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Economy

Corporate Overhauls Are Proving To Be Effective, Greenspan Says

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Federal Reserve Chairman Alan Greenspan defended the Sarbanes-Oxley Act that Congress passed after a series of corporate accounting scandals, saying he is surprised that a law enacted so "rapidly" has "functioned as well as it has."

Delivering a commencement address at the University of Pennsylvania's Wharton School yesterday, Mr. Greenspan said the 2002 law "importantly reinforced the principle that...corporate managers should be working on behalf of shareholders to allocate business resources to their optimum use."



Alan Greenspan

Among other things, the law requires chief executives and chief financial officers to certify the accuracy of their companies' financial statements and accounting practices.

Some executives, business groups and Bush administration officials have criticized the statute and the way the Justice Department and Securities and Exchange Commission are administering it, arguing that it is onerously expensive and discourages businesses from taking risks.

The U.S. Chamber of Commerce has said that provisions governing the adequacy of internal controls have been "implemented in such a manner as to damage the long-term competitiveness of U.S. companies and the U.S. capital markets and to create burdens on these companies and their management well beyond what Congress intended and what is needed to remedy acknowledged abuses."

Treasury Secretary John Snow, in an interview last year, said regulators needed to be "balanced" when enforcing the statute and avoid the temptation to "criminalize mistakes." The White House has made similar comments. The SEC has formed an advisory committee to examine the impact of Sarbanes-Oxley on small public companies.

In his remarks, Mr. Greenspan said the statute "will doubtless be fine-tuned as experience with the act's details point the way," but added that "merely certifying that generally accepted accounting principles were being followed is no longer enough."

"Companies run by people with high ethical standards arguably do not need detailed rules on how to act in the long-run interest of shareholders and, presumably, themselves," the Fed chairman said. "But, regrettably, human beings come as we are -- some with enviable standards, and others who continually seek to cut corners."

Along with then-Treasury Secretary Paul O'Neill, Mr. Greenspan was an early and passionate advocate in internal deliberations of using laws and regulations to make chief executives more accountable in the wake of corporate accounting scandals.

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