

## MARKET PLACE

Gretchen Morgenson

## Inquiry Seen Into Firing Of Analyst By Wachovia

**S**ECURITIES regulators are investigating Wachovia Securities' dismissal of Arturo Cifuentes, a longtime bond analyst who says he was repeatedly pressured to alter his research to suit the firm's investment bankers and its clients, a lawyer for the analyst said yesterday.

The firing of Mr. Cifuentes last April occurred just a few months after the analyst alerted his bosses to intimidation from investment bankers, said his lawyer, Jenice L. Malecki of Malecki Law in New York. He was dismissed, she said, because he refused to certify that his reports were an accurate reflection of his views and whether he was paid to make his recommendations.

Such certifications are required under the Sarbanes-Oxley Act, created to help eliminate the conflicts that arise when analysts are forced to tailor their research to meet demands from issuers or from other areas of their firms.

Officials at the Securities and Exchange Commission met with Mr. Cifuentes for almost an entire day late last month, Ms. Malecki said. In July, the analyst filed a whistle-blower suit against his former firm with the Department of Labor. That suit is in the early stages, Ms. Malecki said.

"Wachovia was really trying to hide the fact that he wouldn't certify by terminating him before the certification was required," Ms. Malecki said. "It's just another situation where a firm is trying to hide what is going on internally rather than dealing with problems head-on."

Christy Phillips, a Wachovia spokeswoman, said the firm did not comment on former employees. But it is, she said, committed to managing analyst conflicts effectively.

She noted that Wachovia was actively involved in developing best practices for fixed-income research with the Bond Market Association in 2004. "Given our policies and procedures, we believe any claims alleging that our fixed-income research analysts are subject to improper in-



From left, Lee Raymond of Exxon Mobil, David O'Reilly of Chevron, James Pillari of BP America and John Hofmeister of Shell Oil testified before a Senate hearing.

## Testimony by Oil Executives Is

By EDMUND L. ANDREWS

WASHINGTON, Nov. 16 — Senators from both parties demanded Wednesday that several oil executives explain statements they made to Congress last week about their ties to the energy task force led by Vice President Dick Cheney.

"I join my Democratic colleagues in demanding that these oil executives be brought back to Congress, sworn in and forced to testify again," said Senator Harry Reid, the Senate Democratic leader.

At issue is a long-running dispute over Mr. Cheney's energy task force, which worked mostly behind closed doors in 2001 and 2002 and developed a broad array of industry-friendly energy proposals.

Last week, chief executives from five major oil companies told a joint hearing of the Senate Energy and Natural Resources Committee and the Senate Commerce Committee that their companies had not been involved in the task force. But on Wednesday, The Washington Post reported that a White House document showed that executive from at least four companies had met with Andrew Lundquist, the head of Mr. Cheney's task force.

Two companies, Exxon Mobil and

ConocoPhillips, acknowledged that their executives had met with Mr. Lundquist. But both companies insisted that their executives had told the truth.

Democrats and many environmental groups have long charged that the secretive task force worked hand-in-glove with oil companies.

The White House fought a long and mostly successful court battle to avoid releasing information on who had participated in the meetings.

None of the executives testified under oath, which could have exposed them to charges of perjury. Indeed, the co-chair of the hearing, Senator Ted Stevens of Alaska, firmly rejected demands by Democrats to put the executives under oath.

At the hearing, Lee R. Raymond, chief executive of Exxon Mobil, said his company had not been involved with the task force.

On Wednesday, Exxon-Mobil executives said Mr. Raymond had testified accurately. But the company did confirm that its head of government relations, James Rouse, met with Mr. Lundquist on Feb. 14, 2001.

Another executive caught in the crossfire is James J. Mulva, chief executive of ConocoPhillips. Mr. Mulva testified that his company had not

## Charges of pressure to alter research to suit the firm's investment bankers and clients.

obligations, pools of loans that can be highly complex. When he joined Wachovia, the firm called Mr. Cifuentes "an industry veteran widely credited with developing a standard methodology for rating C.D.O. securities."

But his analysis seemed to provoke the firm's bankers almost immediately, the lawyer for Mr. Cifuentes said. "Within roughly a year, there were 10 instances of situations we feel were inappropriate," Ms. Malecki said.

"A report would be going out and a comment would be coming back saying this is really bad for business. Some requests originated from clients of the firm that wanted a certain tone in Arturo's research."

One aspect of his analysis that seemed to disturb some Wachovia investment bankers, Ms. Malecki said, was the conclusion by Mr. Cifuentes that moves in the collateralized debt obligations he rated were tied to action in other market indexes. The firm preferred an assessment that the debt obligations would not be affected by other market moves, she said.

After receiving no relief from his superiors in Wachovia's research department, Mr. Cifuentes appealed to the firm's compliance department last February, Ms. Malecki said. After an investigation, the compliance officials declined to support him, she said.

The lawsuit by Mr. Cifuentes was reported yesterday by Dow Jones Newswires.

Ms. Malecki said that her client received a call from the S.E.C. requesting a meeting about 10 days after Mr. Cifuentes filed a complaint with the commission. Such a quick response seems to indicate a high level of regulatory interest in matters involving analysts under pressure to produce favorable research.

Mr. Cifuentes, who holds degrees in civil engineering, applied mechanics as well as an M.B.A. in finance, is now an analyst at R. W. Pressprich & Company, a fixed-income research firm in New York.

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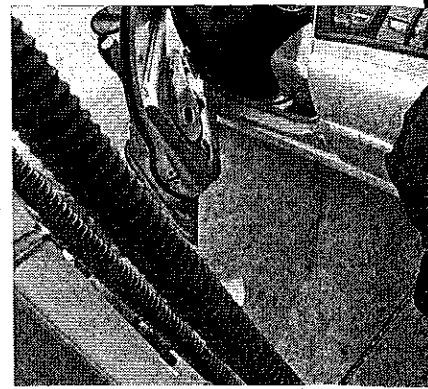
their peak in September, the government reported yesterday.

But lower prices at the pump, which have receded still more in November, may not be enough to tame inflation in the coming months as heating bills start climbing and businesses pass their higher costs on to customers, some economists said.

The Consumer Price Index rose by 0.2 percent last month, after jumping 1.2 percent in September and 0.5 percent in August, the Labor Department reported. The core index, which excludes food and energy, also rose 0.2 percent in the month, compared with the previous month's 0.1 percent increase.

Compared with October 2004, consumer prices were up 4.3 percent and the core index was up 2.1 percent.

Energy prices fell 0.2 percent in October, after rising 12 percent in September and 5 percent in August. Gasoline prices fell 5.1 percent in the month, but natural gas and electrici-



Katerina Hybnerova refueling in Des Moines last month, but other energy costs, like

ty were up 5.6 percent.

Businesses are starting to pass on some of their higher energy costs to consumers. Housing costs were up 0.9 percent last month, driven largely by a 3.5 percent jump in hotel

## An Opportunity to Consider

**T**HE President's Advisory Panel on Federal Tax Reform struggled long and hard to come up with some economically sensible and politically feasible ways to reform the tax code.

The report, available at [www.taxreformpanel.gov/final-report/](http://www.taxreformpanel.gov/final-report/), offers several interesting ideas. Some, like simplifying the crazy quilt of tax-deferred savings plans, are relatively noncontroversial. But proposals like eliminating the federal deduction for state and local taxes are much more contentious.

In the next few years, however, more and more families will be forced to pay the alternative minimum tax, which also limits deductions for state and local taxes. The panel's recommendation in this area may yet turn out to be the lesser of two evils from the taxpayers' point of view.

Certainly the panel's least popular suggestion is to limit the mortgage interest deduction. Under current law, homeowners can deduct interest on mortgages of up to \$1.1 million, but the panel proposed that this cap be significantly reduced and that the deduction be replaced with a 15 percent tax credit.

A change of this sort would probably have a significant impact on housing values,

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particularly at the high end, and would be unpopular with both parties. Neither party wants to alienate suburban voters, so this suggestion was greeted with enthusiasm in Washington.

But many economists worry about the panel's proposal does not. It would make a lot of sense to eliminate the housing mortgage deduction

## Politics has ensured the tax code is a good subsidy for housing

truth of the matter is that housing is subsidized in this country and probably be better off if the tax on housing were brought more in line with that of other assets.

How is housing subsidized? First, there is the interest deduction. Second, there are property taxes. Third, the capital gains exclusion, which allows couples to exclude \$500,000 in capital gains as of every two years. Fourth, the deduction points on mortgage loans. Fifth, the exclusion of up to \$100,000 on home sales. And there are many more tax