Thank you, Bruce [Buchanan], for that kind introduction, and let me thank all of you for coming here today – especially the students that have joined us.

On one hand, you should be studying for finals. On the other hand, this is a free lunch. Having spent the year with Stern students, I have no doubt that one of you did a rigorous cost-benefit analysis before deciding to come to this talk. I hope that neither the food nor my remarks disappoint.

Before I begin, I want to thank Citigroup for underwriting this important conference as well as the Leadership and Ethics Program here at Stern. Because of their support, I have been able to spend this academic year teaching – and learning – from the students and faculty here at NYU.

While it has been a wonderful experience, I must admit to having a degree of skepticism toward the entire endeavor of teaching ethics.

I believe that ethics can’t be taught in one conference, one weekend, or one semester. I believe that a sense of what is right and wrong comes from one’s upbringing and the cues we take from society at large.

Does that absolve us of the responsibility of trying to shape ethical business leaders? Absolutely not.

Rather, it places upon us a larger burden for we can’t get by just with teaching one course or sponsoring one seminar.

We must ourselves teach ethics everyday – not in words, but in deeds – by how we run our companies, how we live our lives, how we choose to conduct ourselves in the public arena.

What is very clear in just my one semester of teaching here at Stern is that young people interested in business watch what we do – and are searching not just for the path to success, but for role models to lead the way.

I give Stern a lot of credit for making the gathering of these role models – in conferences like these, in guest lectures, and in the ranks of its faculty – a priority for NYU. But, not everyone can go to Stern.

That is why we need to move toward the day when there is a critical mass of ethical, public-spirited business leaders around the country dedicated to the common good…when ethical behavior is seen as standard operating procedure…when the business pages no longer read like the police blotter.

Unfortunately, this leadership was missing over the past decade and a half.
Over the past 15 years, a bull market built up wealth just as quickly as it tore down ethical standards.

The symptoms first arose in the executive suites – and came to our attention two years ago this week with the bankruptcy filing of Enron. What was uncovered at Enron, WorldCom, and the rest brought to the public’s attention the sad truth that CEO’s were managing the numbers, not necessarily managing their companies.

Auditors were complicit. Accounting standards – especially as it relates to the expensing of stock options – were a catalyst. Corporate boards were catatonic.

This erosion of trust and independence infected investment banking and stock research as well. Analysts shilled stocks to win lucrative investment banking business. The Chinese walls that were supposed to block conflicts of interest were breached.

And with the recent revelations about the mutual fund industry, even more individual investors realized that they had been taken along for a ride.

Better regulations and more effective oversight were not the only things that were missing – although both were needed. Something else was missing as well: the leadership of the business community.

During the 1990’s, very few people were willing to stand up and say the obvious: page clicks and eyeballs don’t matter; profits and earnings do.

Very few people were willing to point out the madness of day-trading and the virtues of diversified investing for the long-term.

Very few people questioned quarterly earnings that always beat expectations or mutual fund advertisements that boasted of returns that defied gravity.

What we lacked was the kind of leadership that instinctively steps forward when it’s needed -- the kind that puts the public interest above corporate interest or career advantage…the kind that doesn’t just look to place blame or make a profit when things go wrong, but works with policymakers to make things right for the benefit of us all.

I’m talking about private sector leadership that is both influential enough to be listened to by the politicians as they craft reforms -- and trusted enough by the public so when the drive for reform over-reaches or otherwise hurts the very markets we are trying to save, private sector voices will be heard and listened to.

Think about it. There are plenty of good and honorable people who head American corporations. But there are few business leaders recognized by the public as being a spokesman or spokeswoman for a set of realistic, intelligent public-spirited values.
I’ve been in and around the markets for 40 years. To be honest, I can’t think of a time since I began my Wall Street career when our business community and market institutions have been viewed with such disdain by the general public.

In fact, a poll conducted two weeks ago asked people to rate the ethical standards of various professions.

Only about 15 percent of those polled said that stockbrokers and business executives had “high” or “very high” ethical standards.

The good news is that stockbrokers and business executives ranked ahead of insurance salesmen and car salesmen. The bad news is that they still ranked at the bottom of the pack – just behind United States Senators.

It wasn’t always like this.

In the past, we had business leaders that not only led their companies, but were relied upon to help us through difficult economic transitions before.

Let me tell you a story.

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At the end of the century and the end of his term in office, a President addressed Congress and proudly boasted, “There has never been a time in our history when work was so abundant, or when wages were as high.”

By the spring of that year, financial panic had set in. By the end of the year, thousands of businesses had gone under and unemployment was surging. There was political turmoil – angry shareholders and angry workers.

Sound familiar?

I mention this to highlight the optimism of the ‘90’s – the 1890’s.

The President who said this wasn’t Bill Clinton, but Benjamin Harrison. The century that was ending was the 19th, not the 20th.

More than 100 years separate us from the Panic of 1893, but the similarities are striking.

Faced with an economic downturn and the reality that something had to be done to re-tool the economy and society for a rapidly changing time, many business leaders dug in, forming powerful
lobbies to resist change. They took the attitude famously summed up by the railroad baron, William Henry Vanderbilt: “The public be damned!”

But there were others who saw that a middle ground had to be found. To make the market work in an industrial age, new rules and new safeguards had to be written.

And so people like Mark Hanna, a prominent Republican and industrialist, and Edward Filene, the department store magnate, formed groups like the National Bureau of Economic Research and the Cooperative League to research, craft, and lobby for reforms.

As Jeffrey Garten explains in his excellent new book, *The Politics of Fortune*, their commitment to the national interest helped this country through the difficult transition from an agricultural economy to an industrial one; from an isolated nation to a world player.

Corporate leaders played a similar role during a similarly chaotic time immediately after World War II.

At the urging of the Secretary of Commerce, a bi-partisan group of corporate executives formed the Committee on Economic Development to offer non-ideological guidance on how the US can make the transition to a peacetime economy.

With a sense of a larger responsibility to society, the CED offered advice on a variety of economic topics – from taxation to monetary policy, from urban renewal to government administration.

Its contributions were invaluable, and the quality of its leadership was such that when President Truman formed a committee to draft a plan to rebuild Europe, five of the nine on the committee were CED trustees.

This history is instructive for one reason. We are now undergoing a transition in our global economy and geopolitics as great as the one at the beginning and middle of the last century.

As we navigate the proper relationships between the public and private sectors in creating a world that is safe from terrorism and suited for market prosperity…as we seek a balance between free markets and pragmatic regulation… the input of responsible business leaders is once again needed. Yet, by and large, the leadership is not there.

Simply put: the private sector has forgotten its public obligations – to the detriment of both.

That is not to say that there are not those engaged in public policy or politics. But, business’s interaction in public affairs is mostly of a certain, selfish kind.

During my time at the SEC, I encountered a staggering number of industry lobbyists whose sole purpose was to stop any minor change that they saw as a threat to their own specific interest.
They had no concern at all as to how a proposal would affect the investing public or the market as a whole.

They had no thought at all as to how the changes they were stopping or supporting would undermine the very market from which they were able to reap such prosperity.

This is exactly the kind of leadership we don’t need.

Instead of selfish leadership that asks for things from the government just to help themselves, we need public-minded leadership that offers to our elected officials insight into how best to set the rules for fair and vigorous competitions in a global economy, and that is unafraid to expose and condemn those actions that undermine market capitalism itself.

My friends, this type of leadership is needed now more than ever in the mutual fund industry.

It’s needed not just because the steady drip of revelations of insider deals and wrong-doing is poised to become a torrent of bad news for individual fund companies and for the industry as a whole.

It’s needed because with 95 million investors counting on mutual funds for their retirements, college tuitions, and life savings, a breakdown in trust in this one sector of our markets can deal a fatal blow to an already wavering investor confidence.

If we do not clean up this industry, we stand to lose a whole generation of investors.

As many of you know, the crisis in the mutual fund industry has been in the making for some time now.

Mutual fund companies have abused their place of privilege in the investing world.

The industry often misleads investors into buying funds based on past performance.

Fees – along with the effect of annual expenses, sales loads, and trading costs – are hidden. Fund directors, as a whole, are stretched too thin and show little interest in exercising vigorous oversight. Apparently, $80 billion in annual fees is enough to induce ethical myopia.

The cumulative effect of this lack of accountability and transparency has manifested itself in late-trading and other preferential treatment for hedge funds and other large investors such as the right to market-time trades.

Deals of this kind, as best, turn individual investors into second-class citizens, and, at worst, into sheep to be fleeced.
The time has come for a real clean-up, not cosmetic policy changes and compliance reviews or image campaigns.

Some of these changes will require SEC action, congressional legislation, and the coordinated enforcement of the law by the Commission and state attorneys general.

But true reform won’t occur…and investor trust won’t be regained…unless mutual fund companies themselves show the type of public-spirited leadership that investors want from those with whom they entrust their savings.

Today, mutual fund companies can erect barriers to market-timing by requiring significant redemption fees for those who want to flip their funds’ shares.

Today, mutual fund companies can shake up their boards – appointing independent directors, instituting term limits, giving independent directors the resources they need to gather information on fund management performance, and appointing independent chairman without ties to the fund sponsor.

Today, mutual fund companies can help put an end to revenue-sharing, sales contests, and higher commissions for selling home-grown funds – broker incentives that only damage investor interests.

And today, fund companies can end misleading performance advertising and make it clear to investors what they will make after taxes and fees.

All of this can happen right now – without one SEC rule-making, without any new legislation, and without any action by any regulator at any level. All that is needed is the will.

Some companies are taking the initiative and embracing some of these changes. Others do them already. And we can be sure that the SEC in the coming months will take action on all these fronts.

But imagine, for a moment, what would happen if the heads of the 10 or 15 largest mutual fund companies called a press conference and announcing that they have agreed to undertake all of these reforms on their own. Imagine the impact.

The message that would send to investors of all sizes would be unmistakable. It would bring about reform without the heavy hand of regulation – and more importantly, it would let investors know that these companies take their obligation to their shareholders seriously.

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Of course, I have been around long enough to know that the odds of such an announcement happening are long.
And the fact that most everyone here would agree with that skeptical assessment encapsulates the crisis in leadership plaguing our private sector.

Ultimately, our market system is only as strong and as good as the people in it.

And to attract the right kind of people, we need to restore the value of reputation – and do so, starting at the top.

We need a cultural change that rejects excess and skirting the rules – a culture in which directors and CEO’s all put pressure on each other to uphold standards of acceptable behavior.

We need private sector leaders at all levels to dedicate themselves to creating a culture of accountability and foster an ethic of service.

We need to change who our role models are.

When I was coming up, people like Irving Shapiro of Dupont, John Whitehead of Goldman Sachs, and Walter Wriston of Citibank helped to set the standard, to create a culture of accountability, and to foster an ethic of service.

During the 80’s and 90’s, the image of a superstar CEO changed.

Gracing the covers of Fortune and Business Week were impatient, tough, bottom-line oriented corporate rock stars who could acquire a huge company at the stroke of a pen, fire 20,000 employees with another stroke, and several years later sell off the enterprise for much less than shareholders paid for it in the first place.

Where are these CEO’s now?

Not on the covers of magazines, and not running our great companies.

The market now demands something else: business leadership that will be at the vanguard in the movement to restore public confidence. The times call for sensitive, caring, thoughtful, and committed personalities -- working in public-private partnerships to support the fabric of our society, rather than simply boosting the bottom lines of their companies.

Let me be clear: the public is not asking for business to stop caring about business. It’s asking for something as old as America itself: “self-interest rightly understood.”

This new ethic will be taught in places like Stern, but the real lessons must be taught by those working in the markets, managing our companies, and building small businesses all over the country.
Business leaders must lead by example and lift their sights above business, spending part of each week on whatever kind of public-spirited purpose it might be – whether it’s conservation, foreign affairs, or health care reform.

They must rediscover the habits of involvement and social leadership of an earlier era and through their actions, show a younger generation that public spiritedness is not just good public relations; it’s good business.

And when that happens...when business leaders demonstrate a willingness to serve in -- and really spend time on – important public projects...when business leaders get involved in public debates and take positions that do not have a direct connection to their corporation’s self-interest or their own big-money paydays...business leaders will earn the right to make themselves heard on important issues — heard and trusted.

That will do more, go farther, and be more effective in restoring public confidence in the markets and in the private sector...in lifting our stock markets...and in strengthening our economy than virtually any law we can pass, investigation we can lead, or regulation we can write.

Thank you, and I would be happy to take your questions.