69 million and it has a further \$51 million indirect exposure to the U.S. energy trader. ANZ said loans to Enron would not affect its earnings expectations. The bank has already said it expects to put more aside for bad loans this fiscal year.

"Their exposures are a little surprising, but then again Enron is such a huge organization and spans the globe so it deals with syndicates of banks for its facilities," said Bill Chatterton, head of equities at ABN Amro Morgans Ltd., the 50 percent-owned private client arm of ABN Amro Australia Ltd.

German banks also are seeing fallout. Dresdner Bank AG, which is owned by Allianz AG, said its exposure to Enron is less than \$100 million. HVB Group, Germany's No. 2 bank, has about \$100 million of exposure as well. Deutsche Bank AG and Commerzbank AG said their exposure to Enron amounts to "double-digit" millions of euros.

Deutsche Bank, Europe's largest bank, has an exposure "significantly" below 100 million euros, said Ronald Weichert, a company spokesman.

Emergen Corp., an oil and natural-gas explorer and gas distributor, said it has an \$18.3 million exposure with the almost bankrupt Enron Corp., which may cut its 2002 earnings by 20 cents to 25 cents a share.

Pension funds will also record big losses. Calpers held 3 million shares as of Wednesday of this week when Enron shares plunged below \$1. The California State Teachers Retirement Fund owned about 2 million shares. The New York State Common Retirement System said it lost as much as \$60 million on Enron.

Below is a list of some banks and their estimated exposure to Enron:

J.P. Morgan Chase	\$500 Million
Credit Lyonnais	\$250 Million
Canadian Imperial Bank	\$215 Million
ING Groep	\$195 Million
Abbey National	\$164 Million
Australia & New Zealand Banking	\$120 Million

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National Australia Bank	\$104 Million
Dresdner Bank	Less Than \$100 Million
ABN Amro	\$97.5 Million
Deutsche Bank	Less Than \$90 Million
Bear Stearns	\$69 Million
Commerzbank	Less Than \$45 Million
HVB Group	\$100 Million
Energen	20-25 Cents/Shr

--Michael Nol in New York (212) 318-2384, Jennifer Freedman in Brussels and Tom Giles and Tom Bawden in the London newsroom (44 20) 7330-7171, with reporting by Toney Marcourt in Sydney, Steve Rhinds in Paris, Silje Skogstad in Frankfurt, Stephen Voss and David Wells in New York, Jim Polson in Princeton, and Daniel Taub in Los Angeles /tq/tm

Story illustration: To see a series of Bloomberg functions outlining National Australia Bank's performance, click on {NAB AU <Equity> CRP00094090108 <GO>}.

NAB AU <Equity>
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 ENE US <Equity>
 ANZ AU <Equity>
 ANL LN <Equity>
 AABA NA <Equity>
 DBK GR <Equity>
 DNB GR <Equity>
 CBK GR <Equity>
 CL PP <Equity>

NI Codes:
 NI BNK
 NI FIN
 NI COS
 NI ASIA
 NI PIP
 NI NRG
 NI TX
 NI US
 NI CMD
 NI GAS
 NI OIL
 NI ELC
 NI UTI
 NI EUROPE
 NI BLS
 NI UK
 NI BENELUX
 NI SCR
 NI NETHER
 NI EMC
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Washington

In Brief: Senate Banking Plans Enron Hearing

Tuesday, January 15, 2002

By Michele Heller

WASHINGTON — The Senate Banking Committee has joined the growing list of government entities looking into the fallout from the collapse of Enron Corp.

The panel has scheduled a hearing for Feb. 12 to look at the accounting and investor-protection issues stemming from the company's bankruptcy, as well as concerns about retirement plans at other major corporations.

Five former Securities and Exchange Commission chairmen — Arthur Levitt, Richard Breeden, David Ruder, Harold Williams, and Rod Hills — are scheduled to testify.

It was not clear on Monday if Sen. Phil Gramm, the ranking Republican on the panel, would recuse himself from the inquiry. His wife, Wendy Gramm, is a member of Enron's board and audit committee. She was among the Enron officials to receive subpoenas for documents from the Senate Governmental Affairs investigations subcommittee, according to the office of subcommittee Chairman Carl Levin.

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Washington

In Brief: Sarbanes: Look Into Enron-Like Practices

Wednesday, January 16, 2002

By Michele Heller

WASHINGTON — Adding to the inquiries into the collapse of Enron Corp., Senate Banking Committee Chairman Paul Sarbanes announced Tuesday that he had asked Congress' investigative arm to report on the adequacy of financial reporting and the investment of employee pension funds in company stock.

The Maryland Democrat, who has scheduled a Feb. 12 hearing on these issues, asked the General Accounting Office to look into whether employers give employees enough information to understand the risk of having their savings invested in the company they work for, and whether the Securities and Exchange Commission should "reconsider its administrative determination not to explore application of the Securities Act and the Securities Exchange Act to defined contribution plans."

He asked the GAO to give him its recommendations by June 30.

Employers generally shy away from giving their employees access to financial advisers, because they could be held legally responsible for a bad outcome.

Supporters of a bill to ease those legal disincentives hope the Enron debacle will give the bill momentum. The House passed the measure in November, but it has drawn little interest in the Senate.

House Education and the Workforce Committee Chairman John Boehner, the Ohio Republican who sponsored the bill, said in a statement: "The House has passed bipartisan legislation to allow employers to provide their workers with access to high-quality, professional investment advice. The Senate should follow suit."

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Markets

Citigroup May Break Silence Today on Exposure to Enron

Thursday, January 17, 2002

By Barry Rehfeld

What is currently the biggest mystery on Wall Street may be solved today, when Citigroup Inc. holds its fourth-quarter meeting with analysts. Then again, it may not.

Unlike rival J.P. Morgan Chase & Co. — or itself when discussing the aftermath of the Sept. 11 attacks — Citigroup has so far kept silent on the details of its exposure to Enron Corp. since news emerged two months ago that Citi and Morgan Chase were the bankrupt energy trader's biggest lenders.

The silence has possibly been made more deafening by the fact that Citi was so quick, and so specific, in stepping forward on Sept. 17 to announce that the terrorist attacks on the World Trade Center would cost it \$700 million.

Morgan Chase was just as quick to speak out on its Enron problems. It identified early on exposure of \$900 million and loan losses of over \$200 million. (Additional exposure was reported later.)

At his own earnings meeting Wednesday, Morgan Chase's vice chairman, Marc Shapiro, seemed to tweak Citi for its reticence. He said that in November, his company was the "first major bank" to make public its exposure to Enron and it has provided the "most detailed" information of any company since then.

Citigroup officials did not return calls seeking comment about what Chairman Sanford I. Weill may say about Enron when he talks to analysts today. Representatives of the banking company have repeatedly refused to comment about its Enron exposure, despite rampant speculation.

Still, while Wall Street has been dying to solve the mystery, some observers say it is no mystery at all.

"They've never talked about their credit exposure," says Lynn Tilton, a principal at Patriarch Partners, a New York leveraged buyout firm that deals in distressed debt.

The history of banks and bad loans is one of silence, particularly in naming clients and fessing up to sticky losses, which is the Enron case in spades. In saying nothing, Citi is acting strictly in banking character.

Indeed, Ms. Tilton said that Citi's openness about its World Trade Center losses was the exception — and that there was good reason for its frankness. "There was no ego in those loans."

The terrorist attacks were an unforeseen tragedy that could not be blamed on anyone, so it was easy for Citigroup to reveal its exposure there, she said.

Citi's Enron exposure fits into a more traditional category. It involves loan losses to a controversial and complex client.

Joan Solotar, an analyst with Credit Suisse First Boston Corp., gave Citi the benefit of the doubt and suggested it needed time to assess the losses.

Even so, Citi's reluctance to talk about a specific client's problems is understandable, she said. "No one wants to be more specific than they have to be."

Both Ms. Tilton and Ms. Solotar say there is pressure on Citi to come clean today. Ms. Tilton says the company needs to follow Morgan Chase's example and be more forthcoming for the sake of the compliance issues raised by Gramm-Leach-Bliley.

Ms. Solotar added that Citigroup needs to do so out of deference to the Street.

"Investors want to know about their exposure," she says. "I hope it comes up, but if it doesn't, they'll be asked about it in the Q&A."

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