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Senate Banking Subcommittee on Financial Services and Technology
Hearing on

"Disclosing Year 2000 Readiness"

Are the companies you invest in ready for the Year 2000?

Will you know if they're not?

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Opening Statement of Senator Robert F. Bennett  
Chairman

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As we approach the close of the 20th century, Americans are optimistic about the U.S. economy and they are expressing that optimism by investing record amounts of money in the stock market. For the first time in U.S. history, Americans have more money invested in stocks than in residential real estate. And the inflow of funds is continuing as more and more individuals come to believe that investing in equities is a sound investment strategy. For the most part, these investors are not speculators out to make a quick profit; they are average Americans, investing their hard-earned money to save for the most basic goals of educating their children and funding their retirement.

The Year 2000 problem looms over all this optimism like a time bomb ticking down to the end of the century. Unless we are able to identify and renovate every faulty computer system in this country and across the world in the next 18 months, we face the potential for massive business interruptions and the resulting economic downturns as systems fail to respond, companies fail to meet their obligations, and investors recognize that the companies in which they have invested their futures no longer have value.

While no one can predict with certainty what will happen when computers boot up on January 1, 2000, we can take steps to encourage remediation efforts and minimize surprises in the marketplace. It seems to me that disclosure is the key to this process. Investors need to know whether the companies in which they have invested are going to be ready for the Year 2000 and right now they are not getting that information.

Given the lack of meaningful disclosure to date, there are investment advisors in this country suggesting that investors take the ultra-cautious approach of getting out of the

market before the Year 2000. It doesn't take much analysis to recognize that if everyone adopted this strategy, the Dow would tumble dramatically, this country would suffer a major economic downturn, and the doomsday prophecies would be fulfilled. Yet all this can be avoided if companies disclose meaningful information about their Year 2000 compliance effort so that investors will be able to stay in the market and make informed decisions about their investments -- identifying the companies that are on solid ground as well as those with problem. Investors have a right to know if the stocks they have purchased will continue to have value after 1999.

When I first looked at this issue last year, I was surprised to discover that despite all the discussion of Year 2000 problems and the costs associated with remediation, very few public companies had made any disclosure about the Year 2000 in their securities filings -- no doubt causing investors to believe it was not an issue.

The absence of disclosure in this area inspired me to introduce S. 1518, the Computer Remediation and Shareholder Protection Act ("CRASH"), which would require publicly-traded companies to make specific disclosures about their Year 2000 readiness without regard to whether the companies deem such information to be material. After I introduced this legislation, Chairman Levitt approached me and asked if I would let the SEC try to improve the level of disclosure without additional legislation. In January of this year, the SEC revised its staff legal bulletin on this topic and reminded companies of the need to make proper disclosure in this area. I agreed to hold off with the CRASH bill and see if the SEC could get the job done.

Unfortunately, the SEC guidelines seem to have had only a limited impact. As the SEC points out in their "Year 2000 Disclosure Task Force Survey", while many companies are mentioning the phrase "Year 2000" in their public filings, few are providing any disclosure about the progress of their remediation efforts, the costs associated with fixing the problem, or their potential liabilities. U.S. companies are not providing the kind of meaningful information necessary for even the most sophisticated investors to assess Year 2000 readiness. These companies may say the issue is not material, but it has now become clear that a judgment of materiality must be based on more than the cost of fixing the problem; it must include some analysis of the contingencies -- what will happen to the company if mission critical systems fail or if their business partners experience problems? If companies are not yet in a position to evaluate these contingencies, how can they dismiss the issue as immaterial?

I have called this hearing to discuss the content of these disclosures, determine why companies are not making the proper disclosures, and figure out what we can do to encourage, or perhaps mandate, better disclosure.

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