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### SEC Chairman, Chris Cox, Speech at Joint News Conference with OFHEO; Washington, DC

Christopher Cox

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## **Speech by SEC Chairman: Remarks at Joint News Conference with OFHEO**

*by*

**Chairman Christopher Cox**

*U.S. Securities and Exchange Commission*

**Washington, DC**

**May 23, 2006**

Good afternoon. Thank you, Acting Director Lockhart.

I want to thank you for your leadership and the outstanding work that the Office of Federal Housing Enterprise Oversight has so well performed on behalf of the American people. As the primary regulator of Fannie Mae, OFHEO has demonstrated that the safety and soundness of its regulated entities must never be compromised.

Today both of our agencies are jointly announcing the settlement of accounting fraud charges against Fannie Mae. The settlement includes payment of a civil monetary penalty of \$400 million.

Both Director Lockhart and I agree that a penalty of this size represents a meaningful sanction that is necessary to address the egregiousness of Fannie Mae's conduct. Fraudulent financial reporting directly undermines the fairness of our capital markets, and the very purpose of those markets to allocate capital to its best uses.

By interfering with the full and fair disclosure that underpins our markets, fraudulent financial reporting cheats investors of their savings. That's why the extensive financial fraud that you have heard described in detail by Director Lockhart today requires an emphatic deterrent response.

The penalty we are announcing today should send a clear message to others — every public company should pay careful attention. As will be explained in

more detail by Linda Thomsen, Director of Enforcement, the accounting fraud charges that the SEC is filing against Fannie Mae reflect the failure by Fannie Mae to maintain the kinds of internal controls that could have prevented what in all likelihood will be one of the largest restatements in American corporate history.

Congress created Fannie Mae to expand homeownership by increasing mortgage financing. Fannie Mae describes itself as "an instrument of national policy" and as "a private company with a public mission."

For that reason, today's announcement is especially bitter — because it underscores a breach of trust. Fannie is the largest private borrower in the nation, second only to the Federal Government, and it is a major player in the derivative markets, as well.

Yet this business, which routinely deals in some of the most complex financial instruments known to the marketplace, lacked the essential ingredients that were necessary to control its accounting practices. This is a truly a regrettable development. Tragically, it was also an entirely avoidable one. I am pleased that, as part of its settlement with the SEC and OFHEO, Fannie Mae is undertaking several remedial measures, including new investments in its internal controls, improvements to its accounting systems, and the hiring of necessary personnel.

Today's announcement concerns a financial giant. But there are lessons here for companies of all sizes. In today's competitive global marketplace, it remains critical for senior management constantly to assess their internal controls as their business grows. That assessment need not be overly costly, but it is necessary for the good of the business, for the protection of shareholders, and for the health of our capital markets.

The message we are sending should be clearly understood: neglecting internal controls can be devastating for a company and for its investors.

Although today's action resolves our investigation as to Fannie Mae, the SEC will continue to examine the conduct of the individuals and entities whose actions and inactions have led to this result. Those whose actions led to the accounting fraud you've heard described today will be vigorously pursued.

I especially want to recognize the work of the SEC's professional staff, and the professional staff of OFHEO, whose dedication has ensured that today's report issued by OFHEO and settlements reached between Fannie Mae and our two agencies represent the combined efforts of the U.S. Government.

Whenever there are parallel investigations by the government, investors are best served when agencies can cooperate, and resolve all enforcement actions at the same time. The kind of coordination and inter-jurisdictional sharing we are seeing here today ensures consistency and clarity in law enforcement, and reduces uncertainty for both shareholders and the market.

That is one hallmark of good government.

And now Linda Thomsen, the head of our Enforcement Division, will give a more detailed summary of the charges filed against Fannie Mae.

*<http://www.sec.gov/news/speech/2006/spch052306cc.htm>*

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