A P P E N D I X A

ACCOUNTING TREATMENT OF PREPAYS; EFFECT OF ENRON'S FINANCIAL STATEMENT

I. Prepays -- A General Description

A prepay, in its most simple form, is paying in advance for a service or product to be delivered at a later date. Companies use prepays to receive money up-front for services to be rendered in the future. Enron used a complex form of prepays as a source of financing that, in the end, misled investors as to the financial health of the company.

To understand Enron's use of prepays, it is important to have knowledge of basic accounting and financial reporting. Publicly traded companies such as Enron are required to file audited financial reports with the Securities Exchange Commission ("SEC") on an annual basis. These filings consist of three key financial statements, which combined with the accompanying disclosures, should provide a realistic view of a company's financial health. They are the income statement, the balance sheet, and the cash flow statement.

The **income statement**, or statement of earnings, provides details on a company's profitability. It includes both the company's revenues and the costs incurred to generate those revenues. Other costs, such as interest and taxes are also included, arriving at a company's net income number. This net income number, divided by the number of a company's shares outstanding, represents the critical earnings-per-share or "EPS" number, used by equity analysts and investors to determine a company's share price.

The **balance sheet** serves as a snapshot of a company's financial condition at a point in time. Among the critical information it conveys is detail on the amount of debt (money owed by the company) and equity that comprise the company's total value. Companies with high levels of debt relative to their equity are generally considered risky companies. They typically are charged higher rates of interest and are sometimes considered less attractive business partners than companies with lower debt levels. In the case of Enron, the company was under constant pressure to lower the amount of debt on its balance sheet.

The **cash flow statement** represents a company's sources and uses of cash over the quarter or fiscal year. Sources and uses of cash are divided among 1) operating activities; 2) financing activities; and 3) investing activities. These three sections are critical to understanding how a company finances its operations and, in particular, if a company's operations are sufficient to cover its costs and plans for investment. If a company is not able to meet its cash needs through operating activities, it will probably need to borrow money.[1] Cash from borrowing will appear on a company's cash flow statement as cash flow from financing activities and will also be reflected in higher debt levels on a company's balance sheet.

Companies registered with the Securities and Exchange Commission are required to file their financial statements in conformance with Generally Accepted Accounting Principles ("GAAP"). GAAP provides the conceptual framework for financial reporting. The primary purpose of financial reporting is to provide financial statement users, such as investors and creditors, with relevant and reliable financial information on which to base decisions. GAAP is also intended to enhance the consistency, comparability, and transparency of financial statements. Financial statements prepared under GAAP should, when taken as a whole, present fairly the financial condition, results of operations and cash flows of the company.

In the United States, the SEC has responsibility for the establishment of GAAP. The SEC administers GAAP through Regulation S-X, Financial Reporting Releases and Staff Accounting Bulletins. However, the SEC has looked primarily to the private sector standard setter, the Financial Accounting Standards Board ("FASB") to provide authoritative guidance for GAAP through its Statements and Interpretations, Technical Bulletins and Implementation

[1] A company may choose to issue additional equity to meet its cash needs. This has the effect of increasing the company's equity but will also dilute the earnings of the company's current shareholders.

Guides, as well as through consensus published by its Emerging Issues Task Force. The accounting industry, represented by the American Institute of Certified Public Accountants ("AICPA") contributes to GAAP by issuing Accounting Research Bulletins, Statements of Position, Audit and Accounting Guides, ACSEC Practice Bulletins and Accounting Interpretations.

II. Motivation behind Enron's Prepay Transactions

Enron had two major reasons to reduce its balance sheet debt and increase cash flow from operations: 1) to improve Enron's credit rating and 2) to support and even boost Enron's share price.

Improve Enron's Credit Rating

Until the recent wave of accounting scandals, cash flow was seen as the most reliable measure of a company's operating performance, because it was believed that the cash flow from operations number could not be manipulated as easily as earnings and was the best representation of the company's ability to meet its obligations. As a result, financial analysts placed heavy emphasis on cash flow numbers in determining a company's credit rating. These ratings, in turn, determined a company's cost of borrowing, attractiveness as a trading partner, and ultimately had an impact on its share price.

Enron, therefore, placed a heavy emphasis on generating operating cash flow, and business units at Enron were given cash flow targets by Enron management that they were expected to meet. In order to generate cash flow, Enron had the following options:

a) It could sell its hard assets, such as power plants and pipelines.
b) It could sell the value (and risks) of specific trades in its trading book to someone else and collect cash proceeds from the sale. (Early in its corporate history, Enron actually did sell off a number of its trades in order to generate cash flow.)
c) It could go to a bank and borrow money, using the trades and their promise of delivering cash a few years down the road as collateral.

Enron used all three options, but it is Enron's use of the third option that is the subject of my testimony today. When using the third option, if Enron borrowed money against the value of its trades, it would have to record the amount borrowed as debt on its balance sheet and proceeds from the loan as cash flow from financing. Already under pressure from rating agencies to reduce its debt load, Enron was unwilling or unable to do this and instead turned to an unusual and complex alternative (some would say an accounting gimmick) -- highly structured prepays that Enron used to report loans in a way that hid its borrowing while painting a more favorable picture of Enron's financial condition. It booked the advance of cash as a trading activity rather than as a loan and proceeds from the loan as cash from operations rather than cash from financing. In this way, Enron raised funds of $8 billion or more beginning in 1995[2] and buried the loans as trading liabilities. The result was that Enron secured the operating cash flow that analysts needed to see in order to view Enron favorably and avoided the appearance of additional debt that analysts would have viewed as troubling.

Several internal Enron documents confirm Enron's view of this use of prepays. An internal memorandum dated August 1997 defines the purpose of prepay transactions as "provid(ing) cash flow to Enron Corp in order to meet its cash flow objectives. They are not intended to be income generating transactions."[3] A later Enron presentation anticipated the need for prepay financings to generate $1 billion in "FFO" (funds flow from operations) annually.[4] A document obtained from an employee in the Enron Accounting Department describes the prepays as "off balance sheet financing (i.e., generate cash without increasing debt load)."[5]

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[2]Enron presentation to the Finance Committee of the Enron Board, August 2001. "ASF - Detail on Prepays." Bates EC 000058019.

[3]Enron Interoffice Memorandum, "Subject: Prepaid Hydrocarbon Companies," August 22, 1997. Bates EC 001537017.

[4] Enron Yosemite presentation. Bates ECa 000196339-51.

[5] Bates EC 001594743.

In 2000, Enron initiated $1.935 billion[6] or more in prepay transactions, the proceeds of which were included in Enron's financial statements as "Cash Flows from Operating Activities." In addition, the Subcommittee staff estimates that Enron had $4 billion of outstanding prepay debt on its balance sheet as of December 31, 2000.[7] As the following chart demonstrates, if Enron's 2000 year-end financial statements were adjusted to reflect $4 billion in outstanding prepay transactions as debt and deducted the $1.527 billion[8] from "Funds Flow from Operations,"[9] Enron's credit profile would have changed dramatically.

	2000 Reported Financials	Adjustment[10]	2000 Adjusted Financials
Total Debt	$10.2 billion	$4.0 billion	$14.2 billion
Total Equity[11]	$14.8 billion		$14.8 billion
Total Capital	$25.0 billion		$29.0 billion
Debt / Equity	**69.2%**		**96.2%**
Debt / Total Capital	**40.9%**		**49.0%**
Funds Flow from Operations[12]	$3.2 billion	$1.5 billion	$1.7 billion
Interest and Other[13]	$1.1 billion	$200 million	$1.3 billion
Funds Flow Interest Coverage[14]	**4.07**		**2.37**

These adjustments have a significant impact on Enron's credit ratios. Enron's reported "Funds Flow Interest Coverage" (footnote 14) of 4.07 was typical of a company with an A-/A3 rating, which is a rating that is assigned to a

[6] Subcommittee staff estimate based on the following prepay transactions: Chase X (9) / Mahonia - $650 million - June 2000; Chase XI (10) / Mahonia - $330 million - December 2000; Citibank / Delta / Yosemite II - $305 million - February 2000; Citibank / Delta / Yosemite III (CLN I) - $500 million - August 2000; Credit Suisse First Boston, Morgan Stanley - $150 million - December 2000.

[7] 2001 Enron Board presentation. Bates RCO 21428.

[8] Subcommittee staff estimate of Fiscal Year 2000 prepay proceeds of $1.935 billion less $408 million in prepay amortizations, leaving net prepay proceeds of $1.527 billion. Bates EC000058019.

[9] Enron's calculation of "Funds Flow from Operations" is equal to "Cash Flow from Operations" adjusted for Merchant Activities, Equity Earnings, Equity Partnership Distributions and Other. Bates EC 000469193.

[10] Adjustment to "Funds Flow from Operations" deducts the value of Year Fiscal 2000 prepay transactions net of prepay amortizations. Bates EC 000058019. Adjustments to "Interest and Other" reflect a 5% rate of interest on $4.0 billion in prepay debt.

[11] Total Equity is equal to Shareholders' Equity, Company-Obligated Preferred Securities of Subsidiaries and Minority Interests, consistent with Enron's presentation of Total Capital in company presentations to rating agencies. Bates EC 000469368.

[12] Subcommittee staff estimate based on March 2001 Enron Global Markets presentation citing "Actual Funds Flow Interest Coverage" of 4.07. Calculation assumes interest expense of $838 million, dividends on preferred shares of $77 million and rent expense of $143 million as reported in Enron 2000 10-K, yielding "Funds Flow from Operations" of $3.248 billion. Bates EC 000007671.

[13] Interest and Other includes dividends on preferred shares and rent expense.

[14] "Funds Flow Interest Coverage" is calculated as "Funds Flow from Operations" + interest incurred + dividends on preferred shares + rent expense, divided by interest incurred + dividends on preferred shares + rent expense. The Subcommittee staff has included dividends on preferred shares based on the appearance of their inclusion in previous years' calculations.

very stable and financially healthy company. The adjusted number of 2.37 is in line with a company with a BBB-/Baa3 rating, a decline of three rating "notches," reflecting a considerably considerably weaker credit. Likewise, the revised Debt as a Percentage of Total Capital figure of 49.0% is approximately three rating notches below Enron's reported figure of 40.9%.[15]

These declines in financial ratios are significant, because the lower financial ratios would have affected Enron's credit rating, and a lower credit rating would have had serious consequences for Enron's operations:

- Below BBB-/Baa3, Enron would no longer be considered an "investment grade" company. As a result, certain investors' internal investment requirements would have prohibited them from buying the company's bonds, thereby shrinking the pool of money that Enron could tap for its growing cash needs. More importantly, Enron would have been shut out of the commercial paper market which accounted for a significant portion of Enron's borrowing.

- At a lower credit rating, Enron would have been considered a less attractive trading partner. This means that Enron would have lost trading business, the largest source of income to the company. Parties still willing to trade with Enron probably would have reduced the trades they would have been willing to enter into with Enron and/or require Enron to post additional collateral.[16]

- Even more threatening, if Enron had fallen below investment grade (to "junk" status), a number of its trading partners would have had the contractual right to close out existing trades and demand payment from Enron, further straining Enron's cash position.

- A fall below investment grade also would have had a significant impact on Enron's financing. As a higher credit risk, Enron's cost of borrowing would have increased considerably, increasing its interest expense and lowering earnings.

- Equally as significant is the fact that Enron sponsored a number of off-balance sheet vehicles that were supported with Enron credit. Once Enron fell below investment grade, debt holders in these vehicles could demand repayment and Enron would have to make sure they received it. This would have represented a huge liquidity crisis to Enron, and in fact, that liquidity crisis eventually occurred.[17]

Enron was acutely aware of the importance of its credit rating and reported on "progress" with the credit rating agencies at internal meetings and to the Board of Directors. It was also aware that the financial ratios just discussed determined the company's ratings. Enron's decisions on when to engage in a prepay and the size of the prepay were driven by its need to meet certain ratio targets. Consequently, funds from prepay transactions would appear on Enron's cash flow statement just days before the end of a quarter, just in time to be factored into Enron's financial statements and pump-up key ratios.

Support Enron's Share Price

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[15]Average Funds Flow Interest Coverage and Debt / Total Capital per rating category based on March 2001 Enron Global Markets presentation. Bates EC2 000007671.

[16]From Enron's Form 10-Q filing, September 30, 2001: "Maintaining an investment grade credit rating is a critical element in maintaining liquidity for Enron's wholesale business which, together with the natural gas pipeline operations and the retail business, comprise Enron's core business . . . A downgrade to below investment grade could lead to a substantial increase in the level of cash required for collateral and margin deposits with Enron's wholesale trading partners . . . The recent deterioration in Enron's credit rating and decline in its stock price has caused a negative impact on Enron's projected 2001 fourth quarter profitability. This is primarily the result of a reduced level of transaction activity by Enron's trading counter-parties, particularly for longer-term transactions."

[17]From Enron's Form 10-Q filing, September 30, 2001: "Enron has various financial arrangements which require Enron to maintain specified credit ratings. The November 12, 2001 downgrade in Enron's senior unsecured debt rating to BBB- by Standard & Poor's has caused a ratings event related to a $690 million note payable that, absent Enron posting collateral, will become a demand obligations on November 27, 2001. . . In the event Enron were to lose its investment grade credit rating and Enron's stock price was below a specified price, a note trigger event would occur. This could require Enron to repay, refinance or cash collateralize additional facilities totaling $3.9 billion, which primarily consist of $2.4 billion of debt in Osprey Trust and $915 million of debt in Marlin Water Trust."

In addition to a credit ratings impact, Enron's use of prepay transactions and the accounting treatment of these transactions had a profound impact on Enron's valuation, which in turn drove Enron's stock price. Dozens of equity analysts followed Enron and relied on the company's audited financial statements, as well as guidance from Enron management, to set a future target for the company's share price. The manipulation of prepay transactions had a direct impact on the value equity analysts assigned to Enron shares in two ways.

Understating Debt: A company's "enterprise value" is a measure of what the market believes a company's ongoing operations are worth. A text book definition calculates enterprise value as:

Market equity (representing shareholders' ownership in the company)
\+ Preferred stock (representing preferred shareholders' ownership in the company)
\+ Net debt (representing lenders' "investment" in the company)
= Enterprise value[18]

This definition assumes the market has knowledge of a company's indebtedness and preferred equity obligations, and takes that information into account when determining the "fair" value of a company's shares, which equate to its market equity. If, however, a company has hidden a portion of its debt either off-balance sheet or in other liabilities such as trading liabilities, or if analysts and investors fail to adjust their estimation of the company's value to reflect this higher indebtedness, the company's market equity value will be overstated.

The following graph illustrates this point. Enron had a market-determined enterprise value of $26.7 billion as of October 2001.[19] Enron's equity value can be determined by subtracting net debt and preferred securities from the enterprise value. Dividing that equity value by the number of Enron shares outstanding yields the market price per share. If investors learn that instead of $12 billion in net debt on its balance sheet, Enron has close to $17 billion in debt, they will likely react by selling Enron shares until the price falls to a level consistent with that level of indebtedness.[20]

	Balance Sheet Debt	Adjustment	Balance Sheet Debt + Prepays
Enterprise Value	$23.4 billion		$23.4 billion
Subtract Debt and Pref. Obligations	$13.1 billion	$4.8 billion	$17.9 billion
= Equity Value	$10.3 billion		$5.5 billion
Divide by Shares Outstanding	744 million		744 million
= Actual / Implied Market Price per Share	**$14**		**$7**
Decline in Share Price			- 46%

Earnings Impact: Enron's practice of using prepay transactions to understate debt and overstate cash flows from operations had an additional share price impact. As previously discussed, Enron needed prepay transactions to

[18]Enterprise value or "Market Value of Invested Capital ("MVIC"). Pratt, Shannon. The Market Approach to Valuation of Businesses. John Wiley, publisher, 2001.

[19]Enterprise value equals market equity value of $10.4 billion plus balance sheet debt, net of cash, of $12.0 billion plus preferred securities of $1.1 billion. Market equity value is based on Enron's share price of $14 as of October 2001 multiplied by 744 million shares outstanding.

[20]This Subcommittee staff analysis is for demonstrative purposes only and does not take into consideration a number of other complicating factors, including the billions of dollars in off-balance sheet debt that, once known to the market, resulted in the collapse of Enron's share price. The fact that Enron shares ultimately traded at pennies per share suggests that investors thought the company had exceeded its limit in loans and other financing structures.

generate cash flow and support its credit rating. By supporting its "investment grade" credit rating, Enron was able to expand its trading business as well as borrow money at a relatively low interest rate.

The result of robust trading activities (accented by mark to market accounting) and relatively lower interest expense was a boost to Enron's net income, which in turn is the key driver of a company's share price.[21] As long as Enron could continue to show positive earnings growth, it could expect to see appreciation in its stock price. By using prepay transactions to generate cash flow from operations, Enron was able to maintain its investment grade ratings, which allowed Enron to build a trading business that was the engine behind Enron's income growth. As earnings grew, so did Enron's share price. In addition, to the extent equity analysts viewed growth in Enron's operating cash flow, fueled by net prepay transactions of over $1.5 billion in 2000 alone, as indicative of Enron's future growth, the cash flow impact of prepay transactions can also be viewed as a key driver of Enron's share price.[22]

III. Accounting and Structuring for Prepays as Cash from Operations

In order to treat the prepay transactions as trading activities instead of loans, Enron referenced accounting guidelines[23] for treating contracts as derivatives.[24] SFAS 133, which was issued by FASB in 1998 and became effective in June 2000, establishes the rules for both defining and accounting for derivatives contracts. Derivatives contracts are considered part of a trading company's operations. To meet these guidelines, Enron had to structure the prepays using three separate parties: Enron, the bank providing the money, and an independent third party. Without an independent third party, the prepay would be viewed as a loan.

An Andersen presentation obtained by the Subcommittee from Enron summarizes the key criteria needed to meet classification of a prepay as a trade rather than a loan.[25]

> "**For prepays to be treated as trading contracts, the following attributes must exist**:
>
> **None of the individual agreements . . . are linked commercially** or make references to any of the other documents; in effect, **each is a stand-alone**, normally occurring derivative instrument which continue to be in effect even if other pieces of the transaction are terminated for any reason. . . .
>
> **Price risk** related to the PGA[26] **is transferred from the gas supplier to the purchaser**, without the gas supplier further affecting the purchaser's management of this risk or the purchaser's other PGA-related economics. **This includes any future actual or contingent swaps that may be contemplated.**

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[21] Shares of companies in the energy sector typically trade in the market at a share price based on their Price/Earnings ratio. "Price" refers to the current market price for one share of the company; "Earnings" refers to net income or earnings per share, also known as "EPS". For example, a company whose shares trade at $20 per share and has earnings per share of $2.00 is said to trade at a P/E ratio of 10 times earnings ($20 / $2.00 = 10). If 10 times earnings is the industry standard multiple for energy companies, an increase in earnings per share to $3.00 per share should result in an increase in share price to $30 per share, thereby maintaining the P/E ratio at 10 times ($30 / $3.00 = 10).

[22] A higher debt level has the potential impact of reducing a company's cost of capital, which in a discounted cash flow analysis would result in a higher present value of the company's future cash flows. However, the increased debt level also increases the risk profile of the company, which would increase the cost of capital, thereby reducing the present value of future cash flows.

[23] Accounting literature referenced as per Arthur Andersen memorandum on Prepay Transactions, Bates ECp000094306: EITF 96-21; EITF 90-15; Topic D-14; December 1997 SEC Speech - Armando Pimentel; EITF 88-18. Also, FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities."

[24] A derivative is a financial instrument whose value is based on another instrument, such as a stock or an index, or in the case of Enron's prepays, the price of commodities including gas and crude oil.

[25] Arthur Andersen presentation to Enron Corp. "Prepaid Transactions Discussion." Bates EC 000013365 - 69.

[26] Term undefined. It may mean "Prepaid Gas Agreement."

The purchaser of the gas must have an ordinary business reason for purchasing the gas, not in-substance be a special purpose entity (SPE) established just to effect a secured investment in a debt instrument from a gas supplier. The SPE issue could arise by virtue of the purchaser's very nature and the substance (or lack thereof) of its other business operations. It could also arise based on the types of the contractual limits included in the series of structured transactions (e.g., the debt of the purchaser is recourse to the gas supplier or not recourse to any of the purchaser's other assets)."

An Arthur Andersen memorandum to the Audit Files from June 1999[27] provides a more detailed description of the criteria, summarized in the presentation, that Andersen considered important for determining the appropriate accounting treatment for Enron's prepay transactions.

The purpose of the Andersen criteria for prepays was to distinguish true trading activity from loans. The criteria warn against such indicia of phony trading activity as linked trades, prepay transactions where no party is at risk of monetary loss, and trades involving shell corporations with no ordinary business reason to buy or sell energy commodities. These criteria show that the accounting community was well aware that prepays could be manipulated to function as disguised loans and had devised criteria to disallow accounting as operational business activity those prepays which were, in reality, devices to obtain financing.

The 1999 Andersen memorandum states explicitly that the transactions between the three parties that comprise the prepay transaction must be de-linked in every way from the original transactions. The most obvious form of linkage would be any cross-default provisions in the contracts. Cross-default provisions would allow, for example, Enron to seek payment from the bank if the third party defaults on its obligation to Enron. Furthermore, these transactions should stand alone, without reference to each other. This would preclude, for example, an assignment of rights and obligations of the third party to the bank. Finally, any elements that would indicate that the third party and the bank are related might constitute linkage. If the bank were covering all of the third party's costs, or if the third party played no role in negotiating its contract with Enron and deferred all decision-making to the bank, it might raise serious questions as to the independence of the third party from the bank.[28]

The Andersen memorandum also stipulates that the fixed payments made by the parties to the prepay transaction must be based on fixed volumes of the commodity so as to isolate the price of the commodity as the only variable.[29] Andersen also concluded that the trades should be settled periodically. Periodic settlement is more indicative of normal trading activity because it subjects the parties to the price fluctuation of the market (as opposed to basing settlement solely on the price of the commodity at a fixed point in time). Andersen also concluded that the existence of a second "triangle" that mirrored the original prepay transaction (with the direction of the fixed and floating legs reversed) would preclude treatment of any of the transactions as valid trades because the mirroring eliminated price risk entirely.[30] Finally, if, for example, either the bank or the third party were so perfectly hedged that neither made any profit on the trade itself, it might raise questions as to why they entered into the transaction and to whether the parties were related.[31] Elimination of price risk, therefore, could lead to a determination that the contracts were linked and should therefore be collapsed as described above. Emphasis is placed on confirming price risk in each leg of the transaction because price risk is what distinguishes a trade from a loan.

The criteria are designed to: 1) avoid linkage between the contracts and/or the parties to the contracts; and 2) eliminate the price risk between the parties to the transaction, either of which event could result in classifying a prepay

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[27] Bates ECp 000094306.

[28] Arthur Andersen, Staff Interview, July 13-14, 2002.

[29] Ibid. Arthur Andersen also required that pricing of the contracts reference the market price of the commodity in question.

[30] Arthur Andersen Staff Interview, July 14, 2002.

[31] Arthur Andersen Staff Interview, July 13, 2002. This would be especially relevant if the trades were entered into simultaneously.

transaction as debt rather than as a trade and classifying cash generated in prepay transactions as cash flow from financing activities rather than cash flow from operating activities.

The Enron prepays blatantly contradict the Andersen prepay criteria. They involve linked trades, an elimination of price risk, and shell off-shore corporations that were controlled by banks and that functioned as sham trading parties. Each prepay was orchestrated as a three-part round-robin trade whose true function was not to buy or sell an energy commodity, but to provide Enron with financing that Enron would repay with interest. The parties involved in the Enron prepays were aware of the entire structure and its accounting purpose.

Under the Enron prepay structure, a participating bank would send cash (the money destined for Enron) to the third party, in exchange for the future delivery of a fixed amount of a commodity. The third party, in turn, would enter into an identical arrangement with Enron, and effectively serve as a pass through for the bank funding to get to Enron. Enron would repay the funding in a fixed amount of commodities, which would pass through the third party en route to the bank. Up to this point, this appears to be a "real" trade because all three parties bear the risk that the price of the underlying commodity will change. This is called price risk and it is an essential element in a true trading transaction.

But, Enron's prepays also entailed a transaction known as a "swap" in order to mitigate price risk. Under a swap agreement, Enron exchanged (with the bank) the floating price of the commodity for the fixed price of the commodity. The net effect is to cancel out any price risk to all parties in the trade. The fact that were the third party was not independent and the terms of the prepay were predetermined based on Enron's decision as to how much operating cash flow it needed to report presented other problems with Enron's prepay structure.

Enron engaged in these prepays, which often involved natural gas or crude oil, at a pace of one or two per year from 1992 to September 2001 when the last prepay transaction was implemented.[32] Most of those transactions (both in number and in dollar value) were with JPMorgan Chase and Citigroup. Chase and Enron engaged in at least 12 transactions with a value of $3.7 billion. Citigroup and Enron engaged in at least 14 transactions with a value of $4.8 billion.[33]

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[32]The September 2001 prepay closed on September 28, 2001, but remained outstanding along with seven other Chase prepays when Enron filed for bankruptcy on December 2, 2001.

[33]The specific details of each transaction varied slightly - some included additional financial institutions as counterparties; some used different commodities; and some involved the actual physical exchange of the commodity while others were merely paper transactions. All but one of the Chase transactions were physically settled; conversely all but one of the Citigroup transactions were paper transactions.