Opening Statement

Chairman Michael G. Oxley

Committee on Financial Services

Subcommittee on Capital Markets, Insurance and Government-Sponsored Enterprises

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"Analyzing the Analysts II: Additional Perspectives"

Thank you, Mr. Chairman, and I commend you for holding this important hearing today, the second of our series of hearings on the issue of Wall Street research practices. These practices have come under fire in the past year – and for good reason.

As we learned at our first hearing on analysts last month, and as even the trade group for analysts acknowledged, conflicts of interest pervade Wall Street's research machine and taint the recommendations of equity analysts. That's one reason institutional investors pay little attention to sell-side analysts, relying on their own research professionals instead. Robert Sanborn, former portfolio manager of the Oakmark Fund, says that anyone who follows a recommendation from a sell-side analyst is an "absolute fool." Most investment advisors caution investors to consider analysts' recommendations not as definitive in any way, but rather as a single factor in making a buy or sell decision. That is good advice. But even as a single factor in an investment decision, an analyst's recommendation should, at the very least, be free from the taint of bias.

The financial media has played an important role in elevating the profile of Wall Street analysts. Mary Meeker and Henry Blodget are now familiar names to a large number of America's investors. Many have criticized the news media for its failure to hold analysts accountable for wildly wrong predictions.

I would urge the news media to require guests and sources to disclose whether they hold any interest in stock, long or short, and whether their firms have business relationships with the company. Then let investors weigh that information. Some news media already take these steps--but it should be universal.

(more)

Having said all that, as a free-market Republican, I am loathe to legislate in this area. My preference is for industry to clean up this mess. I am encouraged by steps that some companies have taken to address this issue. I will continue to work with the industry to make sure sufficient steps are being taken to resolve the problems and to restore confidence in Wall Street research practices.

This Committee has established a peer review board of industry practitioners, money managers, academics and regulators to comment on the industry's proposals for reform. That group will present its findings to the Committee at a hearing this Fall.

I look forward to our distinguished witnesses today, who will provide new perspectives on the issue, including that of Commissioner Laura Unger, who has done considerable work on this matter as Acting Chairman of the Commission, and, on our second panel, a variety of esteemed experts in research, investment banking, and the financial media.

Thank you again, Mr. Chairman. I welcome our witnesses and thank each of you for your testimony today.

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