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Nomination of SEC Chairman
Thursday, June 2, 2005
Draft #6

Good morning. I am pleased to announce my nomination of Congressman Chris Cox of California as our next Chairman of the Securities and Exchange Commission. As a champion of the free enterprise system in Congress, Chris knows that a free economy is built on trust. In the years ahead, Chris will vigorously enforce the rules and laws that guarantee honesty and transparency in our markets and corporate boardrooms. He will be an outstanding leader for the SEC.

Today the American economy is the envy of the world. Our economy is growing faster than that of any other major industrialized country. We have added about 3.5 million new jobs over the last two years,¹ and the unemployment rate is down to 5.2 percent.² More Americans are working today than ever before³ ... small businesses are flourishing⁴ ... and families

¹ "April marks the 23rd consecutive month of job gains for the Nation. According to the payroll survey of employment, **about 3.5 million jobs have been added since the labor market began turning in May 2003.**" Council of Economic Advisers, "Positive Economic Indicators," May 27, 2005

² "Nonfarm payroll employment increased by 274,000 in April, well above market expectations for an increase of about 174,000. **The unemployment rate remained at 5.2 percent in April**, in line with market expectations and 1.1 percentage points below its June 2003 peak." Council of Economic Advisers, "CEA Notes on Employment and Unemployment in April," May 6, 2005

³ "Employment grew rapidly in April, after increasing sluggishly in March. Revisions to previous months added another 93,000 payroll jobs. Payroll employment is about 3.5 million above its May 2003 level and stands at an all-time high." Council of Economic Advisers, "CEA Notes on Employment and Unemployment in April," May 6, 2005

⁴ **"Solid job creation continued in the small business sector.** Owners reported a net addition of 0.2 workers per firm following a net addition of 0.3 in March. The percent of firms with at least one hard-to-fill job opening lost one point, falling to 23 percent of all firms – no upside risk for the unemployment rate in that number. Only 13 percent of the owners reported using temporary or leased employees. This is the result of stronger full-time hiring, making temporary workers less necessary. Overall, hiring plans were solid in all industry groups, just a bit weaker than early in the first quarter. **Actual capital outlays over the past six months were solid and unchanged from March, reported by 63 percent of all firms.** Forty-four (44) percent reported spending on new capital equipment; 26 percent acquired vehicles; and, 14 percent improved or expanded their facilities. Six (6) percent acquired new buildings or land for expansion and 16 percent spent money for new fixtures, furniture, etc. Plans for capital expenditures over the next three to six months fell four points to 32 percent of all firms. **Overall, the capital spending picture remains solid.** A net zero percent reported increasing inventory stocks, ending an up-trend in net positive reports of inventory accumulation. Plans to add to inventory faded a bit in light of the success in building desired inventories, falling two points to a net four percent of all firms. More firms reported inventories "too high" than "too low", **signaling some success in building inventories to desired levels.** Seasonally adjusted, a negative two percent reported inventories "too low".

are taking home more of what they earn.⁵ To maintain the confidence that is the cornerstone of our economic system, we must ensure the honesty of American business, and the integrity of the capital markets and stock exchanges. Investors must have confidence that the information they use to make their investment decisions is fair and accurate.

The Securities and Exchange Commission is the primary federal agency that performs this essential function.⁶ The SEC investigates corporate fraud and holds guilty parties responsible when they mislead shareholders and employees.⁷

Manufacturing firms most frequently reported sales gains (37 percent), another positive sign for the manufacturing sector.... An economy with less forward momentum will throw off more mixed signals from month-to-month. Sometimes it seems as though the monthly government statistics show more volatility than a lumbering 11 trillion dollar economy could actually produce. **With over 700,000 new workers this year, GDP must be growing reasonably well! And wages are up, so the value of output is not “hamburger quality”. The NFIB survey shows continued solid performance in manufacturing – a good sign.** National Federation of Independent Businesses, *NFIB SMALL BUSINESS ECONOMIC TRENDS*, May 2005, pp. 1-2. (<http://www.nfib.com/page/researchFoundation>) “In 2004, the National Federation of Independent Businesses’ Small Business Optimism Index had its best annual performance in over 20 years.”

⁵ “Nominal personal income increased 0.7 percent in April, in line with market expectations. Real disposable personal income (after-tax income adjusted for inflation) rose 0.1 percent in April. Real personal consumption spending increased 0.2 percent in April.... **Wages and salaries increased 0.7 percent (nominal) in April. As already seen in this week’s GDP release, wages and salaries were revised upward substantially for the fourth quarter of 2004.**” Council of Economic Advisers, “CEA Notes on Personal Income and Outlays in April,” May 27, 2005. “**Real disposable personal income has risen by 13.1 percent since December 2000.**” Council of Economic Advisers, “Positive Economic Indicators,” May 27, 2005

⁶ “The primary mission of the U.S. Securities and Exchange Commission (SEC) **is to protect investors and maintain the integrity of the securities markets.** As more and more first-time investors turn to the markets to help secure their futures, pay for homes, and send children to college, these goals are more compelling than ever.” The securities and Exchange Commission, “The Investor’s Advocate: How the SEC Protects Investors and Maintains Market Integrity” (<http://www.sec.gov/about/whatwedo.shtml>)

⁷ “The SEC also oversees other key participants in the securities world, including stock exchanges, broker-dealers, investment advisors, mutual funds, and public utility holding companies. Here again, the SEC is concerned primarily with promoting disclosure of important information, enforcing the securities laws, and protecting investors who interact with these various organizations and individuals. Crucial to the SEC’s effectiveness is its enforcement authority. Each year the SEC brings between 400-500 civil enforcement actions against individuals and companies that break the securities laws. Typical infractions include insider trading, accounting fraud, and providing false or misleading information about securities and the companies that issue them.” The securities and Exchange Commission, “The Investor’s Advocate: How the SEC Protects Investors and Maintains Market Integrity” (<http://www.sec.gov/about/whatwedo.shtml>)

For more than two years, Bill Donaldson has done an exceptional job as SEC Chairman.⁸ Bill took his post at a time when our economy was faced with a crisis in investor confidence.⁹ Under his leadership, the SEC vigorously responded to corporate corruption.¹⁰ The commission filed more than 1,700 enforcement actions under Bill Donaldson's chairmanship¹¹ – a significant increase from previous years.¹² And the SEC has helped implement the Sarbanes-Oxley Act¹³ – the most far-reaching

⁸ **“William H. Donaldson became the 27th Chairman of the U.S. Securities and Exchange Commission on February 18, 2003.** As Chairman, Mr. Donaldson oversees the regulation of U.S. securities markets, ensures compliance with and enforcement of securities laws, and ensures the protection of investors' interests.” Securities and Exchange Commission, “SEC Biography: Chairman William H. Donaldson” (<http://www.sec.gov/about/commissioner/donaldson.htm>)

⁹ **“Mr. Donaldson assumed the helm of the SEC on the heels of numerous high-profile corporate scandals that left investor confidence shaken..** Under his leadership, the SEC has focused on restoring investor confidence through targeted policy reforms including an enhanced focus on corporate governance and ethics, internal management reforms aimed at increasing the agency's ability to anticipate challenges in the securities and financial markets, and improved disclosure of financial information to better prepare investors to make sound investment decisions appropriate for themselves and their families. The agency's response to the challenges facing the financial markets during Mr. Donaldson's tenure marks the agency's most historic era since its creation in 1934.” Securities and Exchange Commission, “SEC Biography: Chairman William H. Donaldson” (<http://www.sec.gov/about/commissioner/donaldson.htm>)

¹⁰ **“Mr. Donaldson assumed the helm of the SEC on the heels of numerous high-profile corporate scandals that left investor confidence shaken.. Under his leadership, the SEC has focused on restoring investor confidence through targeted policy reforms including an enhanced focus on corporate governance and ethics, internal management reforms aimed at increasing the agency's ability to anticipate challenges in the securities and financial markets, and improved disclosure of financial information to better prepare investors to make sound investment decisions appropriate for themselves and their families.** The agency's response to the challenges facing the financial markets during Mr. Donaldson's tenure marks the agency's most historic era since its creation in 1934.” Securities and Exchange Commission, “SEC Biography: Chairman William H. Donaldson” (<http://www.sec.gov/about/commissioner/donaldson.htm>)

¹¹ The number of cases the enforcement staff has prosecuted over the past two and a half years under the current leadership, by Fiscal Years: FY 2003, 679; FY 2004, 639; FY 2005, 398. **Total: 1,716 cases.** Information provided by Peter Kiernan, Legislative Director, Securities and Exchange Commission (202) 942-0015.

¹² Enforcement actions FY 1997 to FY 2002: FY 1997, 489; FY 1998, 477; FY 1999, 525; FY 2000, 503; FY 2001, 485; FY 2002, 598. Information provided by Peter Kiernan, Legislative Director, Securities and Exchange Commission (202) 942-0015.

¹³ **“Following the guideposts laid down in the Sarbanes-Oxley Act, the Commission set itself on an active course to calm investor fears and to begin the delicate work of restoring investor confidence. In the summer of 2002, the Commission launched its most active period of rulemaking since it was founded in 1934. By mid-2003 we completed – under extremely tight mandated deadlines – the extensive rulemaking required by the Sarbanes-Oxley Act.** Critically important has been nurturing the growth of the Public Company Accounting Oversight Board, which was created by the new law to restore integrity to the auditing and accounting profession. **Another key piece of this reform effort was the adoption of rules by the Commission and the PCAOB requiring that**

reform of American business practices since the time of Franklin Roosevelt.¹⁴ The agency also responded swiftly to the mutual fund abuses that came to light nearly two years ago, enhancing disclosure to mutual fund shareholders.¹⁵

Bill Donaldson has set high standards for American business and for the SEC, and Chris Cox is the right man to carry on this important work.

management report on the effectiveness of their system of internal controls, and that the auditor attest to management's report. These rules, required by section 404 of Sarbanes-Oxley, have, I believe, the greatest long-term potential to improve the quality and usefulness of corporate reporting of any of this era's corporate reforms. At the same time, implementation of these requirements for the first time in connection with the 2004 annual reporting cycle resulted in significant costs. Some of this may be attributable to one-time start-up expenses as many companies, for the first time, rigorously and systematically documented and tested their key internal controls. However, we are also aware that some costs may have been due to excessive or duplicative effort by management and auditors. This may have been driven by a lack of a clear risk-based focus by participants in the process. We believe the implementation of the section 404 rules needs to be improved going forward. After extensive consultation at our recent roundtable, we intend to issue guidance that will address ways for making the process more efficient and effective. As I have said on other occasions, section 404 is too important not to get right." Speech by SEC Chairman: Remarks Before the Foundation Financial Officers Group Spring Meeting, May 12, 2005 (<http://www.sec.gov/news/speech/spch051205whd.htm>)

¹⁴ "My administration pressed for greater corporate integrity. A united Congress has written it into law. And **today I sign the most far-reaching reforms of American business practices since the time of Franklin Delano Roosevelt.** This new law sends very clear messages that all concerned must heed. This law says to every dishonest corporate leader: you will be exposed and punished; the era of low standards and false profits is over; no boardroom in America is above or beyond the law." President Bush Signs Corporate Corruption Bill, The East Room, July 30, 2002 (<http://www.whitehouse.gov/news/releases/2002/07/20020730.html>)

¹⁵ "**As the Sarbanes-Oxley rulemaking was being completed in the fall of 2003, we began to learn of widespread abuses in the mutual fund industry, the eight-trillion dollar home to the investments of millions of investors.** The willingness of some within the industry to condone unethical practices and to engage in outright illegal behavior came as a shock to investors and regulators. It was apparent that the hard work of trying to restore investor confidence was not yet completed. **Our ambitious program of regulatory reform and complex enforcement actions continued well into the next year and, indeed, continues today. In addition to the unprecedented level of enforcement activity targeted at mutual fund advisers, as of today the Commission has approved 10 major new mutual fund reform initiatives. Taken together these initiatives seek to strengthen the governance structure of mutual funds, address conflicts of interest, enhance disclosure and transparency, and foster an atmosphere of high ethical standards and compliance.** The centerpiece of the Commission's efforts is the rule that requires funds relying on certain exemptive provisions to have an independent chairman and 75 percent independent board members. By addressing the basic conflict of interest between the financial interests of mutual fund shareholders and the financial interests of their fund's management company, our new rule amendments create a structure that I believe will facilitate implementation of both the letter and the spirit of our reforms." President Bush Signs Corporate Corruption Bill, The East Room, July 30, 2002 (<http://www.whitehouse.gov/news/releases/2002/07/20020730.html>)

For more than a decade and a half,¹⁶ Chris has been a superb representative for the 48th district of California.¹⁷ His achievements range from national security to tax reform. As the first Chairman of the House Committee on Homeland Security,¹⁸ Chris helped coordinate efforts between the federal agencies and Congress to better protect our country against terrorist attacks.¹⁹ He worked effectively with members of both parties to get more than a dozen of his bills passed into law,²⁰ including a law protecting investors from abusive lawsuits²¹ ... and a ban on Internet commerce taxes.²² Four years ago, I signed into law a bill that helps

¹⁶ **"Throughout his 16 years in Congress, Rep. Cox has solidified his role as a leader in the country's national defense policy."** U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>)

¹⁷ **Cities located in the 48th Congressional District include:** Aliso Viejo, Dana Point, Irvine, Laguna Beach, Laguna Hills, Laguna Niguel, Laguna Woods, Lake Forest, Newport Beach, San Juan Capistrano, Santa Ana, and Tustin. U.S House of Representatives, **Rep. Christopher Cox, Orange County** (<http://cox.house.gov/html/oc.cfm>)

¹⁸ **"Christopher Cox is the first Chairman of the House Committee on Homeland Security, with primary jurisdiction over nation's third largest cabinet agency, the Department of Homeland Security.** In addition, the committee has responsibility for government-wide homeland security policy and the most significant responsibility for homeland security policy of any House or Senate committee." U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>)

¹⁹ "Throughout his 16 years in Congress, Rep. Cox has solidified his role as a leader in the country's national defense policy. His work on several special investigatory committees led to his selection by Speaker Dennis Hastert to become Chairman of the Select Committee on Homeland Security On January 7, 2003. **The House of Representatives created the new committee to coordinate the efforts between Congress and the Federal agencies tasked with protecting our homeland from terrorist attack. The Committee has exclusive legislative jurisdiction over all matters relating to the Homeland Security Act and will be a crucial influence in shaping America's security future.**" U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>)

²⁰ **"In the past few years, he has seen more than a dozen of his bills enacted into law,** including the Internet Tax Non-Discrimination Act--which provides for the current moratorium on multiple and discriminatory taxes on the Internet--and the Securities Litigation Reform Act, the only bill that became law over President Clinton's veto." U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>)

²¹ **"Securities Litigation Reform.** Approved 325-99 March 8, 1995. Passed over Presidential veto in December by 68-30 vote in Senate, and by 319-100 vote in House: Public Law 104-67. **Curbs frivolous lawsuits filed with the sole intention of extorting settlements from companies whose stocks have fallen in value. Provides significant protections for plaintiffs against abuses by class action lawyers by protecting individuals and firms against harassing lawsuits,** while ensuring that people with legitimate claims get to trial faster and receive a more significant recovery. (When San Diego strike suit lawyer Bill Lerach tried to repeal this law in California with Proposition 211, the voters vindicated the Cox reforms by a stunning 74-26% margin.)" U.S. House of Representatives, Rep. Christopher Cox, Legislative Accomplishments (<http://cox.house.gov/html/accomplishments.cfm?id=74>)

²² WASHINGTON (December 3, 2004)—At a White House signing ceremony, President George W. Bush signed into law the Internet Tax Non-Discrimination Act (Public Law 108-435). **The brain-child of Rep.**

American families by phasing out the death tax.²³ The drive to end the death tax was the product of an effort over nearly a decade begun by one lone congressman – Chris Cox.²⁴

Chris understands how markets work, and he knows the need for transparency in financial exchanges and in the halls of business. He proved that he can bring together people of diverse opinions to get things done. That kind of leadership will be invaluable as chairman of the SEC.

I have given Chris a clear mission: To continue to strengthen public trust in our markets so the American economy can continue to grow and create jobs. This nation is increasingly a nation of stock holders. A generation ago, only a small percentage of American families invested in stocks and bonds.²⁵ Today, more than half of households are investing²⁶

Christopher Cox, Chairman of the Committee on Homeland Security and Chairman of the House Policy Committee, this legislation bans taxes that unfairly single out the Internet, including: taxes on high-speed and dial-up Internet access; double taxation on products purchased over the Internet; and discriminatory taxes that treat Internet purchases differently from other types of sales. "The U.S. has firmly, consistently, and successfully opposed efforts to impose any special taxes, whether at the national or international level, on the use of the Internet," Rep. Cox said. **"What we are doing now is making sure that this policy stays in place, and sending a signal to the world that this powerful instrument of global commerce should not fall victim to the tyranny of the parochial."** U.S. House of Representatives, Rep. Christopher Cox, Current Legislative Initiatives, Freedom from Internet Taxes (<http://cox.house.gov/html/release.cfm?id=790>)

²³ **"After waging the fight to repeal the Death Tax for nearly a decade, Rep. Cox's Death Tax repeal legislation was signed into law by President George W. Bush on June 7, 2001.** He had introduced the first major Death Tax repeal legislation in 1993 with zero cosponsors. No bill to repeal the Death Tax had ever been seriously considered in the entire 20th Century. But by 1998, Rep. Cox had more than 200 cosponsors of his legislation, including the entire GOP leadership. The 10-year phaseout signed into law by President Bush is a compromise of his legislation, which would have immediately repealed the tax. "**U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>)**

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²⁵ The data kept by the Federal Reserve on families that own go back to 1989. At that time, 31.6% of families in the United States owned stocks. In 2001, 51.9% of families owned stock in 2001. Information provided by Gary Blank, CEA.

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– for their families and for their futures. Now more than ever, we must make sure Americans can rely upon the integrity of our markets.

Chris Cox is the right man to take on this challenge – and he brings with him a unique combination of skills and expertise: He graduated with honors from Harvard Law School and Harvard Business School²⁷ ... worked as a securities lawyer for nearly a decade²⁸ ... taught tax law²⁹ ... served in President Reagan's White House³⁰ ... and was elected to Congress.

I thank Chris for his willingness to serve our country in another important position at an important time for our Nation. I am grateful to his wife, Rebecca, and their three children, Charles, Katie, and Kevin.³¹ And I call on the Senate to confirm his nomination at the earliest possible date. Congratulations, Chris.

²⁷ "In 1977-78, he was law clerk to U.S. Court of Appeals Judge Herbert Choy, the first Asian-American federal appellate judge in America. **The preceding year, he graduated simultaneously from Harvard Business School and the Harvard Law School, with honors**, where for two years he served as an Editor of the *Harvard Law Review*. He graduated magna cum laude from the University of Southern California in 1973, after completing a three-year accelerated course." U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>)

²⁸ "**From 1978 to 1986, he specialized in venture capital and corporate finance with the international law firm of Latham & Watkins**, where he was the partner in charge of the Corporate Department in Orange County and a member of the firm's national management." U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>) *Note: Dean McGrath was Rep. Cox's COS on the Hill and confirmed that Rep. Cox was a securities lawyer in private practice in CA.*

²⁹ "**In 1982-83, Rep. Cox took a leave of absence from Latham & Watkins to teach federal income tax at Harvard Business School.**" U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>) *Note: Dean McGrath was Rep. Cox's COS on the Hill and confirmed that Rep. Cox taught tax law at Harvard.*

³⁰ "While many on Capitol Hill dream of moving down Pennsylvania Avenue to the White House, **Christopher Cox, who was then a White House counsel to President Reagan**, spent 1988 moving the other way – up the street to Congress. **From 1986-1988, he served as Senior Associate Counsel to President Reagan, advising the President on a broad range of policy matters – including writing President Reagan's Budget Process Reform Act** (which Rep. Cox later introduced in Congress, and which received its first-ever floor vote in 2000). **He also served as an advisor to the President on judicial selections, including the nomination and confirmation of three Supreme Court Justices.**" U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>)

³¹ "Married to the former Rebecca Gernhardt; three children, Charles, Katie, and Kevin" U.S. House of Representatives, Rep. Christopher Cox, Biography (<http://cox.house.gov/html/bio.cfm>)

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