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**News
Release**

"A CELEBRATION OF ETHICS"

REMARKS OF

**RICHARD C. BREEDEN, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION**

TO

**LEONARD N. STERN SCHOOL OF BUSINESS
NEW YORK UNIVERSITY**

**AVERY FISHER HALL, LINCOLN CENTER
NEW YORK, NEW YORK**

MAY 15, 1991

A CELEBRATION OF ETHICS

Remarks of
Richard C. Breeden, Chairman
U.S. Securities and Exchange Commission
to
Leonard N. Stern School of Business
New York University
Pre-Commencement Program
Avery Fisher Hall, Lincoln Center
New York, New York

May 15, 1991

Dean West, members of the learned and distinguished faculty,
illustrious guests, the graduates and your family and friends:

I want to start by thanking you for giving me the high honor of your invitation to join the graduating class of the Leonard Stern School of Business on this happy evening in this magnificent setting. In the spirit of full disclosure that is our creed at the SEC, I should admit that this is the first graduation speech that I have given since the one I delivered at my own high school graduation. So, I hope that you will be forgiving, as I am out of practice.

Tonight is justifiably a time for JOY and CELEBRATION. As you know so well, long years of work and toil have gone into the making of this evening. It took study, testing, anxiety, scrimping and saving, struggles and hassles -- and all that just to get into preschool.

In actual fact, it took you at least 16 years of formal schooling to get into business school. More importantly, it took you a minimum of two years to get back out. For many of you, your accomplishment is made even more impressive by the fact that you held down full-time jobs while taking evening classes at one of our nation's finest business schools. Along the way your parents, spouses, "significant others," grandparents, children, friends and pets have stood with you in support, and they have put up with you in your unkind and ungentle moments. They too have cause to celebrate with you this evening, and to accept our congratulations.

Some of you and your guests may think of this as an event that marks the point when your creditors begin to see the light at the end of the tunnel. "No more tuition" is not the exact translation of "baccalaureate," but you can all heave a sigh of relief financially. You will realize that you have really graduated when the calls for alumni donations are made -- I'd give it a week if my experience is any guide.

You are embarking today on an exciting voyage as you begin your careers in business. In many respects, you are the future of American business, and of the business community in many other nations. You carry the hopes and dreams of millions of your fellow citizens who may someday look to you for their economic future. In the years to come, as leaders of the world's increasingly linked market economies, you will have to confront the economic,

environmental, and other challenges that will shape the quality of our lives. You will need all your talents to meet these challenges successfully.

As a society, we Americans uniquely value "success." We stop almost everything to find out who will win the Super Bowl, the "final four," the Stanley Cup, and the World Series. We constantly track who is "number one" in business, medicine, politics, and virtually every other type of activity. We compute the Fortune 500, the Forbes 400, and many similar measures of wealth, market power and other economic badges of "success."

That is not surprising, or entirely inappropriate, for we are largely a nation of immigrants, all of whom came from somewhere else determined to make something better. Without entrepreneurship and competitiveness most of our forebears would never have braved the journey, or dared to dream the dream that we live in today called "America."

To an extraordinary degree, our nation has been built by individuals motivated by a dream. This heritage is reflected even in the names of our businesses. William Boeing, Liz Claiborne, John Deere, Walt Disney, Henry Ford, Milton Hershey, J.P. Morgan, George Westinghouse, Frederick Weyerhaeuser, Merrill and Lynch, Pierce, Fenner and Smith. These are not the names of institutions, but rather they are the names of people. Like Martin Luther King,

Abraham Lincoln, Clara Barton, Leonard Bernstein and many others who have enriched our society, the common denominator was an individual determined to make a difference, and determined to leave their corner of the world a little bit better than he or she found it.

That desire to make a difference isn't obsolete, and it hasn't been replaced by technology. It is alive all over this country. It stirs in people all over the world striving to build a free and prosperous society for themselves and their children. That determination is alive here in this hall tonight. I call on you to take it with you when you leave your formal schooling behind. Carry it with you throughout your careers.

You have youth, intellect, endurance and energy, or you wouldn't be here. You have acquired many tools and techniques for success. What you will do with those tools is yet to be known, but in large part it is up to you. Whatever directions your dreams and aspirations may take you, your chances of lasting success will depend on your ethics.

Ethics is a subject that is about personal values. I made a list of many of the "values" that it seems to me go into making up what we call ethics. They include honesty, courage, intellect, compassion, restraint, balance, and faithfulness. At times the mixture of ethics demands a dash of tenacity, and it always needs

a healthy dose of principle and fairness. Sometimes we call the result "integrity," and sometimes we just call it "conscience."

In many ways our ethics define us more than any other trait. Unlike our color or sex or height, our ethics is something that we each, personally, have the opportunity -- and the responsibility -- to choose for ourselves. It is part of deciding who you really are, what you really stand for, and what sacrifices you are willing to make. It also involves tradeoffs that may be very tough, like deciding whether you are willing to go along with something that you don't think is right, but which others may expect of you in order to advance. "Everybody" may be doing it, but that doesn't make a practice right. A striking fact in many major scandals, from Watergate in government to the S&L disaster in business, is how long it took before someone -- and most especially the professionals -- finally said "Stop, this is wrong."

I suppose that it may be useful to ask what is meant by the term "good ethics". In part "good ethics" means behavior that does not violate the law, which is the absolute bare minimum. In part "good ethics" means behavior that does not violate accepted norms of the community in which we live. In large part, however, "good ethics" means much more than those minimum components. Its largest element is behavior that does not violate your personal standards -- the beat of Thoreau's drummer that each person has to hear for himself.

Unfortunately, this is where the issue gets a bit tricky. You can't simply decide whether you want the two-door or four-door model, the standard shift or an automatic transmission. You can't pick a system of ethics the way you can select a theory of finance, marketing or accounting. Even passing a course in "Ethics for Lawyers" or "Ethics in Business" isn't much help, since that won't give you the answer to specific ethical dilemmas that will confront you throughout your life.

Ethics is a code of conduct that each one of us must build for ourselves. In responding to the unpredictable and infinitely varied challenges in our personal and professional lives, we define our personal values and our own code of ethics. It is a bit like the growth of the common law in a step-by-step process. Your own set of values will build on decisions you make in many specific cases.

What each of you achieves in your career will be the product of many circumstances over which you have no control, and a relatively few factors that you can control. Among these "controllables" is character. You have a choice, and it is up to you to decide the kind of principles to live by, and what kind of person you will be.

Sadly, many of the cases brought by the Securities and Exchange Commission demonstrate that an MBA degree from a

prestigious school is no guarantee of good ethics. The list of MBAs who ran afoul of the federal securities law is not a pretty sight:

Harvard Business School:

Paul Bilzerian - Fraud
Randall Cecola - Insider Trading
Martin Siegel - Insider Trading

Mr. Bilzerian was sentenced to four years postgraduate work in federal prison and a fine of \$1/2 million for fraud.

Wharton School of Business:

Ira Sokolow - Insider Trading
David Brown - Insider Trading
Michael Milken - Fraud and Market Manipulation

Mr. Sokolow left his position at Lehman Brothers to serve time in federal prison in Loretto, Pennsylvania.

Columbia Business School:

Robert Freeman - Insider Trading

Mr. Freeman was a partner at Goldman Sachs

prior to his imprisonment in federal prison camp in Pensacola, Florida.

Stanford Business School:

Robert Wilkis - Insider Trading

In addition to more than \$3 million in disgorgement of wrongful gains, Mr. Wilkis traded his position at Lazard Freres for prison.

These cases demonstrate that there is more to business than simply making money. It is not just how much money you make, but also how you try to do it, and the corners you are willing or unwilling to cut that makes the difference. Sadly, many of these individuals were willing to engage in fraud, manipulation of markets and other abusive activities designed to achieve personal gain at the expense, literally, of market participants and many other innocent victims.

Even after Michael Milken had amassed a personal wealth of hundreds of millions or even billions of dollars, he was willing to conspire with David Solomon (an NYU graduate) to cheat Solomon's investment advisory clients. Their scheme involved shaving trades -- reporting each sale at a slightly lower, and each purchase at a slightly higher, price than actually occurred. That was

tantamount to a billionaire picking a few pockets on his evening walk. Mr. Milken's obvious talents were eventually reduced to conversing with confederates over running tap water in the men's room regarding the retention of evidence.

Dennis Levine was a graduate of Baruch Business School. He had the intelligence to try to cloak his activities behind an elaborate international network. He set up Panamanian corporations that traded in New York through the Bahamian branch of a Swiss bank. He made more than \$12 million preying on his fellow citizens through insider trading, and he evidently thought that he couldn't be detected. Mr. Levine lost his job, his profits and much more when he went from investment banking at Drexel, Burnham to federal prison in Lewisburg, Pennsylvania.

Many less famous people have lost their jobs and their freedom trying to make the fast buck illegally. Danny Cherif, a graduate of the University of Southern California Business School, lost his job with The First National Bank of Chicago. Through deception, he managed to keep his magnetic identity card. Using this card Cherif entered the building late at night, read confidential documents, and traded on the confidential information. After a few months of easy money, Cherif today faces a two-year prison sentence, hundreds of thousands of dollars of civil penalties, and rather limited employment prospects for the rest of his life.

Insider trading isn't the only problem. "Penny stock" fraud is a vicious form of swindling of the least sophisticated investors. In this area we have sometimes seen entire firms manipulating worthless stocks and bilking hundreds or thousands of investors out of millions of dollars.

Barry Minkow appeared to embody the American dream at the age of 16 when he started ZZZZ Best, a carpet cleaning business, out of his parents' garage. Within a few short years, Minkow passed off his company to outside auditors and the investing public as a growing business, until it had a market value in excess of \$200 million. But the company's apparent success was the result of financial statements that were utterly phony. Investors lost over \$100 million, and Minkow is now a 25-year old serving a 25-year sentence for fraud in a federal prison in Colorado.

Sometimes the cases are inexcusable, like the Bank of New England's decision to conduct a public offering without disclosing that management knew that loan loss reserves were understated by more than a billion dollars. Sometimes the cases are incredible, like the company which raised money by falsely claiming that it had an exclusive license to dispose of radioactive waste in Equatorial Guinea, or the one that had supposedly invented the self-chilling beer can. The cases are often tragic, like the Latin Investment Corporation in Washington, in which hundreds of immigrants from El Salvador already at the bottom of the ladder lost their life

savings by depositing them in a "bank" that was really just a bank account for its promoters. In every one of these cases, someone wasted their education and their potential.

Of course I can't promise that the SEC will be successful in catching every person who tries to cheat and steal from participants in our capital markets. However, I can promise that we will try. Some of you may remember the recent movie "Field of Dreams." The hero hears a celestial voice that says "If you build it, he will come." My voice may not be very celestial, but I can promise you that, as to America's investors, "If you cheat them, we will come." I hope that you won't make that necessary. Rather than prosecuting fraud, we would prefer to work on helping people raise the capital to discover new technologies or to build new factories. Your ethics will control that choice.

Just like individuals, corporations must have values and ethics. Indeed, in the case of corporations good ethics are not just desirable, they are essential to long term success. Sometimes the lack of corporate ethics will even destroy an entire company. The examples of E.F. Hutton and Drexel Burnham should serve as a warning to others. Firms that choose to pursue short term profit through a pattern of illegal activities orchestrated or condoned at high levels simply may not survive.

By contrast, firms that act vigorously and unquestionably to

protect the public irrespective of short term profits, as Johnson & Johnson did when the cyanide tampering with Tylenol occurred, often see much stronger long-term trust by the public -- and higher market share and income. Good ethics is in reality good business, and the market proves this over and over again.

Of course corporations are collective entities, and it isn't always clear just exactly who decided on, and who knew about, a particular action -- like claiming improper expenses or falsifying reports. In my view, if it is perceived that unethical behavior will be tolerated in any organization, the person at the top has to bear responsibility for wrongdoing, even if that person didn't directly take part. Hopefully most business decisions don't involve a violation of the law. However, the wrong standard of ethics in either the boardroom or the executive suite can lead to serious problems inside the organization. Eventually, lack of ethics in the boardroom will lead to loss of the public's trust. That is one of the most vital assets of any company.

Make no mistake, living to a strong set of principles can require courage and sacrifice. At times, it may seem as if Emerson was correct when he wrote "the only reward of virtue is virtue." For the short term, you may see people willing to cut corners get promotions you should have gotten, or earn more than you may be earning.

The temptation to compromise your principles may be strong. Just remember, though, that winning by cheating is not a victory. Your unethical competitor may be better off in the short term, but almost certainly they will not be better off in the long term. Like trying to eat only one potato chip, those who act unethically don't usually stop after one occasion, leading ultimately to their downfall.

To put it in more familiar terms to you, over time the market for judgment of human character is very efficient. And, unlike other kinds of mistakes, mistakes of character are often irretrievable. If you make a mistake manufacturing a product, you can call it back for repairs. However, you can't simply call back an ethical question and change the carburetor. If you make a mistake in your ethical judgments, your reputation may be destroyed, and there will not be anything left to recall. Ethics is for keeps.

As an avid sailor, I think of this issue as a matter of navigation. A few years ago I sailed in a race from Miami to Nassau which requires you to cross the Gulf Stream and round the Great Isaac reef at night, before turning for the finish line in Nassau.

That particular race started in a gale -- 55 knots of wind. As we crossed the Gulf Stream, the seas were 20-30 feet high.

Words cannot describe the awesome power of waves that size. At night, you know they are coming at you because a literal wall of jet black water rises to blot out the stars.

Now you may have the finest boat that money can buy, packed with all the latest equipment, but if you find yourself in the middle of the ocean, with the wind shrieking and the hull pounding, with giant waves on all sides and sharp rocks somewhere to leeward, you had better know where you are going. Without a compass and a course, you will be lost on a vast and trackless sea. Successfully navigating the world of business also requires a compass -- and that is your sense of ethics and values.

I started out in a celebration of your achievement. Tonight we should all celebrate both your achievements and your ethics. Tonight is about making a difference and setting high standards for your own career. Every person here has the God-given talent, the determination and the opportunity to be a success, and to make your parents and your children -- present or future -- intensely proud of you. You can join together to make the world a better place. You are limited only by your imagination.

In seeking achievement and material success, I hope that you will remember your conscience, and make it a constant companion in everything that you do. Be determined to get ahead, but be

determined to live by your values, and to know what you stand for and represent. At some point in your career, take time to build something of lasting value. You can make a difference in the future of the American business community, and in communities across the nation and the world. I hope that you do.

Thank You.