Enron Scam

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Contents

- Company Background
- The ins and outs
- Aftermath
- Societal and legal impacts
- Prevention

Company Background

Enron, a Houston-based energy firm founded by Kenneth Lay, transformed itself over its sixteen years lifespan from an obscure gas pipeline concern to the world’s largest energy-trading company (both off and online).

- Enron was long viewed as the star of the stock market.

- It experienced a meteoric rise and ranked 22nd in the Fortune’s 100 best companies list in America in 2000.

Overview of Enron’s Operations

- **Enron Global Services:** This is company's property foundation enterprise, all is equipped with the energy pipeline north US and the whole world and matches sells transport business the service.

- **Enron Whole Sale Services:** Provides the global energy service, including commodity marketing and transportation, risk management and financial service.

- **Enron Energy Services:** Mainly provides the industry and commerce customer energy and the equipment conformity management service, is the company main retail sales enterprise.

Key Management at Enron:

Kenneth Lay:

Former Enron Chief Executive, Chairman and Board Member.

Jeffrey Skilling:

Former Chief Executive, President and Chief Operating Officer.

Andrew Fastow:

Former Chief Financial Officer

Clifford Baxter:

Former Chief Strategy Officer and Vice Chairman.

Enron’s Auditor:

Arthur Andersen, one of the world's five leading accounting firms

Credit Rating Agencies:

Credit rating agencies like Moody’s, Standard & Poor’s and Fitch\ IBCA

Investment Banks:

Credit Suisse First Boston (CSFB), JP Morgan played a central role

The ins and outs

- Business expanding
- Argument
- False account
- Complex trading
- Conflict of interest
- Direct competition

- While Enron boasted about the value of products that it bought and sold online around $880 billion in just two years, the company remained silent about whether these trading operations were actually making any money.

- Enron began to use **sophisticated accounting techniques** to keep its share price high, raise investment against its own assets and stock and maintain the impression of a highly successful company.
- These techniques are referred to as **aggressive earnings management** techniques.

- Enron also set up independent **partnerships** whereby it could also legally remove losses from its books if it passed these “assets” to these partnerships.
- Equally, **investment money flowing into Enron from new partnerships ended up on the books as profits,** even though it was linked to specific ventures that were not yet up and running.

Aftermath

- Kenneth Lay & Jeffrey Skilling, went on trial for their part in the Enron scandal
- Financial crimes, including bank fraud, making false statements to banks and auditors, securities fraud, wire fraud, money laundering, money laundering conspiracy and insider trading.
- U.S. Securities and Exchange Commission (SEC) had been seeking more than $90 million from Lay in addition to civil fines.

- The trial of Arthur Andersen on charges of obstruction of justice related to Enron helped to expose accounting fraud at WorldCom
- Andrew Fastow, the mastermind, was indicted on November 1, 2002, by a federal grand jury in Houston on 78 counts including fraud, money laundering, and conspiracy

- Andrew Fastow served a ten-year prison sentence and forfeit US $23.8 million
- Ben Glisan Jr., a former Enron treasurer, was the first man to be sent to prison in the Enron scandal. He pleaded guilty to one count of conspiracy to commit security and wire fraud.
- Skilling was convicted of 19 of 28 counts of securities fraud and wire fraud and acquitted on the remaining nine, including charges of insider trading.

- He faced a total sentence of up to 45 years in prison
- Neil Coulbeck, was found dead in a park in north-east London
- Sixteen people pleaded guilty for crimes committed at the company
- Four former Merrill Lynch employees, were found guilty at trial

Sarbanes-Oxley Act

- Creation of the Public Company Accounting Oversight Board
- Certification of financial reports by chief executive officers and chief financial officers
- Auditor independence, including outright bans on certain types of work for audit clients and pre-certification by the company's Audit Committee of all other non-audit work

- A requirement that companies listed on stock exchanges have fully independent audit committees that oversee the relationship between the company and its auditor
- Ban on most personal loans to any executive officer or director
- Accelerated reporting of insider trading

- Prohibition on insider trades during pension fund blackout periods
- Additional disclosure
- Enhanced criminal and civil penalties for violations of securities law

Prevention

Frauds can be prevented by

- High accountabilities of managements
- Openness of companies' information
- Restrictions of insiders tradings
- Clear financial reports

High accountabilities of managements

- High accountabilities of managements are essential because for the prevention of frauds.
- External supervisions are the propulsion providers of provision of high accountabilities.
- Clear company regulations can enhance the accountabilities of managements.
- To have high accountabilities of managements, punishments are needed for fraudulent managements.

Openness of companies' information

- To prevent the frauds, the companies should provide more information to public in order to provide the openness.
- This openness can improve the management accountability by public supervision.
- Also, openness can lead the legal entities to supervise the companies to prevent the frauds, and impose punishments to fraudulent entities concerned.

Restrictions of insider tradings

- Insider tradings provide the least opennesses of the information of trades of the companies.
- The authority should impose regulations to restrict the insider tradings to prevent fraud.
- Also, the company could setup the internal rules to control insider tradings.

Clear financial reports

- Clear financial reports can show the fraudulent accounts easily for the authorities concerned to that for get rid frauds.
- Frauds occurred by the aid of unclear financial reports.
- Companies can make clear, true, and fair financial reports to prevent frauds.

Thank You