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Remarks on Corporate Responsibility in New York City
July 9, 2002

Thank you all. Thank you very much for that warm welcome. I'm pleased to be back in New York City. New York City is a unique symbol of America's creativity and character and resilience. In the last 10 months, New Yorkers have shown a watching world the true spirit of your city, a spirit that honors the loss, remembers its heroes, and goes forward with determination and with confidence. The people of this city are writing one of the greatest chapters in our Nation's history, and all Americans are proud of New York.

I've come to the financial capital of the world to speak of a serious challenge to our financial markets and to the confidence on which they rest. The misdeeds now being uncovered in some quarters of corporate America are threatening the financial well-being of many workers and many investors. At this moment, America's greatest economic need is higher ethical standards, standards enforced by strict laws and upheld by responsible business leaders.

The lure of heady profits of the late 1990s spawned abuses and excesses. With strict enforcement and higher ethical standards, we must usher in a new era of integrity in corporate America.

I want to thank Bill for his introduction. There's nothing like being recycled. [*Laughter*] But thanks for having me, and I'm honored to meet your family and Uncle Jack. [*Laughter*]

I appreciate very much Secretary O'Neill and Secretary Evans traveling with me today. I want to thank the members of the New York delegation, Senators Schumer and Clinton as well as Congressman Fossella and Congressman Rangel. I appreciate so very much the mayor—my friend the mayor for being here to greet me as I came in on the chopper. Thank you, Mr. Mayor, and thanks for the great job you're doing for New York.

I'm honored that Cardinal Egan is here. And I appreciate so very much seeing John Whitehead, the chairman of the Lower Manhattan Development Corporation. And thank you all for coming as well.

The American economy, our economy, is built on confidence—the conviction that our free enterprise system will continue to be the most powerful and most promising in the world. That confidence is well-placed. After all, American technology is the most advanced in the world. Our universities attract the talent of the world. Our workers and ranchers and farmers can compete with anybody in the world. Our society rewards hard work and honest ambition, bringing people to our shores from all around the world who share those values. The American economy is the most creative and enterprising and productive system ever devised.

We can be confident because America is taking every necessary step to fight and win the war on terror. We are reorganizing the Federal Government to protect the homeland. We are hunting down the terrorists who seek to sow chaos. My commitment and the commitment of our Government is total. We will not relent until the coldblooded killers are found, disrupted, and defeated.

We can be confident because of the amazing achievements of American workers and entrepreneurs. In spite of all that happened last year, from the economic slowdown to the terrorist attack, worker productivity has grown by 4.2 percent over the last four quarters. In the first quarter of 2002, the economy grew at an annual rate exceeding 6 percent. Though there's much work left to do, American workers have defied the pessimists and laid the foundation for a sustained recovery.

We can be confident because we're pursuing pro-growth reforms in Washington,

DC. Last year we passed the biggest tax cut in a generation, which encouraged job creation and boosted consumer spending at just the right time. For the sake of long-term growth, I'm asking Congress to make the tax reductions permanent. I'm asking Congress to join me to promote free trade, which will open new markets and create better jobs and spur innovation. I ask Congress to work with me to pass a terrorism insurance bill, to give companies the security they need to expand and to build. And I will insist on—and if need be, enforce—discipline in Federal spending, so we can meet our national priorities without undermining our economy.

We have much to be confident about in America. Yet our economy and our country need one more kind of confidence, confidence in the character and conduct of all of our business leaders.

The American economy today is rising, while faith in the fundamental integrity of American business leaders is being undermined. Nearly every week brings better economic news and a discovery of fraud and scandal, problems long in the making but now coming to light. We've learned of some business leaders obstructing justice and misleading clients, falsifying records, business executives breaching the trust and abusing power. We've learned of CEOs earning tens of millions of dollars in bonuses just before their companies go bankrupt, leaving employees and retirees and investors to suffer. The business pages of American newspapers should not read like a scandal sheet.

The vast majority of business men and women are honest. They do right by their employees and their shareholders. They do not cut ethical corners, and their work helps create an economy which is the envy of the world.

Yet high-profile acts of deception have shaken people's trust. Too many corporations seem disconnected from the values of our country. These scandals have hurt the reputations of many good and honest companies. They have hurt the stock market. And worst of all, they are hurting millions of people who depend on the integrity of businesses for their livelihood and their retirement, for their peace of mind and their financial well-being.

When abuses like this begin to surface in the corporate world, it is time to reaffirm the basic principles and rules that make capitalism work, truthful books and honest people and well-enforced laws against fraud and corruption. All investment is an act of faith, and faith is earned by integrity. In the long run, there's no capitalism without conscience; there is no wealth without character.

And so again today I'm calling for a new ethic of personal responsibility in the business community, an ethic that will increase investor confidence, will make employees proud of their companies, and again regain the trust of the American people.

Our Nation's most respected business leaders, including many gathered here today, take this ethic very seriously. The Business Roundtable, the New York Stock Exchange, the NASDAQ have all proposed guidelines to improve corporate conduct and transparency. These include requirements that independent directors compose the majority of the company's board, that all members of audit, nominating, and compensation committees be independent, and that all stock option plans be approved by the shareholders. I call on all the stock markets to adopt these sensible reforms, these commonsense reforms, as soon as possible.

Self-regulation is important, but it's not enough. Government cannot remove risk from investment—I know that—or chance from the market. But Government can do more to promote transparency and ensure that risks are honest, and Government can ensure that those who breach the trust of the American people are punished.

Bold, well-considered reforms should demand integrity without stifling innovation and economic growth. From the antitrust

laws of the 19th century to the S&L reforms of recent times, America has tackled financial problems when they appeared. The actions I'm proposing follow in this tradition and should be welcomed by every honest company in America.

First, we will use the full weight of the law to expose and root out corruption. My administration will do everything in our power to end the days of cooking the books, shading the truth, and breaking our laws.

Today, by Executive order, I create a new Corporate Fraud Task Force, headed by the Deputy Attorney General, which will target major accounting fraud and other criminal activity in corporate finance. The task force will function as a financial crimes SWAT team, overseeing the investigation of corporate abusers and bringing them to account.

I'm also proposing tough new criminal penalties for corporate fraud. This legislation would double the maximum prison terms for those convicted of financial fraud from 5 to 10 years. Defrauding investors is a serious offense, and the punishment must be as serious as the crime. I ask Congress to strengthen the ability of SEC investigators to temporarily freeze improper payments to corporate executives and to strengthen laws that prevent the destruction of corporate documents in order to hide crimes.

Second, we're moving corporate accounting out of the shadows, so the investing public will have a true and fair and timely picture of assets and liabilities and income of publicly traded companies. Greater transparency will expose bad companies and, just as importantly, protect the reputations of the good ones.

To expose corporate corruption, I asked Congress 4 months ago for funding to place 100 new enforcement personnel in the SEC. And I call on Congress to act quickly on this request. Today I announce my administration is asking Congress for an additional $100 million in the coming year to give the SEC the officers and the technology it needs to enforce the law. If more scandals are hiding in corporate America, we must find and expose them now, so we can begin rebuilding the confidence of our people and the momentum of our markets.

I've also proposed a 10-point accountability plan for American business, designed to provide better information to shareholders, set clear responsibility for corporate officers, and develop a stronger, more independent auditing system. This plan is ensuring that the SEC takes aggressive and affirmative action.

Corporate officers who benefit from false accounting statements should forfeit all money gained by their fraud. An executive whose compensation is tied to his company's performance makes more money when his company does well. That's fine, and that's fair when the accounting is aboveboard. Yet when a company uses deception, deception accounting to hide reality, executives should lose all their compensation—all their compensation gained by the deceit.

Corporate leaders who violate the public trust should never be given that trust again. The SEC should be able to punish corporate leaders who are convicted of abusing their powers by banning them from ever serving again as officers or directors of a publicly held corporation. If an executive is guilty of outright fraud, resignation is not enough. Only a ban on serving at the top of another company will protect other shareholders and employees.

My accountability plan also requires CEOs to personally vouch for their firms' annual financial statements. Currently, a CEO signs a nominal certificate and does so merely on behalf of the company. In the future, the signature of the CEO should also be his or her personal certification of the veracity and fairness of the financial disclosures. When you sign a statement, you're pledging your word, and you should stand behind it.

And because the shareholders of America need confidence in financial disclosures right away, the SEC has ordered the leaders of nearly 1,000 large public companies to certify that the financial information they submitted in the last year was fair and it was accurate.

I've also called on the SEC to adopt new rules to ensure that auditors will be independent and not compromised by conflicts of interest.

The House of Representatives has passed needed legislation to encourage transparency and accountability in American businesses. The Senate also needs to act quickly and responsibly, so I can sign a good bill into law.

Third, my administration will guard the interests of small investor and pension holders. More than 80 million Americans own stock, and many of them are new to the market. Buying stock gives them an opportunity to build wealth over the long term, and this is the very kind of responsible investment we must promote in America. To encourage stock ownership, we must make sure that analysts give honest advice and pension plans treat workers fairly.

Stock analysts should be trusted advisers, not salesmen with a hidden agenda. We must prevent analysts from touting weak companies because they happen to be clients of their own firm for underwriting or merger advice. This is a flat-out conflict of interest, and we'll aggressively enforce new SEC rules against this practice, rules which take effect today.

And the stock markets should make sure that the advice analysts give and the terms they use have real meaning to investors. "Buy" should not be the only word in an analyst's vocabulary, and they should never say "hold" when they really mean "sell."

Small investors should also not have to have the deck stacked against them when it comes to managing their own retirement funds. My pension reform proposal would treat corporate executives the same as workers during so-called blackout periods, when employees are prohibited from trading in their own accounts. What's fair for the workers is fair for the bosses.

My reform proposal gives workers quarterly information about their investments. It expands workers' access to sound investment advice and allows them to diversify out of company stock.

The House has passed these measures. I urge the Senate to do the same. Tougher laws and stricter requirements will help; it'll help.

Yet ultimately, the ethics of American business depend on the conscience of America's business leaders. We need men and women of character, who know the difference between ambition and destructive greed, between justified risk and irresponsibility, between enterprise and fraud.

Our schools of business must be principled teachers of right and wrong and not surrender to moral confusion and relativism. Our leaders of business must set high and clear expectations of conduct, demonstrated by their own conduct. Responsible business leaders do not jump ship during hard times. Responsible leaders do not collect huge bonus packages when the value of their company dramatically declines. Responsible leaders do not take home tens of millions of dollars in compensation as their companies prepare to file for bankruptcy, devastating the holdings of their investors.

Everyone in a company should live up to high standards, but the burden of leadership rightly belongs to the chief executive officer. CEOs set the ethical direction for their companies. They set a moral tone by the decisions they make, the respect they show their employees, and their willingness to be held accountable for their actions. They set a moral tone by showing their disapproval of other executives who bring discredit to the business world.

And one of the principal ways that CEOs set an ethical tone is through their compensation. The pay package sends a clear

signal whether a business leader is committed to teamwork or personal enrichment. It tells you whether his principal goal is the creation of wealth for shareholders or the accumulation of wealth for himself.

The SEC currently requires the annual disclosure of the CEO's compensation. But that information is often buried in long proxy statement—proxy statements—and seldom seen, seldom seen by shareholders. I challenge every CEO in America to describe in the company's annual report, prominently and in plain English, details of his or her compensation package, including salary and bonus and benefits. And the CEO, in that report, should also explain why his or her compensation package is in the best interest of the company he serves.

Those who sit on corporate boards have responsibilities. I urge board members to check the quality of their company's financial statements, to ask tough questions about accounting methods, to demand that audit firms are not beholden to the CEO, and to make sure the compensation for senior executives squares with reality and common sense. And I challenge compensation committees to put an end to all company loans to corporate officers.

Shareholders also need to make their voices heard. They should demand an attentive and active board of directors. They should demand truly independent directors. They should demand that compensation committees reward long-term success, not failure. Shareholders should demand accountability not just in bad times but especially in boom times, when accountability frequently breaks down. Shareholders are a company's most important constituency, and they should act like it.

The 1990s was a decade of tremendous economic growth. As we're now learning, it was also a decade when the promise of rapid profits allowed the seeds of scandal to spring up. A lot of money was made, but too often standards were tossed aside. Yet the American system of enterprise has not failed us. Some dishonest individuals have failed our system. Now comes the urgent work of enforcement and reform, driven by a new ethic of responsibility.

We will show that markets can be both dynamic and honest, that lasting wealth and prosperity are built on a foundation of integrity. By reasserting the best values of our country, we will reclaim the promise of our economy.

Leaders in this room help give the free enterprise system an ethical compass, and the Nation respects you for that. We need that influence now more than ever. I want to thank you for helping to restore the people's trust in American business. I want to thank you for your love of the country. And I want to thank you for giving me the chance to come and address you today.

May God bless you all.

NOTE: The President spoke at 11:20 a.m. in the Regent Ballroom at the Regent Wall Street Hotel. In his remarks, he referred to William Rudin, chairman, Association for a Better New York; Mayor Michael Bloomberg of New York City; and Edward Cardinal Egan, Roman Catholic Archdiocese of New York. The Office of the Press Secretary also released a Spanish language transcript of these remarks. The Executive order establishing the Corporate Fraud Task Force is listed in Appendix D at the end of this volume.