

Everson, Nanette

From: Donnan, Elizabeth H.
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DEPUTY ATTORNEY GENERAL LARRY THOMPSON

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PRESS BRIEFING BY SEC CHAIRMAN WILLIAM DONALDSON AND DEPUTY
ATTORNEY GENERAL LARRY THOMPSON

The James S. Brady Briefing Room

10:32 A.M. EDT

DEPUTY ATTORNEY GENERAL THOMPSON: Good morning. My name is Larry Thompson. I'm the Deputy Attorney General. This morning members of the Corporate Fraud Task Force, which was established by the President in July of last year, gave a status report on the work of the task force, coming upon its one-year anniversary. And a full and detailed report will be forthcoming to the President in the next several days.

But since the task force was established a little bit over a year ago, it has overseen a string of successful and complex investigations and prosecutions. The task force has obtained over 250 corporate fraud convictions or guilty pleas, including guilty pleas or convictions of at least 25 former CEOs. The task force has, through its work and investigations and prosecutions, has charged 354 defendants with some type of corporate fraud in connection with 169 cases. We have over 320 investigations pending, involving in excess of 500 individuals and companies as subjects of these investigations.

And I would just like to tell you, and congratulate the hardworking and dedicated career investigators and prosecutors with whom we are working. They have risen to the challenge. They have worked long and hard sifting through many documents, sifting through many accounting papers and financial documents, and I think they have responded to the President's call with remarkable dedication. And I think the work of the Corporate Fraud Task Force has gone a long way in helping to restore the confidence of Americans in their financial markets.

So I'm pleased to work with these dedicated individuals and am pleased to give you this summary report this morning. And before we take any questions that you might have, I'll turn the microphone over to my colleague, Chairman Bill Donaldson of the SEC, who has -- this agency has done a remarkable, remarkable job in responding to the spate of corporate fraud and scandals that we experienced this time last year.

Chairman Donaldson.

CHAIRMAN DONALDSON: Thank you. Good morning everyone. The -- let me just give you a few statistics, too, in terms of what the SEC has accomplished over the last fiscal year. From October 1st through June 30th, the SEC has filed 443 enforcement actions, 137 of which involved financial fraud on reporting. Eleven companies have been suspended from trading, and the assets of 30 companies have been frozen.

The SEC filed almost 50 percent more financial fraud and reporting cases than in the previous fiscal year. During the same time, the SEC more than doubled the number of offending officers and directors that it's sought to bar from future service in public companies.

Under the Sarbanes-Oxley Act of 2002, which the President signed into law on June 30th of 2002, the SEC is employing important new tools to improve corporate responsibility and protect American shareholders and workers.

I would be glad to answer any questions you might have, as well as the Attorney General.

Q The White House factsheet that was just put out sort of takes credit for restoring investor confidence. Are you trying to claim that the stock market rally we saw this spring -- which may have fizzled out, but we definitely saw a strong rally this spring -- was a result of this task force and these prosecutions?

CHAIRMAN DONALDSON: Well, everyone always asks, where is investor confidence. And I think you've got to separate this between confidence in the marketplace, if you will, as evidenced by stocks going up, and confidence in our agency in terms of the remedial actions that we're taking. In terms of confidence in the stock market, I think the stock market will go up or down basically on people's attitudes toward the fundamental economics of the nation.

Q So there's no direct correlation, you're not claiming a direct link?

CHAIRMAN DONALDSON: Again, the investor confidence is an ephemeral thing when you're talking about confidence in the regulatory agency, and in my case, the SEC. And I think that our actions speak pretty loudly in terms of what we've done.

Q So are you saying you're partly responsible, but not wholly responsible?

CHAIRMAN DONALDSON: Beg your pardon?

Q Are you saying it's partly -- you may be partly responsible, but not wholly responsible?

CHAIRMAN DONALDSON: For the stock market going up?

Q For renewed investor confidence in the markets.

CHAIRMAN DONALDSON: Yes, I think that there is a confidence -- a building confidence out there that the cop is on the beat.

DEPUTY ATTORNEY GENERAL THOMPSON: One of the things I would like to mention with respect to what the task force has done, and that is, we did experience at this time last year a spate of corporate scandals. And one of the things that we have asked the members of the Corporate Fraud Task Force to do is to investigate these cases in a different way. Many times, before this task force was formed, before the collective resources and expertise of the federal government were brought to bear on this problem, these cases would take sometimes three to four years to complete, because they involved complex financial matters.

What we have asked our prosecutors and investigators to do is to work in a different way. And we have actually undertaken these investigations in a way that we have brought to justice in a much quicker manner many of the corrupt executives that were involved in these matters. I would submit that that kind of action has helped -- not fully participated in it -- but helped restore Americans' confidence in their financial markets.

Q What is the reason for such appalling fraud in business? Is business aware -- I mean, how are you restoring trust, when you have such incredible evidence here? What are they doing? I mean, why did this happen?

CHAIRMAN DONALDSON: Let me take a crack at that, Larry. I think you have to realize that there are 15,000 companies out there. And I would submit that the majority of those companies are run by honest, dedicated people. Then you have a sub-set of obvious fraud and corruption and so forth that we're going at in a very hard way.

There is, however -- there has been, to answer your question, there has been, in my view, a gradual erosion, not venal, but gradual erosion of corporate ethics over the bull market of the last decade, and particularly the last five years. And I think that this extends to --

Q Was it because of a lack of oversight in any way by SEC?

CHAIRMAN DONALDSON: Well, I think it's because of the -- you know, as the band plays faster, everybody climbs on, the attitude that everybody else is doing it, et cetera, et cetera. I don't think it's venal, but I do think it requires exactly what we're doing now. We increased resources at the SEC and we have a focus. We've been working closely with the Department of Justice. And I think that we're bringing some of the issues into focus and, of course, the Sarbanes-Oxley legislation helps a lot in that.

Q If I may, just a couple of follow-up questions. Mr. Donaldson, you gave us some perspective -- did you say a 50-percent increase in enforcement activity than previous years? Is that right?

CHAIRMAN DONALDSON: Yes.

Q Can you give us some idea as to the overall numbers, sir, that you gave us, the 250 corporate fraud convictions, the 25 former chief executive officers. Can you give us some perspective of what that is compared to prior years?

DEPUTY ATTORNEY GENERAL THOMPSON: Before the task force was created, we really -- we at the Department of Justice didn't keep statistics with respect to corporate fraud in a discreet manner. They were lumped in with other kinds of white collar criminal activity. So the baseline I can give you really starts in July of last year.

And I'll give you one factor. From July of last year until September of 2002, when we had a national conference on corporate fraud, we had convicted 46 individuals in corporate fraud matters. To date, since September of last year, we've now obtained convictions in -- of 250 entities and individuals. So we are trying to react to this problem in a swift manner, and to conduct our investigations and prosecutions in a different way and not let them linger on. And I do think that that sends a message of deterrence.

Q All of these general numbers are -- again, the universe of publicly traded companies, or does this include private companies, as well, and potential out and out fraud that you had mentioned?

DEPUTY ATTORNEY GENERAL THOMPSON: The numbers that I gave would include mostly public traded companies. But they would also include other entities; for example, private companies, partnerships, professional organizations, too.

Q If I may, one more follow-up for Mr. Donaldson. Last year there was some debate in Congress over the level of funding for your agency. Do you believe at this time that you sufficient means to continue to crack down on this?

CHAIRMAN DONALDSON: Yes, I do. As you know, we are in the process now -- because of the budget increases that we've been given, we're in the process of hiring in excess of 700 new professionals, number one. Number two, we're in the process of spending some of those funds to upgrade our systems, if you will, our information technology, which we think will have a tremendous effect on our efficiency, as well as the efficiency and cost of companies that report to us.

And I might also just make the comment that because of the changes in legislation which Congress has approved, we are now able to move more swiftly with the hiring of non-lawyers. We could hire lawyers straight out, without a bureaucratic interface, if you will. We now can

hire accountants and PhDs and other professionals the same way, so that we are now free to go ahead and do our hiring as fast as we can do it efficiently.

Q Chairman Donaldson, do you believe that we've seen the worst of it, or is there potentially another Enron or WorldCom lurking out there?

CHAIRMAN DONALDSON: Well, I hope we've seen the worst of it. I think that we're constantly on the lookout. And, obviously, I think that in terms of corporate acts from here on out, I think that the country and the nation and the business community is well-informed of the risks of doing this. I wouldn't say that, looking back over things that have happened in the past, that necessarily some things won't come to our attention.

Q Chairman Donaldson, in that vein, what are the ongoing concerns at the SEC about Freddie Mac and its accounting problems, going forward? And Mr. Thompson, is there anything in what is known at this point about the Freddie Mac situation that would prompt an inquiry by the Justice Department?

CHAIRMAN DONALDSON: As you know, Freddie Mac is not under our jurisdiction. We're not the regulatory agency in charge of Freddie Mac. Having said that, Freddie Mac was undergoing a voluntary process to conform their books, so that they can voluntarily, without -- conform to what we look for from corporations. Beyond that, I would rather not comment on whether there will be things coming out of that that will fall into our jurisdiction.

DEPUTY ATTORNEY GENERAL THOMPSON: I think the only thing that I can appropriately comment, with respect to that question, is that last week we asked OFHEO -- which is the oversight authority in the Department of Housing and Urban Development -- to join the task force and to work with our prosecutors and investigators and the other regulatory agencies with respect to the work of the Corporate Fraud Task Force.

Q You mentioned that they have had 25 convictions over the past year of former CEOs who were convicted or pled guilty. When are we going to see some more of the big names that investors know? When are they going to be convicted?

DEPUTY ATTORNEY GENERAL THOMPSON: One of the things that we are steadfast on is that while we are going to handle these investigations and prosecutions in a vigorous and aggressive manner, we're going to do so in a fair manner that's appropriate to our justice system. We're going to call them as we see them. We're only going to bring charges against individuals or organizations that are supported by the applicable facts and the law. We're only going to bring cases that we believe can be sustainable in a court of law.

So we're going to proceed as rapidly as we possibly can. I think we've made very good progress in all of our investigations. But we're not going to have what I would call a lynch mob mentality, with respect to any corporate executive.

I would just like to point out, too, that from my experience, this problem that we faced last year is something that, ultimately, can't be resolved by the government alone. And,

therefore, I really applaud the efforts of the private sector, many corporations that are adopting ethics programs, that are undertaking ethics training with respect to their employees, to make certain, as Chairman Donaldson said, that the majority of American business people and corporations remain honest.

Q Chairman Donaldson, just to follow up on a previous question, you feel that you do have enough money for FY '03 for all this hiring, and do you anticipate that Congress will give you enough money in '04?

CHAIRMAN DONALDSON: Yes, I do. And we're going to be spending that money as carefully as we can. You didn't ask this question, but we've undergone a major reorganization, if you will, in terms of management functions at the SEC, so that we are able to absorb the new-hires, not just hire people and have four people doing what three have been doing, but to organize them in a slightly different way and to pay more attention, if you will, to forward-looking unit within -- so that we can look around corners, if you will, and anticipate where some of the problems are coming from and maybe prevent them from happening before they come in over the transom as a done deal.

Q What type of other legislation on Capitol Hill do you support to help the SEC crack down on corporate fraud? There are other bills out there. Can you describe what you support?

CHAIRMAN DONALDSON: Well, I think we're working hard now with the authority that we do have, and if we see a need for further legislation, we'll ask for it.

Q General Thompson, can I ask an unrelated question? It's not often we get a chance to see you, sir, so I hope you won't mind. Is the Department considering declaring Zacarias Moussoui an enemy combatant?

DEPUTY ATTORNEY GENERAL THOMPSON: I'd rather not comment about that.

CHAIRMAN DONALDSON: Thanks a lot.

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10:50 A.M. EDT