Restoring Accountability to Corporate America

Since the exposure of the corporate fraud scandals, the President has taken decisive action to combat corporate fraud and punish corporate wrongdoers. The Administration has continued to fight corporate fraud and abuse by pursuing an aggressive agenda that includes exposing and punishing acts of corruption; holding corporate officers and directors accountable; protecting small investors, pension holders and workers; moving corporate accounting out of the shadows; developing a stronger, more independent corporate audit system; and providing better information to investors.

Since 2001, President Bush has:

- Established a multi-agency Corporate Fraud Task Force by Executive Order in July 2002 to combat corporate fraud and to help restore investor confidence. Headed by the Deputy Attorney General, the Task Force includes, among others, United States Attorneys, the Federal Bureau of Investigation (FBI), and the Securities and Exchange Commission (SEC) to oversee the investigation and prosecution of financial fraud, accounting fraud, and other corporate criminal activity, and to provide enhanced inter-agency coordination of regulatory and criminal investigations;

- Developed a record of accomplishment through the Corporate Fraud Task Force:
    - The Justice Department, SEC, and other Task Force members have aggressively responded to the President's call to action. Since the Task Force was formed in July 2002, corporate fraud charges have been lodged against more than 900 defendants in connection with more than 400 filed cases;
    - As of December 31, 2003, Federal prosecutors and law enforcement partners were handling more than 350 corporate fraud investigations, involving over 600 individual subjects;
    - Since the Task Force was created, Federal prosecutors have charged and/or convicted at least 60 former CEOs, in addition to numerous other top officials, achieving more than 500 convictions or guilty pleas overall;
    - Enhanced coordination among civil and criminal authorities is bringing about significant increases in "real-time enforcement";
    - Since the Task Force was created, fully 90% of the prosecutions brought by DOJ for corporate fraud offenses were accomplished with the active assistance of SEC investigators and analysts;

- Signed into law the Sarbanes-Oxley Act of 2002, the most far-reaching reform of American business practices since the time of Franklin D. Roosevelt. The legislation included action on all of the President's proposals, and gave important new tools to prosecutors and regulators to improve corporate responsibility and protect America's shareholders and workers. Among other reforms, the legislation:
    - Created a new accounting oversight board to police the practices of the accounting profession;
    - Strengthened auditor independence rules;
    - Increased the accountability of officers and directors;
    - Enhanced the timeliness and quality of financial reports of public companies;
    - Barred insiders from selling stock during blackout periods when workers are unable to change their 401(k) plans;

- Increased resources to deter and detect fraud and corruption in pension and health plans and union finances through the Department of Labor's Employee Benefits Security Administration (EBSA);

- More than doubled SEC's Budget, providing funds for more than 946 new accountants, attorneys, and examiners to protect investors, root out fraud, and strengthen corporate governance. In FY 2003, the SEC initiated a record 680 enforcement actions against individuals and companies for violations of securities laws;

- Established a "Ten-Point Plan to Improve Corporate Responsibility and Protect America's Shareholders," based on three core principles: information accuracy and accessibility, management accountability, and auditor independence:
  - Each investor should have quarterly access to the information needed to judge a firm's financial performance, condition, and risks;
  - Each investor should have prompt access to critical information;
  - CEOs should personally vouch for the veracity, timeliness, and fairness of their companies' public disclosures, including their financial statements;
  - CEOs or other officers should not be allowed to profit from erroneous financial statements.
  - CEOs or other officers who clearly abuse their power should lose their right to serve in any corporate leadership positions;
  - Corporate leaders should be required to tell the public promptly whenever they buy or sell company stock for personal gain;
  - Investors should have complete confidence in the independence and integrity of companies' auditors.
  - An independent regulatory board should ensure that the accounting profession is held to the highest ethical standards;
  - The authors of accounting standards must be responsive to the needs of investors;
  - A firm's accounting system should be compared with best practices, not simply against minimum standards;

- Successfully called on Congress to give the Administration new powers to enforce corporate responsibility and to improve oversight of corporate America, including:
  - Tough new criminal penalties for mail and wire fraud;
  - Strengthened laws to crack down on obstruction of justice;
  - New authority for the SEC to freeze improper payments to corporate executives when a company is under investigation;

- Developed a record of accomplishment through the Department of Justice:
  - Since the beginning of the Administration, the Department of Justice has initiated investigations into numerous matters involving possible corporate fraud – including falsification of corporate financial information, self-dealing by corporate insiders and obstruction of justice related to these offenses;
  - Justice Department prosecutors throughout the country, working hand-in-hand with regulatory Task Force members and investigators from the FBI, IRS' Criminal Investigation division, and U.S. Postal Service have responded to President Bush's call to get tough on corporate crime. Since the inception of the Task Force through May 31, 2004, prosecutors and investigators have obtained more than 500 fraud convictions or guilty pleas, charged over 900 defendants and more than 60 CEOs and presidents with some type of corporate fraud crime;

- o Developed a record of accomplishment through the Securities and Exchange Commission (SEC):
    - The SEC has used its new enforcement authority under the Sarbanes-Oxley Act, which the President signed into law, to its fullest extend in seeing to improve corporate responsibility and protect America's shareholders and working, including using the "Fair Funds" provision in many recent settlements. During FY 2003, the SEC filed 199 financial fraud and reporting cases. From October 1, 2003 through June 21, 2004, the SEC filed 350 enforcement actions, 72 of which involved financial fraud or reporting. Thirty-two companies have been suspended from trading and the SEC has sought asset freezes against individuals and companies in 36 cases. In addition, the SEC has sought to bar 110 corporate executives and directions from serving again in publicly-traded companies;
    - Last fall, when a number of disturbing scandals involving mutual funds came to light, the SEC responded. From FY 2003 to the present, the SEC filed 41 mutual fund-related enforcement actions and obtained orders for close to $1 billion in penalties and disgorgements related to mutual funds, all of which will be returned to investors. Moreover, the SEC has proposed some 15 new mutual fund reforms, all in response to these mutual fund scandals.

<u>The President's FY 2005 Budget</u> includes major funding increases to continue prosecuting corporate fraud thoroughly and to enforce fully the significant reforms that the President signed into law in 2002:

- o The Employee Benefits Security Administration (EBSA) at the Department of Labor protects the integrity of pensions, health plans, and other employee benefits for more than 150 million stakeholders. The Budget includes $132 million for EBSA, an increase of $8 million above the 2004 level. This increase will provide additional enforcement resources to safeguard workers' retirement savings and other benefits, and will provide expanded compliance assistance to educate employers, unions, and pension plan administrators on their legal responsibilities, including those under the new pension and health-benefit laws;

- o The Securities and Exchange Commission (SEC) protects investors and works to maintain fair, honest, and efficient markets critical to the health of our national economy. The President's FY 2005 Budget continues its commitment to the SEC by providing $893 million, an $81 million increase over the 2004 level, and more than doubling the SEC's Budget since 2001.

<u>For Other Information About the President's Accomplishments and Proposals</u>:

FY 2005 Budget
Department of Justice: http://www.whitehouse.gov/omb/budget/fy2005/justice.html
Department of Labor: http://www.whitehouse.gov/omb/budget/fy2005/labor.html
Department of Treasury: http://www.whitehouse.gov/omb/budget/fy2005/treasury.html
Securities and Exchange Commission: http://www.whitehouse.gov/omb/budget/fy2005/agencies.html

Corporate Responsibility
The White House: http://www.whitehouse.gov/infocus/corporateresponsibility/