

Statement of

# The Honorable Chuck Grassley

United States Senator

Iowa

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STATEMENT OF SENATOR CHUCK GRASSLEY, SENATE JUDICIARY COMMITTEE HEARING "HEDGE FUNDS AND INDEPENDENT ANALYSTS: HOW INDEPENDENT ARE THEIR RELATIONSHIPS?"

Chairman Specter, I'm pleased that you are holding this oversight hearing on hedge funds and independent analysts. I share the Chairman's concerns regarding corporate fraud and integrity in the marketplace. The allegations we're hearing today remind me of the Enron debacle, where positive accounting information was fabricated and disseminated about that company to increase the value of its stock. This Committee held hearings on Enron's fraudulent partnerships and accounting practices, and we passed legislation included in the Sarbanes-Oxley law that strengthened the criminal prosecution of persons who defraud investors of publicly traded securities. The Sarbanes-Oxley law also included a provision that I authored with Senator Leahy providing whistleblower protections to individuals who raise concerns about fraudulent activity. All in all, I thought that the Sarbanes-Oxley law had done much to assist federal regulators prosecute illegal activity and keep our financial markets on the up and up.

But maybe we didn't do enough. The wholesale fabrication of information in collaboration with market players to pull down the price of a stock sounds suspect to me. In my mind, this kind of market manipulation seriously distorts the integrity of the financial marketplace, and everyone - that is, everyone except the bad actors - loses. So, I'm glad that we are looking into these practices, what is legitimate and what is not. What is "independent" analysis? Is research ever "independent"? Is there enough scrutiny of this kind of activity, or do we need more disclosures and safeguards in the trade?

I want to make sure that the Department of Justice and the Securities and Exchange Commission are being aggressive in their investigations of alleged wrongdoing. I want to make sure they are doing everything in their power to protect investors and the public from fraudulent activity and manipulation of the marketplace. Moreover, I want to find out whether the Department of Justice has a need for more tools and/or resources to get the job done. The stakes are high, because so many are impacted by fraudulent market information - pension plans, small investors, seniors, ordinary workers and their families. So we need to support our enforcement agencies in their efforts to clean up the market, and make sure that we have tough laws in place to not just punish, but deter, these bad actors.