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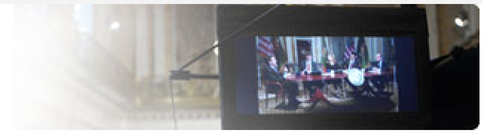

# Opening Remarks by Treasury Secretary Henry M. Paulson, Jr. at Treasury's Capital Markets Competitiveness Conference Georgetown University

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**Washington, DC** -- Thank you very much, President DeGioia. We are pleased to be here at Georgetown University. Georgetown is a world-class institution that trains leaders in a number of areas, and we are especially pleased to be joined in our discussions by faculty and students from Georgetown's McDonough School of Business.

The participants in today's Conference are a distinguished group of leaders in U.S. capital markets, and I welcome you and thank you all for being here. You have many areas of expertise and you bring a variety of perspectives: years of valuable experience in academia, government, the business world, Wall Street, or as investor advocates. All of your views are welcome and appreciated. This is a very knowledgeable group of people and I am looking forward to an engaging discussion.

As the Treasury Secretary, my goal is to promote the conditions for American prosperity and economic growth – and maintaining the competitiveness of our capital markets is central to that goal. Capital markets are the lifeblood of our economy. They help entrepreneurs implement new ideas and businesses expand operations, creating new jobs. They give our citizens the confidence to invest, earn higher returns on their savings, and reduce the cost of borrowing.

U.S. capital markets are the deepest, most efficient, and most transparent in the world. We are the world's leader and innovator in mergers and acquisitions advice, venture capital, private equity, hedge funds, derivatives, securitization skills, and Exchange Traded Funds. With this expertise, our major financial institutions have contributed greatly to economic success throughout the world.

One of the great strengths of our markets is their dynamism. They change with the times to serve the needs of investors and businesses. Yet, our markets are not immune to challenges. After years of economic expansion and the excesses and exuberance of the late 1990s, the technology and telecom bubble burst and a wave of corporate scandals undermined investor confidence. We weathered the storm. The President, both parties in Congress, and regulators moved quickly to address the business scandals, which helped to restore investor confidence.

We responded to the corporate scandals with the Sarbanes-Oxley Act of 2002, new listing rules for public companies, and regulatory and enforcement actions to alter certain business practices. These changes have been extensive and significant, so it is quite naturally taking time for companies to understand, process, and implement the new rules and requirements. But the principles behind them have been positive, as have many of the results.

As U.S.-listed companies are adapting to these rules, global capital markets around the world are evolving and developing, introducing new competition for our markets. At the same time, we have witnessed extraordinary growth in private pools of capital, including hedge funds. Each of these changes presents its own set of benefits and challenges. The question we have to consider is the individual and cumulative impact of these changes on U.S. public companies.

Our markets are, indeed, the best in the world. Yet we must be vigilant, and we must do everything we can to ensure they stay that way. We at Treasury have some ideas and our fellow regulators are working on these issues as well. There are some obvious adjustments, such as the recent administrative actions regarding Section 404 which should mitigate a major problem related to Sarbanes-Oxley implementation. But these are complex, interrelated issues and I am confident that we can benefit greatly from the views of the people in this room.

In particular, we will focus on three issues: our regulatory structure; the accounting industry; and our legal and corporate governance environment.

Our regulatory system has served us very well over the course of our history. It is part of the foundation for our prosperity and growth. And, robust and balanced regulation is critical to ensuring that we continue to have the strongest capital markets in the future. Yet, the addition of new regulators over many years, and the tendency of these regulators to adapt to the changing market by expanding, as opposed to focusing on the broader objective of regulatory efficiency, is a trend we should examine. We should assess how the current system works and where it can be improved, with a particular eye toward more rigorous cost-benefit analysis of new regulation. And we should also consider whether it would be practically possible and beneficial to move toward a more principles-based regulatory system, as we see working in other parts of the world.

Because many of the corporate scandals of the late 90s were, for the most part, accounting scandals, it is not surprising that much of the reform focused on the accounting profession. This reform has helped to restore investor confidence. This is key because capital markets rely on trust, which is based on financial information presumed to be accurate and to reflect economic reality. But the cumulative impact of all the change has significantly affected the accounting industry, fundamentally altering the interactions between auditors and corporate management and boards in a number of ways, some of which might not be constructive. Also, we have seen great concentration among the major accounting firms and there are legitimate questions about the sustainability of the accounting profession's business model.

We should also consider whether our system is producing the high-quality audits and attracting the talented auditors we need, whether there is currently enough competition in the accounting profession, and the desirability of moving toward more principles-based accounting standards.

The basic principles that underpin a robust corporate governance system are accountability, transparency, and the need to identify and manage conflicts of interest. As a result of Sarbanes-Oxley and other regulatory changes, corporate directors are more independent, more aware of real and perceived conflicts, more diligent about their fiduciary responsibilities. Of course, directors must now spend much more time engaged in compliance processes and finding the right balance on the use of director time is critically important. But good corporate governance is a means to an end, not an end in itself. Our goal should be better managed, more competitive corporations that earn investor confidence through sound leadership, thoughtful governance, and outstanding performance. In my judgment, we must rise above a rules-based mindset that asks, "Is this legal?" and adopt a more principles-based approach that asks, "Is this right?" And we should consider whether our legal system appropriately protects investors or gives too much latitude to unscrupulous lawyers.

Throughout the day, the fundamental question we must ask is: Have we struck the right balance between investor protection and market competitiveness – a balance that assures investors the system is sound and trustworthy, and also gives companies the flexibility to compete, innovate, and respond to changes in the global economy?

At today's conference there are no pre-determined answers. We are looking for a real discussion, with rigorous questioning and candid and collegial debate.

At the end of the day, I hope each of us will have had one of our opinions challenged, or been given the opportunity to view an issue from a new perspective. Given the cumulative wisdom and experience in this room, I am confident the day will be thought-provoking and productive.

At Treasury, we will carefully consider the views we have heard today along with the recommendations of a number of other groups which have studied this subject. Together they will inform us as we develop specific follow up steps in the coming months to keep US capital markets the strongest and most innovative in the world. There will be things we at Treasury, working with the regulatory agencies, will do in the near term and some other actions over a longer time frame to address these challenges to our competitiveness. This is a high priority for me.

My great thanks again to the students, faculty, and administrators of Georgetown for hosting us. And thank you to all of our conference participants for taking the time to lend your voices to this process. Given the importance of our capital markets to our long-term economic growth and competitiveness, it is essential to have our best minds engaged on this matter.

Now, let's get started. Please welcome to the stage our first panel participants.

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