Testimony Concerning
Implementation of the Sarbanes-Oxley Act of 2002

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Before the Senate Committee on Banking, Housing and Urban Affairs
September 9, 2003

Chairman Shelby, Ranking Member Sarbanes, and Members of the Committee:

Thank you for inviting me to testify today on behalf of the Securities and Exchange Commission concerning implementation of the Sarbanes-Oxley Act of 2002. I appreciate having the opportunity to discuss this important matter with you.

I. Introduction

It has been just over a year since Congress passed and President Bush signed the Sarbanes-Oxley Act into law. Sparked by dramatic corporate and accounting scandals, the Act represents the most important securities legislation since the original federal securities laws of the 1930s. The Act effects dramatic change across the corporate landscape to re-establish investor confidence in the integrity of corporate disclosures and financial reporting. Your backing of the Act and the efforts to implement its sweeping reforms, along with the strong support of your counterparts in the House and our authorizing committees, demonstrates convincingly that the Congress is dedicated to ensuring the financial integrity and vitality of our markets.

The first year of the Sarbanes-Oxley Act has produced an impressive record of accomplishments in an incredibly short period of time. The Act set ambitious deadlines for more than 15 separate rulemaking projects by the Commission to implement many of the Act's provisions. The Commission provided a number of opportunities for public input on its proposals, and we carefully studied thousands of letters of public comment in crafting final rules. The bulk of the required rulemaking was required by January 26, 2003, and this past January was the busiest month of rulemaking in Commission history. The Act also called for several mandated studies on particular aspects of the capital markets.[1]

Because of the dedicated efforts of the Commission and the select corps of professionals who work at the SEC, I am pleased to say we have met all of the mandates and challenges set out by the Act, and in record time. Moreover, we met these deadlines without sacrificing our other work or obligations – including our robust enforcement program and numerous regulatory initiatives unrelated to Sarbanes-Oxley.

The Act also provided welcome new enforcement tools to combat corporate fraud, punish corporate wrongdoers and deter fraud with the threat of stiffer penalties. The Commission, both on its own and in conjunction with the President's inter-agency Corporate Fraud Task Force, is moving decisively to utilize these new tools to expose and punish acts of corruption, improve corporate responsibility and protect America's investors.

For the fiscal year through August 20, 2003, the Commission has filed 543 enforcement actions, 147 of which involve financial fraud or reporting violations. During this period, the Commission has sought to bar 144 offending corporate executives and directors from holding such positions with publicly traded companies. Further, we are holding accountable not just the companies who engage in fraud, but also the other participants. For example, recent actions signify the Commission's willingness to pursue directors who are reckless in their oversight of

[1] The Commission has issued five studies as required by the Act. The Commission is preparing one remaining study and report required by Section 401(c) of the Act on special purpose entities. The Act also mandated other studies, such as those to be conducted by the General Accounting Office on consolidation of public accounting firms (Section 701), mandatory rotation of accounting firms (Section 207) and investment banks (Section 705). The Act also called for reviews of Federal Sentencing Guidelines by the United States Sentencing Commission (Sections 805, 905 and 1104).

management. And we have increasingly designed strategies that take advantage of the creative provisions of the Act to return funds to investors who have suffered losses rather than merely collect those funds for the government.

I am pleased to report that the Public Company Accounting Oversight Board, a cornerstone of the Act, is up and running under the strong leadership of its new Chairman, William McDonough. We will continue to crack down on malfeasance, and thanks to the Sarbanes-Oxley Act we have the tools and resources we need to tackle this task. The rules mandated by the Act are in place and companies, their boards and executives, and other "gatekeepers" to our capital markets are proceeding to implementation. These are landmark rules. They will require hard work and significant expenditures in the short run. But the short-term costs of compliance, particularly efforts to improve internal control over financial reporting, should be viewed as an investment. In the long-term, the reforms realized from the Act will result in sounder corporate practices and more reliable financial reporting. Moreover, the spirit of the Act and its requirements are sinking into corporate America. Companies should, as I have said before, make the approach of doing the right thing – in disclosure, in governance and otherwise in their businesses – part of their companies' DNA.

The Commission has been and will remain vigilant in the implementation of these and other provisions of the Act and will consider further action as appropriate in furtherance of its objectives. And beyond Sarbanes-Oxley, we will continue pressing ahead on multiple fronts in the months ahead, including addressing such critical areas as shareholder access to the director nomination process, the mutual fund and hedge fund industries, the structure of our securities markets and the many issues embedded in the need for improved corporate governance.

In these and other endeavors, I look forward to continuing and building on the strong and cooperative relationship that our agency has developed with you in the past as we move forward with fulfilling the promise of the Act. This is a critical time for our capital markets and the agency, and the way we address the challenges before us will determine not only where we go tomorrow, but for years to come. Before reporting in more detail on the Commission's achievements in implementing the Sarbanes-Oxley Act to date, I would first briefly put the Act in perspective.

II. Events Leading to Sarbanes-Oxley

The specific events leading to passage of the Act are now well documented. The mid-1990s saw the beginning of the full flourish of the so-called "new economy" in America. The stock market reflected the enormity of the changes taking place in the economy. Stock averages rose at increasing rates from the mid-1990s through early 2000. New entrants undertaking IPOs in the market were among the biggest gainers, especially those that symbolized the "dot.com" sector of the economy. Communications, the explosion of information technology and changes in the culture of equity investing, including the shift to more self-directed retirement accounts, brought millions of individuals with their savings into our stock markets for the first time.

Starting in the second quarter of 2000, the bubble burst. Stock prices plummeted. Investors fled the markets. The IPO market disappeared. As happened after the crash of 1929, the falling market that began in 2000 led to other revelations. Starting with the unfolding of the Enron story in October 2001, it became apparent that the boom years had been accompanied by fraud, other misconduct and a serious erosion in business principles. The low points in this story are now household names – not just Enron, but also WorldCom, Tyco, Adelphia and others. There was other serious misconduct as well, including in the once-celebrated IPO market, which in too many cases lacked both fairness and integrity. The cost of this corner-cutting to investors has been enormous. While thankfully we have not witnessed the same intensity of human suffering that came with the depression of the 1930s, the most recent downturn in the market directly affected many more investors than the 1929 market crash, because many more individuals had much more of their savings invested in the stock market.

In addition to the grossest displays of greed and malfeasance, there were other more subtle but still pernicious developments. During the boom years, corporate America increasingly emphasized a short-term focus, fueled by an obsession with quarter-to-quarter earnings. In some cases this focus was sharpened by the temptation that inherently resulted from massive amounts of stock options granted to corporate insiders. Analysts, some tainted by conflicts of interest, became cheerleaders for the game of "hitting the numbers." Winning that game, rather than creating the conditions for sound, long-term strength and performance, became the primary goal. Finally, the perception that uninterrupted earnings growth was the hallmark of sound corporate progress caused too many managers to adjust financial results with the purpose of meeting projected results – in ways that were sometimes large and sometimes small, but, especially given the purpose, in all cases unacceptable.

To address the widespread collapse of investor confidence and the recognition that something had gone seriously awry in segments of corporate America, Congress approved and the President signed into law the Sarbanes-Oxley Act. At the East Room signing ceremony, the President promised, "to use the full authority of the Government to expose corruption, punish wrongdoers, and defend the rights and interests of American workers and investors."

III. Implementation of Sarbanes-Oxley

The sweeping reforms in the Sarbanes-Oxley Act address nearly every aspect and actor in our nation's capital markets. The Act affects every reporting company, both domestic and foreign, as well as their officers and directors. The Act also affects those that play a role in ensuring the integrity of our capital markets, such as accounting firms, research analysts and attorneys. The over-arching goals of the Act are far-reaching and include restoring investor confidence and assuring the integrity of our markets. Within these goals, the principal objectives addressed in the Act can be grouped into the following themes:

- To strengthen and restore confidence in the accounting profession;
- To strengthen enforcement of the federal securities laws;
- To improve the "tone at the top" and executive responsibility;
- To improve disclosure and financial reporting; and
- To improve the performance of "gatekeepers."

A. Restoring Confidence in the Accounting Profession

A strong central focus of the Sarbanes-Oxley Act is to enhance the integrity of the audit process and the reliability of audit reports on issuers' financial statements. As discussed below, the Commission has taken the actions directed by the Act and, when appropriate, pursued additional measures with the goal of restoring public confidence in the independence and performance of auditors of public companies' financial statements.

1. Public Company Accounting Oversight Board

A centerpiece of the Act is the creation of the Public Company Accounting Oversight Board, or PCAOB. In one year, the joint efforts of the Commission and PCAOB turned what was an outline on paper into a proactive organization that already is accepting accounting firm registrations, operating an independent funding mechanism, actively developing inspection and disciplinary programs and writing new auditing and attestation standards, starting with those related to auditors' reports on companies' internal controls over financial reporting.

Under the Sarbanes-Oxley Act, the Commission, among other things, appoints PCAOB members, approves all of the PCAOB's rules and professional standards and the PCAOB annual budget and support fee, acts as an appellate authority for PCAOB disciplinary actions and disputes related to PCAOB inspection reports and generally oversees the PCAOB's operations. Accordingly, the Commission has appointed the PCAOB, approved the PCAOB's bylaws, registration system for public accounting firms, funding rules, interim auditing and other professional standards, annual budget and support fee and has in process a review of the PCAOB's ethics code and various proposed rules related to the PCAOB's standards-setting process and inspection program.

We were extremely pleased when William McDonough, formerly the President of the Federal Reserve Bank of New York, assumed the Chair of the PCAOB last June. Prior to his appointment, Charles Niemeier, then the PCAOB Acting Chairman, and PCAOB members Kayla Gillan, Dan Goelzer and William Gradison developed the infrastructure necessary for the Commission to determine in April that the PCAOB was appropriately organized and had the capacity to carry out the requirements of the Sarbanes-Oxley Act. Under Chairman McDonough's leadership, we expect the PCAOB to continue to grow and to implement reforms that will restore investors' confidence in the audit process and in the integrity of the audited financial information that investors use every day to make investment and voting decisions.

2. Auditor Independence

Auditor independence is at the heart of the integrity of the audit process. As directed by the Sarbanes-Oxley Act and under the Commission's general rulemaking authority, the Commission strengthened its rules regarding auditor independence last January. The principal thrust of the revisions is to:

- Expand the non-audit services that, if provided to an audit client, impair an auditor's independence;
- Require an issuer's audit committee to pre-approve all audit and non-audit services provided to the issuer by the auditor;
- Require that certain partners on the audit engagement team rotate off the engagement after either five or seven years depending on the partner's role in the audit;
- Establish a "cooling off" period between participation on the team auditing an issuer's financial statements and assuming certain functions as a member of that issuer's management;
- Require the auditor to report certain matters to the issuer's audit committee; and
- Require certain disclosures to investors of information related to audit and non-audit services provided by, and fees paid to, the auditor.

The Commission also adopted rules stating that an accounting firm would not be independent with respect to an audit client if certain partners on the audit engagement receive compensation based on their procuring engagements with that client for services other than audit, review or attest services.[2]

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[2] In addition, to assist companies and the auditors of their financial statements in implementing the auditor independence rules, the Commission staff recently published on the Commission's website a list of Frequently Asked Questions about those rules. The FAQs clarify the application of certain rules related to non-audit services,

3. Improper Influence on Auditors

On April 24, 2003, the Commission adopted a provision pursuant to Section 303 of the Act prohibiting officers and directors of an issuer, and persons acting under their direction, from taking any action to coerce, manipulate, mislead or fraudulently influence the auditor of the issuer's financial statements if that person knew or should have known that such action, if successful, could result in rendering the issuer's financial statements materially misleading. These rules, in combination with other Commission rules, prohibit officers and directors from subverting the auditor's responsibilities to investors to conduct a diligent audit of the issuer's financial statements and to provide a true report of the auditor's findings.

4. Retention of Records Relevant to Audits and Reviews of Financial Statements

On January 22, 2003, the Commission adopted rules pursuant to Section 802 of the Act that, for the first time, require auditors to retain certain records relevant to their audits and reviews of issuers' financial statements. These records, which are to be retained for seven years, include an accounting firm's workpapers and certain other documents that contain conclusions, opinions, analyses or financial data related to the audit or review.

5. Recognition of the Financial Accounting Standards Board

Section 108 of the Act sets forth criteria that must be met by an accounting standard-setting body in order for that body's standards to be considered "generally accepted" for purposes of the securities laws.[3] In April, the Commission announced its determination that the

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partner rotation, audit committee pre-approval of services, auditor communications with an issuer's audit committee, the disclosure by an issuer of fees paid to the auditor of its financial statements and other matters.

[3] The criteria include, among other things, being a private entity; having, for administrative and operational purposes, a board of trustees that serves the public interest; being funded as provided in the Act; having procedures to ensure prompt consideration, by majority vote of its members, of changes to accounting standards to reflect emerging issues and changing business practices; and considering the extent to which international convergence of accounting standards is necessary or appropriate in the public interest.

Financial Accounting Standards Board and its parent organization, the Financial Accounting Foundation, meet the criteria in the Act and that FASB's pronouncements would be considered to be "generally accepted" and must continue to be followed in the preparation of financial statements filed with the Commission.[4] Subsequently, as required by Section 109(e) of Act, we reviewed the FASB support fee for 2003 and found that it is consistent with the Act.

6. Study on Principles-based Accounting Standards

In enacting the Sarbanes-Oxley Act, Congress recognized that accounting standards that contain too many exceptions, interpretations and bright-line percentage tests might have contributed to efforts by managements and accountants to structure transactions that provide a desired accounting result and yet allow the company to avoid clear disclosure of the economic consequences of those transactions in its financial statements. Congress, therefore, mandated in Section 108(d) of the Act that the Commission study whether a system of "principles-based" accounting standards should be adopted in the United States. The Commission staff released its study in July.

After considering the issue, our staff found that standards reflecting only a stated principle of accounting ("principle-only standards") would present enforcement difficulties because they would provide little guidance or structure for exercising professional judgment in applying that principle. The staff also found that accounting standards that are too detailed ("rules-based standards") often provide a vehicle for circumventing the intention of the standard.

As a result, the staff indicated that the best approach would be to develop accounting standards that:

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[4] The Commission's determination was premised on an expectation that the FASB would address certain issues announced by the Commission and that the FASB would continue to serve the public interest and protect investors.

- Are based on a conceptual framework;
- Clearly state the accounting objective of the standard;
- Provide sufficient detail and structure so the standard may be applied on a consistent basis;
- Minimize exceptions from the standard; and
- Avoid the use of percentage tests that allow financial engineers to achieve technical compliance with the standard while evading the intent of the standard.

The staff's recommendation is consistent with the approach currently being developed by the Financial Accounting Standards Board.

B. Strengthening the Enforcement of the Federal Securities Laws

The Act also has helped the Commission to restore investor confidence in the capital markets by strengthening enforcement of the federal securities laws. The Act added a number of new weapons to the Commission's enforcement arsenal to better deter would-be securities wrongdoers and compensate injured investors. It also required the Commission to undertake studies of enforcement actions and report to Congress. These studies contain important recommendations to further strengthen the Commission's enforcement program.

1. New Enforcement Tools

With the Act, Congress provided the Commission a number of new tools with which to further our enforcement mission. The Act strengthened the Commission's ability to obtain meaningful remedies and expanded our authority to return funds to harmed investors. Significant new enforcement tools include:

- Authority, in certain cases, to distribute civil money penalties to harmed investors, under the "Fair Funds provision;"

- Authority, during an investigation of a public company or its officers, directors, or others, to seek a temporary order from a federal district court to escrow extraordinary payments;
- A more appropriate standard for the Commission to obtain an officer and director bar in an injunctive action;
- Authority to seek officer and director bars, under the new standard applicable in injunctive actions, in cease-and-desist proceedings;
- Authority to censure or restrict brokers, dealers, investment advisers, and associated persons, who are subject to certain final State, Federal banking agency, or National Credit Union Administration orders;
- Access to audit workpapers of foreign audit firms that issue an audit opinion or perform material services upon which a registered public accounting firm relies in issuing an audit opinion; and
- Authority to seek penny stock bars in injunctive actions.

2. Use of Sarbanes-Oxley Enforcement Tools

This fiscal year, the Commission has used the new tools to facilitate maximum return of funds to harmed investors. For example, the Commission has twice invoked Section 1103 of the Act, which provides that during an investigation of a public company or its officers or directors, the Commission may seek a temporary order from a federal court to escrow "extraordinary payments" if it appears likely that the company will make such "extraordinary payments" to an officer or director. Section 1103 helps ensure that company insiders do not receive unusual rewards during the course of an SEC investigation that may uncover misconduct by those individuals. This "preventive measure" helps to address one of the toughest challenges facing the Commission – finding, recovering, and returning funds to defrauded investors – by securing funds before they are provided to alleged securities-law violators.

In its most recent use of Section 1103, the Commission successfully petitioned the court to place in escrow for 45 days a $37.64 million payment intended for two former officers of Gemstar-TV Guide International. This allowed our Enforcement staff to advance its investigation, and the Commission to file securities fraud charges against the two former Gemstar officers in federal court, without permitting the officers to receive, and then dissipate, funds that allegedly belong to the company and its investors.

Section 308(a) of the Act, the "Fair Funds" provision, has also quickly become an important tool. Before the Act, by law, all civil penalties were paid into the U.S. Treasury, and, as a result, kept out of the hands of defrauded investors. Now, however, the Commission has authority, in certain circumstances, to use civil penalties to help make defrauded investors whole. In just over one year, the Commission has used the Fair Funds provision to designate over $1 billion in penalties for distribution to defrauded investors. A significant example of the effectiveness of the Fair Funds provision is in the Commission's case against Worldcom, Inc., where the company has agreed to satisfy its civil penalty obligation by paying $500 million in cash and $250 million in stock to defrauded investors. Thanks to the Fair Funds provision, all of this amount can be made available to harmed investors.

3. Studies and Reports

The Act required the Commission to conduct several enforcement-related studies. Section 308(c) directed the Commission to review and analyze its enforcement actions in which disgorgement and penalties were sought to determine how such proceedings may best be utilized to provide recompense to injured investors. The principal findings of the Commission's study were set forth in a report submitted to Congress on January 24, 2003.

This enforcement study, along with others conducted pursuant to Sarbanes-Oxley, made several recommendations intended to bolster the Commission's collection program, strengthen its enforcement efforts generally and provide more compensation for defrauded investors.[5] These recommendations included:

- Permitting the Commission, under the Fair Funds provision, to use penalty moneys for distribution to investors even if no disgorgement is ordered;
- Removal of state law impediments to the Commission's collection of judgments and administrative orders;
- Expressly authorizing the Commission to hire private attorneys to conduct litigation to collect its judgments;
- Expanding the Commission's access to grand jury materials;
- Providing nationwide service of trial subpoenas; and
- Facilitating cooperation by preserving the privilege of information produced voluntarily to the Commission by a person or entity under investigation.

These recommendations provided a basis for several provisions of a bill, H.R.2179, now pending in the House of Representatives.

C. Improving the "Tone at the Top" and Executive Responsibility

Another critical purpose of the Act was to improve the "tone at the top." This important theme dates back to President Bush's ten-point plan of March 2002, even before passage of the

[5] Section 703 of the Act directed the Commission to study securities professionals who violated the federal securities laws, and Section 704 of the Act directed the Commission to study enforcement actions to identify areas of issuer financial reporting that are most susceptible to fraud, manipulation and inappropriate earnings management. Both studies were submitted to Congress on January 24, 2003.

Sarbanes-Oxley Act. The tone set by top management is the most important factor contributing to the integrity of the financial reporting process.

1. Executive Certification of Company Reports

The Act contains two different executive certification provisions, Sections 302 and 906, each of which requires CEOs and CFOs of reporting companies to certify the financial and other information in their reports filed with the Commission.[6] On August 27, 2002, the Commission adopted rules to implement Section 302 of the Act. Section 906 of the Act, which contains a separate certification requirement subject to specific federal criminal provisions, is self-operative and became effective immediately upon enactment. On May 27, 2003, the Commission adopted amendments to its rules under Section 302 in connection with its implementation of the internal control reporting requirements of Section 404, and also mandated that the certifications under Sections 302 and 906 be submitted as exhibits to Commission reports to aid investors and regulators in locating these statements.

These certifications affirm senior executive responsibility for financial reporting.[7] An important aspect of the certifications is the CEO's and CFO's responsibility for establishing and

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[6] The Act's provisions complement previous actions by the Commission regarding executive certifications. Before enactment of Sarbanes-Oxley, the Commission had previously published proposals to require CEO and CFO certifications for Exchange Act reports. See Release No. 34-46079 (June 17, 2002). In addition, the Commission required written statements, under oath, from the CEOs and CFOs of the 947 largest public companies regarding the accuracy of their companies' financial statements and their consultation with the companies' audit committees. See File No. 4-460: Order Requiring the Filing of Sworn Statements Pursuant to Section 21(a)(1) of the Securities Exchange Act of 1934 (June 27, 2002).

[7] For example, the rules adopted by the Commission pursuant to Section 302 require a company's CEO and CFO each to certify that:

- They have reviewed the report;
- The report does not contain an untrue statement or fail to state a material fact;
- The financial statements fairly present in all material respects the financial condition and results of operations of the company;
- They are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the company and have:

maintaining disclosure controls and procedures. In addition to the required certification regarding these controls and procedures, the Commission included an express requirement in its rules that reporting companies must maintain disclosure controls and procedures. These are controls and other procedures designed to ensure that information required to be disclosed is recorded, processed and accurately reported within the required time frame. The combination of the certification requirements and the requirement to establish and maintain disclosure controls and procedures has been to focus appropriate increased senior executive attention on disclosure responsibilities and has had a very significant impact to date in improving financial reporting and other disclosure.

2. Code of Ethics for Senior Financial Officers

To further focus attention on honest and ethical conduct, the Commission adopted rules on January 15, 2003 pursuant to Section 406 of the Act. These rules require a reporting company to disclose annually whether the company has adopted a code of ethics for the company's principal executive officer and senior financial officers.[8] If a company has not adopted such a code, the company is required to explain why. The rules also require a company to disclose on a current basis amendments and waivers relating to the code of ethics for any of those officers. The Act required disclosure only of the applicability of the code of ethics to

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    - Designed such disclosure controls and procedures to ensure that material information relating to the company is made known to them;
    - Designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements;
    - Evaluated and reported on their company's disclosure controls and procedures; and
    - Disclosed any material change in the company's internal control over financial reporting; and
- They have disclosed to the auditors and audit committee:
    - All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting; and
    - Any fraud, whether or not material, that involves management or other employees who have a significant role in internal control over financial reporting.

[8] Companies are required to provide the new disclosures regarding codes of ethics in annual reports for fiscal years ending on or after July 15, 2003.

senior financial officers. Given the role of the CEO in setting the "tone at the top," the Commission also included a company's principal executive officer in its final rules.

3. Disclosures of Insider Transactions

Section 403 of the Act effected two important changes that will result in earlier public notification of insiders' transactions in their company's securities and wider public availability of information about those transactions.

First, on August 27, 2002, the Commission adopted rules to implement the accelerated filing deadline applicable to change of beneficial ownership reports. The Act accelerated these deadlines to the second business day following the execution date of such transactions. As provided for in the Act, the Commission provided limited relief for certain transactions only where the two business day period is not feasible.[9]

Second, on April 24, 2003, the Commission adopted rules to implement Section 403(a)(4) of the Sarbanes-Oxley Act, which requires electronic filing of insider transaction reports and Internet accessibility of such reports. To facilitate the implementation of this requirement, the Commission created a new on-line filing system for these forms.[10]

4. Prohibition on Insider Trading During Pension Fund Blackouts

On January 15, 2003, the Commission, after consultation with the Department of Labor, adopted rules implementing Section 306 of the Act. Section 306 prohibits any director or executive officer of a company from purchasing or selling any equity security during a pension plan blackout period that prevents plan participants and beneficiaries from engaging in

[9] This limited relief focuses on limited categories of transactions where the insider does not select the date of execution. For these transactions, the reports must be filed within two business days after the insider receives notice of the transaction, but the notification date may be no later than the third business day after the transaction is executed.

[10] These changes became effective on June 30, 2003, one month ahead of the statutory deadline.

transactions involving those securities. Section 306 equalizes the treatment of corporate executives and rank-and-file employees with respect to their ability to engage in transactions involving company equity securities during blackout periods.[11]

E. Improving Disclosure and Financial Reporting

Apart from increasing focus on executive responsibility, the Act takes several important steps toward improving disclosure and the financial reporting process. Accurate and reliable financial reporting lies at the heart of our disclosure-based system of securities regulation and is critical to the integrity of our securities markets. Investors need accurate and reliable information to make informed investment and voting decisions. Investor confidence in the reliability of this information is fundamental to the liquidity and vibrancy of our markets.

1. Internal Control over Financial Reporting

The impetus for reform that culminated with the Sarbanes-Oxley Act helped coalesce widespread support for extending internal control reporting requirements to all public companies.[12] On May 27, 2003, the Commission adopted rules to implement Section 404 of the Act, which requires public companies to file an annual internal control report as part of their annual reports. This report will address management's responsibility to establish internal control over financial reporting and will require management to evaluate the effectiveness of internal control over financial reporting.

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[11] The Commission's rules, which implement both the trading restrictions and the black-out notice requirements of Section 306, became effective on January 26, 2003.

[12] Since 1993, larger depositary institutions or their bank holding companies have been subject to similar requirements under the FDIC Improvement Act of 1991 (FDICIA). In addition, the Commission has twice in the past proposed an internal control report requirement. A mandated internal control reporting requirement also was one of the recommendations of the National Commission on Fraudulent Financial Reporting, also known as the Treadway Commission, in its landmark 1987 report.

In addition, the Act requires the auditor of the company's financial statements to attest to, and report on, management's assessment of the company's internal control over financial reporting in accordance with standards established by the Public Company Accounting Oversight Board.[13] In this regard, the Commission's Director of the Division of Corporation Finance and our Deputy Chief Accountant recently participated in a PCAOB roundtable on internal control attestations. Roundtable participants included representatives of institutional investors, public companies, federal and state regulators, accounting firms and others. The PCAOB intends to consider the information and views provided at the roundtable as it develops a new standard on auditor attestations of an entity's internal control over financial reporting. There will be an opportunity for public comment before the PCAOB finalizes its standard, and this standard, like all PCAOB rules, will be subject to Commission approval before it becomes effective.

For many companies, the new rules on internal control reports will represent the most significant single requirement associated with the Sarbanes-Oxley Act. The establishment and maintenance of internal control over financial reporting has always been an important responsibility of management.[14] An effective system of internal control over financial reporting is necessary to produce reliable financial statements and other financial information used by investors. By requiring a report stating management's responsibility for internal control over

[13] Section 404(b) of the Act. See also Section 103(a)(2)(A)(iii) of the Act, which directs the PCAOB to write an auditing standard that requires an auditor to describe in the audit report the scope of the auditor's testing of the company's internal control structure, as required by Section 404(b), and to present (in such report or in a separate report): (1) the findings from such testing, (2) an evaluation of whether the company's internal control structure (a) includes maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the company, and (b) provides reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only as authorized by management or the board of directors, and (3) describes material weaknesses in, and material noncompliance with, those controls.

[14] As the Commission emphasized in its release implementing Section 404, the design, implementation, documentation and testing of internal control over financial reporting, as well as documentation of that testing, are responsibilities of management. See Release No. 33-8238 (June 5, 2003).

financial reporting and management's assessment regarding the effectiveness of such control, investors will be better able to evaluate management's stewardship responsibilities and the reliability of a company's disclosure. The required annual evaluation of internal control over financial reporting will encourage companies to devote adequate resources and attention to the maintenance of such control. Additionally, the evaluation should help to identify potential weaknesses and deficiencies in advance of a system breakdown, and may help companies detect fraudulent financial reporting earlier and perhaps thereby deter financial fraud or minimize its adverse effects.

In light of the substantial time and resources needed to properly implement the rules and the corresponding benefit to investors that will result, our final rules provide for a transition period based upon the type of reporting company.[15] The additional time also will permit the PCAOB to develop revised attestation standards.

2. Off-Balance Sheet Transactions

One of the revelations of the recent corporate accounting failures was the abuse of off-balance sheet transactions. On January 22, 2003, the Commission adopted amendments to implement Section 401(a) of the Sarbanes-Oxley Act, which requires each annual and quarterly financial report filed with the Commission to disclose all material off-balance sheet transactions, arrangement and obligations.[16] The Act's mandate complements efforts of both the Commission

[15] Larger companies subject to our accelerated filing deadlines must comply with the new rules as of the end of their first fiscal year ending after June 15, 2004. All other companies, including small business and foreign issuers, must comply beginning with their first fiscal year ending after April 15, 2005.

[16] Companies are required to comply with these new disclosure requirements in Commission filings that include financial statements for fiscal years ending on or after June 15, 2003.

and the FASB in this area,[17] and the Commission's final rules also require most companies to provide an overview of certain known contractual obligations in an easy-to-read tabular format.

3. Non-GAAP Financial Measures

On January 15, 2003, the Commission adopted rules implementing Section 401(b) of the Act to require that any public disclosure of a non-GAAP financial measure by a public company (referenced as "pro forma financial information" in the Act) must be presented in a manner that:

- Does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the non-GAAP financial measure, in light of the circumstances under which it is presented, not misleading; and
- Reconciles the non-GAAP financial measure with Generally Accepted Accounting Principles (GAAP).[18]

In addition to defining the category of financial information that is subject to the mandate, the Commission took a two-step approach to regulating the use of non-GAAP financial information. First, the Commission adopted new Regulation G, which applies whenever a company publicly discloses or releases material information that includes a non-GAAP financial measure. This regulation prohibits material misstatements or omissions that would make the presentation of the material non-GAAP financial measure misleading and requires a quantitative reconciliation of the measure to GAAP (by schedule or other clearly understandable method). Second, the Commission adopted rules that address the use of non-GAAP financial measures in filings with the Commission. These amendments apply to the same categories of non-GAAP

[17] See, e.g., Release 33-8056 (Jan 22, 2002) (Commission cautionary advice on off-balance sheet transactions); Financial Accounting Standards Board Interpretation No. 45 (Nov. 2002); and Financial Accounting Standards Board Interpretation No. 46 (Jan. 2003).

[18] The Commission's rules on this topic became effective on March 28, 2003. Like Congress, the Commission also had been concerned with the use of non-GAAP financial information. Most recently, in December 2001, the

financial measures covered by Regulation G, but contain more detailed requirements than Regulation G.

4. Authorizing a "Real Time" Disclosure System

Each investor should have prompt access to critical information. Section 409 of the Act obligates public companies to disclose "on a rapid and current basis" information concerning material changes in the financial condition or operations of the company as the Commission determines, by rule, is necessary or useful for the protection of investors and the public interest. This authorization is consistent with the Commission's ongoing mission to modernize the public reporting system and improve the usefulness of these reports to investors.

For example, on September 5, 2002, the Commission adopted amendments to accelerate the filing deadlines for quarterly and annual reports by nearly one-third for larger, seasoned reporting companies. The deadlines for these reports were last changed over 30 years ago. In part to accommodate the implementation of other provisions of the Sarbanes-Oxley Act, the changes to filing deadlines will be phased in over three years.

On January 15, 2003, the Commission adopted amendments to require public companies to furnish to the Commission their earnings releases or other announcements disclosing material non-public information about completed annual or quarterly fiscal periods.[19] These amendments will not require the issuance of earnings releases or similar announcements; however issuing such releases and announcements will trigger the new requirement. Bringing these disclosures into the formal reporting system will provide widespread and uniform access of this information

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Commission issued cautionary advice regarding the use of such information. See Release No. 33-8039 (Dec. 4, 2002). See also *In the Matter of Trump Hotels & Casino Resorts, Inc.*, Release No. 34-45287 (Jan. 16, 2002).

[19] These rules became effective March 28, 2003.

to investors. Special accommodations were made to address presentations made orally, telephonically, by Web cast or by similar means.

Current Commission proposals to expand dramatically the list of significant events requiring prompt disclosure between reporting periods are also consistent with the mandate of Section 409. These proposals go a long way toward implementing a "real time" disclosure system. Specifically, the proposals would:

- Require current disclosure of 11 new items or events;
- Move two items that are currently required only on an annual or quarterly basis to disclosure on a current basis;
- Augment several existing items that are required to be disclosed on a current basis; and
- Accelerate the deadline for reporting all of the items required on a current basis.

I expect the Commission will revisit these proposals in the coming months.

F. Improving the Performance of "Gatekeepers"

In addition to addressing auditors and the accounting profession, as discussed above, the Sarbanes-Oxley Act and our new rules require better focus by other gatekeepers in our capital markets on their proper roles. The effective operation of these gatekeepers is fundamental to preserving the integrity of our markets. Revelations from the recent corporate and accounting scandals revealed that these parties did not always fulfill their proper responsibilities.

1. Audit Committee Listing Standards

Recognizing that financial statements, financial reporting and the audit itself is the bedrock upon which full and accurate disclosure is built, and also recognizing the importance of the audit committee in these processes, Congress in Section 301 of the Act called for, and on April 1, 2003 the Commission adopted, rules directing the nation's exchanges to prohibit the listing of any security of a company that is not in compliance with the audit committee requirements established by Section 301. Under the new rules, listed companies must meet the following requirements:

- All audit committee members must be independent;
- The audit committee must be directly responsible for the appointment, compensation, retention and oversight of a company's outside auditors, and the outside auditors must report directly to the audit committee;
- The audit committee must establish procedures for the receipt, retention and treatment of complaints regarding accounting and auditing matters, including procedures for the confidential, anonymous submission of concerns by employees; and
- The company must establish funding for the audit committee, including the means to retain and compensate independent counsel and other advisors, as the audit committee determines necessary to carry out its duties.

The new rules apply to both domestic and foreign companies that list in the U.S. Based on significant input from and dialogue with foreign regulators and foreign issuers, several provisions, applicable only to foreign issuers, were included in the final rules to address potential conflicts with foreign legal requirements where consistent with fulfilling the investor protection mandate of the Act. These provisions include accommodating foreign "co-determination" requirements, allowing shareholders to select or ratify the selection of auditors consistent with requirements in many foreign countries and allowing alternative structures, such as boards of auditors, to perform auditor oversight functions where such structures are provided for under local law.

We are continuing our work with the nation's markets to implement these requirements into their listing rules, and the Commission established ambitious deadlines in its final rules for the nation's markets to implement the new listing standards.[20] These efforts complement reform efforts previously instituted by our nation's markets at the Commission's request to strengthen corporate governance listing standards for publicly traded companies. In particular, the proposals by the New York Stock Exchange and the Nasdaq, which will both be finalized within the next few weeks, will increase board independence and effectiveness by, among other things, mandating that boards be composed of a majority of independent directors, requiring executive sessions outside the presence of management and requiring strong audit, compensation and nominating/governance committees composed of independent directors. We have already approved changes to listing rules to require shareholder approval of equity compensation plans.

These are significant changes that should have a lasting impact on improving responsibility and accountability in our markets. They also have focused attention on corporate governance reforms by the private sector. Many companies already are moving to adopt the new requirements. In addition, leading private sector organizations have been hard at work studying ways to increase corporate governance. In May, the Conference Board released its report, Corporate Governance Best Practices: A Blueprint for the Post-Enron Era, in which it suggested numerous corporate governance best practices. Similarly, the Business Roundtable has issued its own Principles of Corporate Governance suggesting further best practices.

[20] The affected markets were required to submit proposed listing rules by July 15, 2003, and all of them met that deadline. Final listing rules must be approved by the Commission by December 1, 2003. The vast majority of listed companies must comply with the new rules by the earlier of their first annual shareholders meeting after January 15, 2004, or October 31, 2004. This time frame was selected to coincide with a company's next annual shareholders meeting to facilitate any elections for new audit committee members that may be necessary to meet the rule's independence requirements. Given that foreign issuers and small business issuers were previously not subject to rules of this type, they were given additional time (until July 31, 2005) to comply.

2. Research Analysts

On July 29, 2003, the Commission approved rules proposed by the NYSE and NASD that satisfy Section 501 of the Act, which directed the Commission to adopt, or to direct the SROs to adopt, rules designed to further address research analyst conflicts of interest. The Commission worked closely with the SROs to conform their rules to meet the directives of the Act.

Some of the Act's requirements were satisfied by NASD and NYSE rule provisions existing at the time of enactment. Others necessitated amendments, such as to limit the compensatory evaluation of analysts to officials not engaged in investment banking activities and to further define periods during which a member firm engaged in a public offering of a security as an underwriter or dealer may not publish research on such security. The new rules also require analysts and members to disclose specified conflicts of interest to the extent that the member or analyst knows or has reason to know, including whether the member or any affiliate received *any* compensation from the issuer that is the subject of the research report; and whether that issuer has been a client of the member firm and, if so, the types of services provided.

As urged by commenters, to clarify the scope of information about which the analyst or member would be deemed to have reason to know, the SRO rules set forth two mechanisms by which analysts and their firms can satisfy the requirement that they disclose non-investment banking compensation that was received from the issuer by an affiliate of the member. The rules provide that the disclosure requirement will be deemed satisfied if the member, on a quarterly basis, discloses affiliate non-investment banking compensation that it has identified as having been received from the issuer. In the alternative, the rules provide that a member or analyst would be presumed not to have a reason to know of non-investment banking compensation received by an affiliate, if the member has in place informational barriers designed to prevent the analyst or any influential employee from receiving such information from the affiliate.

Also of note, in the compensation disclosure provision, the Act explicitly authorized the Commission to permit an exception for material non-public information regarding specific potential future investment banking services transactions of the subject company. The SRO rules also apply that exception to the client disclosure provision. We believe that providing this exception in the client disclosure provision is consistent with the Act's compensation disclosure provision, and fulfills the Act's mandates that rules be adopted that are reasonably designed to provide disclosure of broker-dealers' clients and client services, while appropriately addressing concerns related to the potential dissemination of material non-public information.

3. Standards of Conduct for Attorneys

On August 5, 2003, the Commission's rule implementing Section 307 of the Sarbanes-Oxley Act became effective, setting "standards of professional conduct for attorneys appearing and practicing before the Commission in any way in the representation of issuers." The rule, adopted last January, requires an attorney to report evidence of a material violation "up-the-ladder" within the issuer to the chief legal officer of the company. It also requires an attorney, if the chief legal officer does not respond appropriately to the evidence, to report the evidence to the issuer's audit committee, another committee of independent directors, or the full board of directors.

In addition to requiring up-the-ladder reporting, the final rule allows an attorney, without the issuer's consent, to reveal confidential information related to his or her representation to the extent the attorney reasonably believes necessary (1) to prevent the issuer from committing a material violation likely to cause substantial financial injury to the financial interests or property of the issuer or investors; (2) to prevent the issuer from committing an illegal act; or (3) to rectify the consequences of a material violation or illegal act in which the attorney's services have been used.

At the same time as the Commission adopted its final rule, it approved an extension of the comment period on the so-called "noisy withdrawal" provisions of the original proposed rule and put out for comment an alternative reporting out rule that would require the issuer to report to the Commission its attorney's withdrawal from representation. The Commission has not decided how it wishes to proceed with respect to "noisy withdrawal."

4. Rating Agencies

On January 24, 2003, the Commission submitted to Congress and the President a report on the role and function of credit rating agencies in the operation of the securities markets in response to the Congressional directive contained in Section 702 of the Act. The report was designed to address each of the topics identified for Commission study in Section 702, including the role of credit rating agencies and their importance to the securities markets, impediments faced by credit rating agencies in performing that role, measures to improve information flow to the market from credit rating agencies, barriers to entry into the credit rating business and conflicts of interest faced by credit rating agencies. The report also addresses certain issues regarding credit rating agencies that go beyond those specifically identified in the Act, such as allegations of anticompetitive or unfair practices, the level of due diligence performed by credit rating agencies when taking rating actions and the extent and manner of Commission oversight of credit rating agencies.

In preparing the report, the Commission pursued several approaches, both formal and informal, to conduct a thorough and meaningful study of credit rating agencies. These efforts included informal discussions with credit rating agencies and market participants, formal examinations of credit rating agencies and public hearings where market participants were given the opportunity to offer their views on credit rating agencies and their role in the capital markets.

To further address issues raised in the report, the Commission published a concept release on June 4, 2003 seeking comment on a number of issues relating to credit rating agencies, including whether credit ratings should continue to be used for regulatory purposes under the federal securities laws, and, if so, the process of determining whose credit ratings should be used, and the level of oversight to apply to such credit rating agencies. The comment period for the concept release ended on July 28, 2003, and the Commission received 42 comment letters from a wide range of interested persons. The staff is currently preparing an analysis of the comment letters to assist the Commission in determining what further action may be appropriate.

5. Audit Committee Financial Experts

On January 15, 2003, the Commission adopted rules pursuant to Section 407 to require a reporting company to disclose annually whether it has at least one "audit committee financial expert," and if so, the name of such expert and whether the expert is independent of management. A company that does not have an audit committee financial expert will be required to disclose this fact and explain why it has no such expert. These disclosures will improve transparency to investors in evaluating the experience of the audit committees of companies in which they invest.[21] In response to public comment, the final rules broadened the categories of experienced individuals with accounting and financial expertise that could meet the definition of "financial expert" from our original proposals, while still incorporating all of the considerations

[21] Companies are required to provide the new disclosure in annual reports for fiscal years ending on or after July 15, 2003. Small business issuers will be required to provide the new disclosure in annual reports for fiscal years ending on or after December 15, 2003.

for the definition set forth in Section 407. The rules also provide several limited safe harbors to address concerns that being designated as an audit committee financial expert would dissuade qualified candidates from board service.

6. Investment Companies

We also have fully implemented the requirements of the Act with respect to mutual funds and other registered investment companies ("funds"). With few exceptions, the Act did not draw any distinctions between operating companies and funds, and the rules that we have adopted generally apply with equal force to both. In some cases, this has required us to adapt the requirements of the Act to address the unique circumstances of funds, such as the fact that, unlike most operating companies, funds are typically externally managed by an investment adviser. For example, in implementing the statutory requirement that an issuer's audit committee pre-approve permissible non-audit services provided by its auditing firm, we applied the pre-approval requirements not only to services provided to a fund, but also to certain fund-related services provided to the fund's adviser and other entities in a fund complex. The positive effects of our rules under the Act with respect to funds will be reinforced as we continue to vigorously pursue other initiatives to improve the disclosure that funds provide to investors, particularly with respect to fees and expenses.

IV. Moving Forward After Sarbanes-Oxley

A. Commission Operations

Section 601 of the Act authorized substantial additional appropriations for the Commission. I believe that the efficient functioning of the SEC is as much a part of investor protection as ushering in new rules and regulations. I am committed to ensuring that every penny of the new money granted to the Commission is spent wisely. We will bring on the people we need to help us fulfill our mission, and not simply to increase our head-count. I have been working with senior staff of the agency to determine appropriate changes to address both our internal and external needs. As an illustration of the seriousness with which we view this part of our responsibilities, I recently reorganized the Office of the Chairman to include three managing executives, one of whom is the Managing Executive for Operations and works full-time on the SEC's efficiency and operational effectiveness.

On February 20, 2003, the President signed into law the Consolidated Appropriations Resolution, providing the Commission with a fiscal year 2003 appropriation of $716 million, which is $278 million more than our fiscal 2002 appropriation. A portion of these funds will be used to hire 842 new staff to:

- Implement the Sarbanes-Oxley Act, including the review of each registrant's financial statements every three years;
- Enhance our enforcement program so we can bring more investigations and complete them sooner;
- Review investment advisers and investment companies more frequently, based on risk criteria; and
- Conduct more broker-dealer branch-office examinations.

Without the “Accountant, Compliance, and Enforcement Staffing Act of 2003,” many of these initiatives would be in jeopardy due to our difficulties hiring additional professional staff in a timely manner. We are extremely grateful for the support of the Congress and the President in quickly addressing our personnel and operational needs.

With the addition of a substantial number of accountants to our Division of Corporation Finance, we will strive to achieve the 33% annual review level mandated by Section 408 of the

Act. The Division also will continue its focus, also mandated by Section 408, on the largest companies and other companies where review is most important. In addition, the Division has modified its selective review process in a manner that will allow it to focus on companies and on disclosure that appear to be critical to an understanding of each company's financial position and results. The Division will continue to refine this process to allow it to efficiently use its resources and review material disclosure issues in a broad range of companies. Through increased staffing and focused reviews, the Division will strive to complete either a full, financial or other review of the filings of one-third of the reporting companies each year.

B. The Agenda Beyond Sarbanes-Oxley

Implementing Sarbanes-Oxley has been a tremendous accomplishment in its own right. I also want to touch on some of our other areas of progress, as well as our ongoing priorities, which reflect our desire to restore investor confidence while helping America's financial markets to continue allocating capital effectively and sparking job creation.

For example, we are continuing to build on the July 15 report of our Division of Corporation Finance, which recommends improved disclosure and greater shareholder access to the director nomination process. We have already issued proposals on improved disclosure, and the Commission will consider proposals in the shareholder access area as soon as this month.

We are examining the mutual fund industry, and its impact on investors, looking at everything from how fund companies do business to the fees they charge and the information they disclose to their customers. We are also in the process of reviewing the hedge fund industry, given its extraordinary recent growth, to ensure that investor protection remains paramount. Recommendations from the SEC staff in this area are likely to be issued in the near future.

We also are taking a comprehensive look at the complex issues involving the structure of our securities markets – including their regulation, the balance between competition and fragmentation and the use of market data – all in the context of our global marketplace and its impact on investors. These market structure issues are among the thorniest the Commission faces, but also among the most important. Revolutions in technology and communications and the unrelenting pace of globalization make it imperative that we revisit on a comprehensive basis the framework of our system for regulating markets.

We will continue to monitor areas that may merit future attention and whether there are particular items, regulatory burdens or unintended consequences that should be addressed. For example, the Commission staff has issued Frequently Asked Questions on implementation of the non-GAAP financial measure rules and the auditor independence rules. In addition, we have attempted to reduce the compliance burdens on smaller public companies where appropriate and permitted by the Act. While initial concerns that the costs of the Act would drive many public companies to go private have not played out, we intend to continue to review the effects of the new requirements on smaller public companies.

Similarly, we will continue to pay attention to possible unintended consequences of the Act for foreign issuers. The Commission and its staff have had extensive consultations with foreign regulators and members of the foreign community, and have considered ways to accommodate foreign requirements and regulatory approaches, while safeguarding the investor protection objectives of the Act. This approach should preserve the attractiveness of the U.S. markets to foreign investors.

C. Honest Business in the Current Environment

Just as the Commission has been moving forward with implementation of the Act, so too must American businesses. Corporate leaders are responding not only to the Act's mandates, but also to the movement toward increased transparency that underlies Sarbanes-Oxley. However, I have become aware that some in the business sector feel that they are under siege from new regulations, and the threat of additional litigation.

As I have mentioned before, good, honest companies should fear neither Sarbanes-Oxley nor our enforcement efforts. Rather, they should recognize that the improved standards that the Act mandates and smart and fair enforcement of the laws are the right thing to do and help attract capital and investment. As William O. Douglas, then Commission chairman and future Supreme Court justice, pointed out in a 1938 speech, "To satisfy the demands of investors there must be in this great marketplace not only efficient service but also fair play and simple honesty. For none of us can afford to forget that this great market can survive and flourish only by grace of investors."

Good corporate governance is not primarily about complying with rules. It is about inculcating in a company, and all of its directors, officers and employees, a mindset to do the right thing. As I have said before, the focus on doing the right thing should become part of the DNA of a company and everyone in the company from top to bottom. For companies that take this approach, most of the major concerns about compliance disappear. Moreover, if companies view the new laws as opportunities – opportunities to improve internal controls, improve the performance of the board and improve their public reporting – they will ultimately be better run, more transparent and therefore more attractive to investors.

I believe that this attitude is beginning to take hold in corporate America. During my travels, and in my discussions with company officials, countless people have told me that America cannot afford a return to the lax standards that preceded Sarbanes-Oxley. Many have added that while they initially questioned the merits of the Act, they now see that it can help show the way to a brighter, more competitive era in American business.

The success of a new era under the Act must involve a continued measure of the risk-taking and entrepreneurship that are the hallmarks of honest American business. There have been suggestions, including in the press, that the recent crackdowns on corporations and executives by criminal and civil authorities, including the Commission, have discouraged honest risk-taking.

I have a different perspective on recent developments. I believe the Act and the other steps that have accompanied it will lead to an environment where honest business and honest risk-taking will be encouraged and rewarded. What should be discouraged, and what we are committed to stamp out, are the activities that some have sought to disguise as honest business but that, in reality, are no such thing.

Transactions with no substance that are designed solely to assure increased earnings or cash flow in financial reports involve no risk and are not honest business. Neither are transactions that are disguised as rewards for entrepreneurship or superior management but that in fact provide risk-free excessive compensation or facilitate self-dealing for the benefit of insiders.

I hope we have learned some lessons from the era just passed – and I believe we have. I also hope that America's corporate leaders will not use Sarbanes-Oxley as an excuse for putting off innovation and investment. Looking back one year, and also looking forward, nothing in the law, its implementation or in the Commission's agenda should make business fearful. Indeed, a new period marked by the responsibility and realism I've just discussed can provide the foundation for a new era of long-term growth and prosperity.

V. Conclusion

In conclusion, let me again thank you for your important leadership and support in the initiative to re-establish and strengthen investor confidence and integrity in our nation's capital markets. Throughout the massive directed rule-making project under Sarbanes-Oxley, the goals of the Commission and its staff have been to protect investors and restore confidence in our securities markets. While it may be a bit too early to judge the impact of all of the various provisions of the Act, the Commission will monitor carefully the implementation and effects of the new rules and requirements, and we will take actions as appropriate to ensure that the objectives of the Act are achieved. We will continue our strong tradition of cracking down on corporate wrongdoing. And thanks to the Act and your efforts, we have the tools and resources we need to carry out these important objectives.

Thank you again for inviting me to speak on behalf of the Commission. I would be happy to answer any questions that you may have.