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A Friend of Main St., or Wall St.?

By GRETCHEN MORGENSON

To many investors, Michael G. Oxley is the Ohio Republican who put partisan politics aside and helped write legislation meant to restore investor confidence after the worst spate of corporate misconduct since the 1929 crash. "We will not tolerate those whose greed and deception damage not only our financial marketplace but also our good will," Mr. Oxley said as President Bush signed the Sarbanes-Oxley bill into law in July. "Not just money, but character, counts in America," he added.

But in fact, Mr. Oxley, the chairman of the House Financial Services Committee and one of the best friends that the industry has in Washington, has worked hard to keep it from facing new regulation intended to protect investors. Early in the process, he opposed the legislation that would become Sarbanes-Oxley, preferring a softer approach to accounting overhaul. And he shrugged off the conflicts of interest among Wall Street analysts until that issue became unavoidable.

Most recently, he opposed the nomination of a strong investor advocate to an accounting oversight board created by the legislation he helped to write. Instead, Mr. Oxley supported William H. Webster, whose selection for the post is now the subject of multiple investigations.

Mr. Oxley's role as reformer, according to people who have dealt with him over the years, is decidedly out of character. As an industry champion, he and his political action committee receive large contributions from Wall Street firms, banks and the accounting profession. He and his staff also travel widely at the expense of financial services companies and their lobbyists.

"Mike Oxley is one of the nicest members of Congress," said Arthur Levitt, the former chairman of the Securities and Exchange Commission and author of "Take On the Street: What Wall Street and Corporate America Don't Want You to Know." "But everyone in the securities industry recognizes him as a stalwart friend who will stand in the way of almost every investor reform. He was uncomfortable with just about every pro-investor thing we did."

With Harvey L. Pitt, the current S.E.C. chairman, under heavy fire to resign after a series of political gaffes, and his agency in disarray, some investors are growing concerned that their desires for additional overhaul are not being recognized in Washington.

Now Mr. Oxley came to help write an overhaul bill that he had initially opposed is a familiar story to Washington watchers. Like many other politicians, Mr. Oxley sensed that after [WorldCom's](#) collapse in an accounting scandal, Washington had to do something to protect shareholders from corporate and accounting chicanery.

Now the consensus has shifted back to a belief that corporate malfeasance was limited to a handful of companies, said Charles Lewis, executive director of the Center for Public Integrity, a nonprofit research group that monitors money in politics. In such a climate, Mr. Oxley felt comfortable working to scuttle the nomination of John H. Biggs, former chairman of the giant TIAA-CREF pension fund, to the accounting oversight board. Mr. Webster, who got the job, is now under a cloud for his membership on the audit committee of U.S. Technologies, a company facing accusations of fraud.

"Webster is the tough cop that the job demands," Mr. Oxley said when Mr. Webster was appointed on Oct. 25.

On Friday, Mr. Oxley reiterated his support. He declined to comment for this article, but a spokeswoman said that Mr. Oxley "has a long record of accomplishment on behalf of individual investors."

"He represents 525,000 of them in Ohio, with whom he communicates regularly," she said. In addition, he supported pay raises for the S.E.C. and saved investors money by pushing for decimal trading in stocks.

But Mr. Lewis of the Center for Public Integrity said: "Millions of Americans have lost their nest eggs or seen their retirement savings diminished, and we're getting political rhetoric from Washington that it's a few bad apples. The idea that after all this Washington did a collective yawn is nothing short of offensive. The only people they seem to be talking to are the people who funnel the money to their campaigns or who don't want to be regulated."

Few groups funnel more money to Washington than the financial services industry. From July 2001 to July 2002, the most recent period for which figures are available, 10 large brokerage firms and two securities industry lobbying organizations spent \$31 million pleading their cases before Congress, the White House and many Washington agencies.

The Securities Industry Association, for example, spent \$7 million in the 12 months ended June 30 on lobbying Treasury officials, Congress, the White House, the Federal Reserve Board and the S.E.C. Among the issues on the association's agenda, according to its filings, are "securities analyst independence, accounting for employee stock options, policy implications of [Enron](#) bankruptcy, allocation of initial public offerings by underwriters and broker-dealer retention of e-mail."

J. P. Morgan Chase spent \$6.4 million on lobbying during the period, and [Citigroup](#) and its brokerage unit, Salomon Smith Barney, spent \$6 million. Corporate governance issues like executive compensation,

stock options and auditor independence were on Citigroup's agenda, according to its filings.

The financial services industry also donates considerable cash to Mr. Oxley and his political action committee, Leadership PAC 2002.

Ideologically, Mr. Oxley is more likely to line up with the industry than to combat it. A conservative Republican from a mostly rural district, he says free markets operate best when they are undisturbed by government regulation. He came to Congress in 1981.

Marc Lackritz, president of the Securities Industry Association, said: "Representative Oxley has played a pivotal role in Congress's efforts to date to restore the public's trust and confidence in Wall Street by spearheading reforms in corporate governance and accounting practices. His work on the Sarbanes-Oxley Act shows his commitment to maintaining the integrity of our capital markets."

But while Mr. Oxley's affinity for the financial industry may have sprung from a meeting of the minds on regulatory issues, the money that Wall Street and the accounting profession have donated to him presumably has not hurt these industries' prospects in Washington. Since January 2001, according to Federal Election Commission filings, accounting firms, brokerage houses, banks, insurance companies and their employees have poured \$1.16 million into his coffers and those of his political action committee. Financial services PAC's account for 68 percent of his contributions from such organizations; people working for financial services companies or their lobbyists account for 56 percent of his contributions from individuals.

The financial industry has also paid about \$75,000 for 58 "fact finding" trips for the House Financial Services Committee staff since January 2001 to destinations like New York, New Orleans, Boca Raton, Fla., Tucson, Ariz., and Belgium. From April 2001 to June 2002, financial companies and lobbyists have transported Mr. Oxley and his staff to fund-raisers and have covered meal costs, hotels and other expenses totaling \$18,367 that his PAC has reimbursed.

Financial corporations and their lobbyists also help pay for trips for Mr. Oxley, his wife, Pat, and James Conzelman, his chief of staff, to destinations like Cape Cod, Edinburgh, Stockholm, Venice and Rome. These trips are sponsored by nonprofit organizations like the Invest to Compete Alliance, a group that represents accounting firms; and the Ripon Educational Fund, a Republican public policy organization. As long as they are related to work, such trips are allowed under government ethics rules, which bar gifts worth more than \$50 to lawmakers. The total cost of these trips was \$43,000 for Mr. and Mrs. Oxley and Mr. Conzelman since 2000.

"Groups like that are often used to bring members of the industry together in very soothing surroundings so the members can hear the industry's concern," said Larry Noble, a former general counsel of the Federal Election Commission and executive director of the Center for Responsive Politics, a group that tracks political spending. "The fundamental problem here is these members of Congress work for all of us and what these contributions and special arrangements provide is for a select group to get in and get

the ears of the members and tell them what's important to them. It's not access that the rest of us have."

Filings by the Ripon Educational Fund do not identify the donors that pay for its trips, and its executive director did not return a phone call seeking comment. "This income is from citizens who provided the cost of their own participation in the Ripon Educational Fund's Trans-Atlantic Conference," one filing said. "Public participation is crucial to the purpose of the program, to ensure the input of interested citizens along with that of American policy makers and government officials from other countries."

But past participants in Ripon fund trips, according to The [Washington Post](#), have included [American Express](#), the Securities Industry Association and J. P. Morgan Chase. [Morgan Stanley](#) confirmed past contributions to the fund.

In 2000, the most recent filing available, the Ripon fund's donations ranged from \$5,000 to \$47,500 each and totaled \$680,000.

"The political situation in America just seems to be unremitting: money talks," said John C. Bogle, founder and former chairman of the Vanguard Group, discussing donations in general. "Corporations don't make political contributions without the knowledge that they want a return on their capital. There is no corporate investment with a higher return on capital than political contributions."

When it comes to raising money, Mr. Oxley does far better among people outside Ohio than he does among those in his home state. In the 2001-02 election cycle, 74 percent of Mr. Oxley's receipts from individuals came from outside Ohio, according to Federal Election Commission filings. In 1999 and 2000, before he became chairman of the Financial Services Committee, 40 percent of the funds he raised came from individuals out of state.

As a comparison, consider Mr. Oxley's Congressional colleague, John A. Boehner, another Ohio Republican. In the current election cycle, according to election commission filings, 8 percent of Mr. Boehner's contributions from individuals were from people outside his home state.

"What you're seeing with Oxley is a situation where it really pays off for the industry," Mr. Noble said. "There was a lot of pressure to look at the industry, and now the reports are it's really been derailed and that's what the industry wanted. People often ask what did the industry get; show us a bill the industry got. But sometimes what's more important is the dog that didn't bark, the legislation that never got passed."

An example may be Mr. Oxley's lack of interest in the conflicts among Wall Street analysts, an issue that is front and center with investors. While Representative Richard H. Baker, Republican of Louisiana and a member of the Financial Services Committee, was the first in Congress to hold hearings on analyst conflicts, Mr. Oxley seemed uninterested in the matter. On June 14, 2001, the first day of the hearings, Mr. Oxley left the room minutes after they began. Mr. Oxley's spokeswoman, Peggy Peterson, said his schedule did not allow him to stay.

Mr. Baker sponsored additional hearings on analyst conflicts, but with few results. It wasn't until WorldCom imploded that a big-name analyst was grilled on Capitol Hill. That was Jack B. Grubman, the Salomon Smith Barney telecommunications analyst, who testified before the Financial Services Committee.

Mr. Oxley has castigated Eliot Spitzer, the New York attorney general, whose investigations into corrupt Wall Street research have made him the most aggressive instigator for change among brokerage firms. In a speech in May before the United States Chamber of Commerce in Washington, Mr. Oxley said Mr. Spitzer's \$100 million settlement with [Merrill Lynch](#), and the prospect of others, "will seriously weaken the ability of American companies to raise funds in the capital markets" and threaten to undermine the national regulatory system set up to oversee market participants. "Grandstanding by ambitious and publicity-hungry political officials will not lead to healthy and responsible securities markets, in my estimation," Mr. Oxley said.

But in attacking state securities regulators, Mr. Oxley is selecting a group that, for the most part, is subject to much less influence from the industry it oversees than Congress or self-regulatory organizations like NASD. Most state securities regulators do not have lobbyists trooping through their offices, said Marc Beauchamp, executive director of the North American Securities Administrators Association. "State securities regulators have only one constituency — Main Street investors," he said. "That's 84 million Americans, a constituency larger than Republicans, Democrats, labor or the AARP."

Perhaps most paradoxical was Mr. Oxley's early opposition to the legislation that he is now credited with helping to write. Barbara Roper, director for investor protection at the Consumer Federation of America, saw him battle the bill firsthand after she and her legislative director were asked by lawmakers what investor protection mechanisms to include in the bill.

"We said the first thing you have to do is make auditors independent," Ms. Roper recalled. "They didn't like that argument. The next thing you know they've introduced this bill that reflects nothing from our discussion: nothing on auditor independence and an oversight board with virtually no powers structured in a way that ensures the most control by the accounting industry."

When WorldCom's accounting debacle exploded onto the scene and President Bush demanded that Congress come up with a bill on corporate accountability by August. When the bill that was to become Sarbanes-Oxley was being completed in conference, Ms. Roper said, Mr. Oxley suggested that it be called the Sarbanes bill because of all the work Mr. Sarbanes had done on it. "Sarbanes gets up and said, 'If that's what you're going to do we should call it Sarbanes-Oxley,' and Oxley slaps his name on a bill he fought every step of the way."

Sarbanes-Oxley is largely a bill that imposes new accounting standards and oversight. For example, it requires accounting firms to change lead partners on a client every five years. Wall Street was generally untouched by the bill. The law's main securities regulation was prohibiting Wall Street firms from

retaliating against research analysts who criticize investment banking clients.

Investor advocates say the current influence of the financial services industry in Washington leaves Main Street Americans vulnerable to continued corporate chicanery or unfair Wall Street practices.

Nancy M. Smith, former director of the S.E.C. office of investor education and a former securities regulator for New Mexico, is now director of RestoreTheTrust.com, an investor advocacy organization. "Public policy in Congress or at regulatory agencies reflects what the industry wants because investors aren't organized," she said. "They are paying all these fees to brokerage firms and mutual funds and they should find out what the lobbyists for those firms are doing. And what they're going to find out is that they are not lobbying for the interest of investors."

As a result, Ms. Smith added, investors should demand that the companies they deal with represent their interests. "Silence from investors allows the industry to shape public policy, and that needs to change," she said.