

Paulson Presses to Ease Rules That Experts Defend

Bloomberg

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March 13, 2007

U.S. Treasury Secretary Henry Paulson convenes a summit on capital markets today to explore ways to curb regulations that he and other critics say are driving companies to more lightly governed markets overseas.

The meeting in Washington focuses on an issue that has galvanized business groups, which warn that litigation costs and laws such as the Sarbanes-Oxley corporate-governance act are burdening companies and eroding U.S. financial competitiveness.

Defenders of the regulations say evidence is mounting that the rules, enacted after the accounting frauds that sank Enron Corp. and WorldCom Inc., are having their intended effect: to restore investor confidence in U.S. markets. They cite plunges in the number of shareholder lawsuits filed against U.S. companies and in corporate-insurance costs as evidence.

“Sarbanes-Oxley has been enormously effective in improving corporate governance by encouraging activity, questioning and a more serious attitude by directors,” said Harvey Goldschmid, a former commissioner on the Securities and Exchange Commission.

The summit, whose participants will include former Federal Reserve Chairman Alan Greenspan, Berkshire Hathaway Inc. Chairman Warren Buffett and one-time Treasury Secretary Robert Rubin, will promote ways to restore the luster of American capital markets as overseas rivals take a larger share of new stock offerings.

“This is an important issue and we should rush to deal with it,” Robert Steel, 55, Paulson's undersecretary for domestic finance, said yesterday in an interview. “The U.S. marketplace has to adapt and adjust and ask themselves what do we have to do to maintain our strongest position.”

Too Much Paperwork

The Sarbanes-Oxley law increased corporate audit requirements and forced executives to certify the accuracy of financial statements. Many companies complain that the law has created mounds of paperwork and forced them to spend millions of dollars to comply with the new rules.

Regulators must question whether they “have struck the right balance between investor protection and market competitiveness,” Paulson, 60, the former chairman of Goldman Sachs Group Inc., said in remarks opening today's conference. Officials should adopt “a particular eye toward more rigorous cost-benefit analysis of new regulation,” he said.

A number of groups, including the U.S. Chamber of Commerce yesterday, have issued reports in recent months attacking Sarbanes-Oxley and calling for an overhaul of the rules. The chamber, the nation's biggest business lobby, will hold its own conference tomorrow featuring SEC Chairman Christopher Cox.

Time for Action

Now is the time for action, said the director of one study.

“We have an uncompetitive market that is going to shoot us in the foot if we don't do anything about it,” said Hal Scott, a Harvard University law professor who headed a committee that made recommendations for rolling back the Sarbanes-Oxley law.

Shareholder advocates argue that the law cleaned up financial markets plagued by scandals and that any efforts to weaken it will harm investors. To make the case, SEC Enforcement Director Linda Thomsen and Stanford Law School Professor Joseph Grundfest, a former SEC commissioner, cite the drop in lawsuits against companies.

Fewer Lawsuits

Lawyers filed 110 securities class-action suits in 2006, the fewest in more than 10 years, according to the Stanford Law School Securities Class Action Clearinghouse.

Shareholder suits soared 26 percent to 226 in 2002. Lawsuits have been falling since 2004, the first year most companies had to comply with a provision of the law that requires managers to verify they have effective systems in place to catch fraud and bookkeeping errors.

“There is substantial evidence that financial markets succeed because of strong enforcement and regulation, not in spite of it,” Thomsen said in a March 8 speech at Georgetown University's Law Center in Washington. “It does seem there is a bit of blaming everyone else for businesses' issues.”

Corporate insurance costs also started falling in 2004. Beginning that year, public companies with less than \$1 billion in annual revenue paid on average 52 percent less to protect their directors and officers from litigation, according to law firm Foley & Lardner LLP.

Steve Shappell, a managing director at insurance broker Aon Corp., predicts prices will fall as much as 10 percent in 2007.

“Corporate governance is at an all-time high,” he said. “When you are having great disclosure, good decisions and great processes, your chance of a shareholder suit is greatly reduced and the chance of an insurance company getting hit is greatly reduced.”