

The Economic Club of New York

The Honorable Harvey L. Pitt
Chairman of the U.S. Securities and Exchange Commission

June 26, 2002

New York Hilton
New York City

Good evening.

I offer heartfelt thanks to Dick Grasso, and not just for his kind introduction. Long before becoming SEC Chairman, I knew what a special leader Dick was. But, in the aftermath of 9/11, observing him in action from a front row seat, I now fully appreciate Dick's unique strengths and leadership. And this is certainly a time in which our markets demand strong leadership. Dick, thank you.

Since I arrived, the Commission has confronted not one, but four, crises — 9/11, the implosion of Enron, the demise of Andersen, and now the concomitant investor crisis of confidence. The problems we've inherited reflect the irrational exuberance of the '90s and the longest sustained bull market in history. Alas, sometimes the main thing bull markets give us is a lot of bull!

WorldCom's announced \$4 billion restatement puts a sharper point on all the concerns we have been expressing — that our system has had serious dysfunctional aspects for quite some time. It leads me to offer you a simple message this evening, from the movie "Network," a message in which I encourage you all to join: "I'm mad as hell, and I'm not going to take it any more." What happened at WorldCom — and we do not yet know all that happened at WorldCom — is an outrage. What we also know we're looking at isn't a mistake, it's a fraud.

The Commission is actively investigating the events related to WorldCom's appalling disclosures. To inform the market, we've ordered the company to file under oath, before the opening of the market this coming Monday morning, a detailed report of all the specifics, including the relevant circumstances that led to the restatements. We will make that public as soon as we get it. By the way, this is the third time in history that we have invoked this authority, all within the last few months.

I've uttered the old adage that we are doomed to repeat history if we don't learn from it. Or, as my mother used to say, "fool me once, shame on you. Fool me twice, shame on me." As a result, we also have filed a fraud suit against WorldCom in federal district court here in New York seeking the appointment of a corporate monitor to ensure WorldCom does not destroy any documents or information related to the SEC's pending investigation, and to assure no asset dissipation occurs to any affiliates, or current or former officers, directors or employees from the Company while it is in the process of restating its financial statements.

These actions underscore the active role the SEC has played and will continue to play in uncovering wrongdoing, and correcting it. We are fully partnered with the Department of Justice and US Attorneys across the country to ensure that where conduct warrants criminal prosecution, justice will not only be swift, it will be maximized. Serious jail time is called for by serious financial crime. We have to await the outcome of our inquiries, but I am pushing our Staff to complete its review as rapidly as is humanly possible, so that any violations are sternly and quickly redressed.

During my 10 months as Chairman, it has become increasingly clear that the problems that keep surfacing now are deeper than any one person or any one company and have been festering for years. Our free markets have generated unparalleled growth, jobs, innovation and prosperity. But the bubble that inflated in the last years of that run has burst.

The seemingly endless drumbeat of Enron, Global Crossing, Tyco, ImClone, Xerox, Andersen, Adelphia and now WorldCom have caused investors around the globe to lose confidence in American business, and to question its basic integrity. If that is allowed to persist, a key pillar on which our capital markets are premised will crumble.

Therefore, consistent with the numerous reforms the President has called upon us to implement, we are following his direction and leadership by taking several other immediate steps to restore faith in our markets: First, as part of our goal of reassuring fraud-weary investors, we plan to require our 1000 largest companies to file a formal certification with us on the accuracy and completeness of their last annual reports. The President has emphasized the need for individual responsibility on the part of CEOs and CFOs, and we are determined to assure investors that the financial statements they presently rely upon are in fact reliable. These certifications will be required to be provided by the time most companies file their next quarterly report — August 15.

Beyond this, I have today renewed my prior request to Congress for more resources to address these crises. Three months ago, as we were facing the twin crises of Enron's collapse and Andersen's demise, I asked the Administration and Congress for immediate additional personnel to help us in our enforcement, accounting and corporate finance activities. We were gratified that rather than have the SEC wait until the next fiscal year to begin hiring 100 additional attorneys, accountants and financial examiners, the Administration promptly proposed to give us the money immediately, to enable us to begin the hiring process this year and continue through next year.

Congress indicated its immediate support for that proposal, but the money that we sought then has not yet been approved. It hopefully will be approved any day now, when the Administration's supplemental appropriations bill receives final clearance from the House and Senate.

With all the new initiatives we are undertaking, it is clear to me that we need even more resources than those we asked for three months ago. In conversation with OMB Director Daniels this morning, I was assured that he and OMB will work with us, as they have done with our previous request, to assure that we receive the additional personnel we require to do our job appropriately. I am grateful for their support.

Finally, we formally released our proposed reform of the oversight of the accounting profession this morning. While it's out for comment, I intend to talk to government officials, members of Congress, former SEC chairs, individual and institutional investor representatives, academics, and others, to identify and encourage those people who could and should serve on a PAB to come together for that purpose.

Sixty days is a long comment period, and I originally had thought getting a PAB in place by year-end was appropriate. We have been helping Congress on their legislative proposals, and if there is legislation, we will implement it. However, in the event there is no legislation, my hope now is that we can begin implementing our proposals as shortly after the close of the comment period as is possible.

We believe that these steps underscore our commitment to full and fair disclosure by public companies to the American public and America's capital markets. But they are not the only ones we are taking — we have begun, and will continue to propose, an unprecedented number of reforms in the areas of accounting, corporate disclosure and corporate governance.

I have already mentioned our proposed framework for oversight of the accounting profession, and the CEO and CFO certification. In addition, we've been actively assisting FASB in retaining its independence and addressing key issues on a more timely basis and in a way that will better adapt to changing business environments and emphasize overall accuracy. We have been pleased with FASB's responses on these issues.

We've also begun a retooling of disclosure requirements to help ensure that investors have the information they need, when they need it, and can understand it when they receive it. Our initiatives in this area include:

- a proposed rule that requires companies to discuss the effects of their critical accounting policies;
- reminders to companies to disclose off-balance sheet financing arrangements, and about the appropriate use of, and limitations on, pro forma financial information;
- enforcement actions underscoring that technical compliance with GAAP, without more, can still produce insufficient disclosure;
- a proposed rule to require accelerated reporting of insider transactions, including company loans
- a proposed rule to more than triple the number of items that companies must report currently, and to accelerate those disclosures; and
- a proposed rule to accelerate the deadline for annual reports from 90 to 60 days, and quarterly reports from 45 to 30 days.

Similarly, in partnership with the NYSE and Nasdaq, we're working on the most dramatic and far-reaching changes in corporate governance in decades. And, where corporate leaders abuse the trust of investors to whom they owe fiduciary duties, we are seeking to strip them of corporate offices, salaries, bonuses and stock options.

Again, starting a year ago, in partnership with the NYSE and the NASD, and after months of intensive focus by the House Financial Services Committee, the Commission's staff, and the

SROs, we adopted real reforms to minimize and disclose research analysts' conflicts of interest. And our review of those practices is ongoing.

And these steps are only the beginning. We are considering other ways to improve the quality of information investors receive directly from issuers, including requiring disclosure of current trend and evaluative data upon which corporate executives base critical decisions.

We also will propose later this summer, for the first time, that public companies vest in fully independent audit committees the sole authority to hire, fire and retain auditors. These rules will also vest in audit committees, not senior management, sole authority whether, when and how to hire outside auditors to perform non-audit services. Moreover, we've promised that, by mid-summer, we will put out for public comment rules regarding auditor independence that could extend beyond independence rules approved in 2000 that take effect this August.

The recent large restatements of earnings that were misreported over the last several years have caused unacceptable and horrendous losses for large numbers of innocent people; but, the broader damage to investor confidence that these and recent events have caused, including WorldCom's announced \$4 billion restatement, presents a far more serious ongoing problem for our markets — and crisis is not too strong a word for it.

The American investing public has a right to better than it's been receiving, and we all must figure out how we get there, and without further delay. Corporate America, those who serve it, and those who monitor and regulate it, must embrace meaningful reform, and act in concert to restore integrity in our corporations and their leaders: how they're managed, governed, report to public shareholders, and account for themselves. Investor confidence can be rebuilt, but only by our total commitment to broad reform.

We have laid out, and are implementing, a creative and aggressive reform agenda. We can achieve these fundamental reforms, and make no mistake we will. We're counting on your support.

Thank you.