

Interview with Richard Breeden
SEC Historical Society
November 19, 2019 by Kenneth Durr

KD: This is an interview with Richard Breeden for the SEC Historical Society's Virtual Museum and Archive on the History of Financial Regulation. Today is November 19, 2019. My name is Kenneth Durr and we're in the Office of Richards Kibbe & Orbe. Mr. Breeden, thank you very much for taking some time to talk.

RB: Delighted.

KD: I've been looking forward to this for quite some time.

RB: Me too, for 30 years.

KD: Let's go back a little more than 30 years and talk about your upbringing. You were mostly raised on the west coast, I understand.

RB: Yes. I grew up in Manhattan Beach, California, went to Stanford University for my undergraduate. I always wanted to study in a foreign country, so I came to Harvard for law school and have been pretty much on the east coast ever since.

KD: I notice you studied international relations at Stanford. It sounds like you answered my question as to why you went into that.

RB: International relations was a name I put on it. It was really an interdepartmental major, a combination of history, political science, and economics. And Stanford in those years let you construct your own major rather than limiting you to departmental focus. I started out as a history major, that's really been my academic love, but I also was passionate about economics, so I tried to blend them together.

KD: Why Harvard Law?

RB: That's where I always wanted to go since I was a little boy.

KD: Did you develop an interest in banking and financial law at that point? Were you specializing in it?

RB: When I was in law school my interests were focused more on—you don't really know when you're in law school what the future will hold. I was very interested in corporate finance and corporate law, and operations of companies more than trying to be Perry Mason. I think I didn't see myself as a Perry Mason type.

KD: What did you see for yourself? Did you see yourself going into private practice, teaching?

RB: I didn't know. Who knows at that point?

KD: You did teach for a while, I understand.

RB: Just a year. It's common for people who got out of law school to do traditional clerkships and that's mostly litigation track, and I wasn't focused on litigation. Larry Tribe, who was one of my professors called me up one day and asked me if I wanted to teach, and I said it's kind of a surprise.

There was a lady named Soia Mentschikoff who was quite famous in academia and legal education at the time. She had been a long-time professor at the University of Chicago and she had just become Dean at the University of Miami Law School and apparently didn't regard the tenured faculty as quite up to the Chicago standards. So as Tribe explained to me, she was going to set up a program with six or seven immediate past graduates of law schools, from good schools and send more people on sabbatical, and throw the kids into not legal research and methods, but into frontline courses as a

temporary expedient. It was pitched as not being tenure track. I would have had zero interest, at that point in my career, in trying to go right into academia. But I did think it would be fun to see how I'd like teaching, might come in handy down the line, so I did it.

KD: What did you take away from that experience?

RB: I enjoyed it a lot. I taught Constitutional Law, I taught a class in Fourteenth Amendment and Federal Jurisdiction, which I had only taken the previous semester my third year at Harvard, so my notes were fresh. In fact, I found out I was going to teach it halfway through my course, so my notes got much better. It was fun. It was a good way to spend the year.

KD: How did you end up in Washington, D.C.?

RB: I can't remember whether I took the train, or... I got an opportunity to come down and work right after Reagan was elected. It was a difficult decision. I was in the zone of where you would come up for partner in another year or two, or three, so going and doing something else, there were a lot of uncertainties involved in that, I had a passion for politics my whole life and I wasn't in a position of dealing with politics per se, but being in government.

I also found that in law practice, over and over again in large transactions, that I did a lot of M & A. The large transactions very frequently involved trying to predict what the government was going to do, how will the IRS treat a certain issue if it's a close call, what is the anti-trust division going to do, and what is the SEC going to do, and interpreting if there is some close call on a Williams Act question. I would find myself—I saw repeatedly very large transactions with huge significance for people in the companies, in the markets, and people trying to assess what they thought was the likely course of the government action, and where the lawyers had as part of what they were doing to persuade the government of how a given set of rules should be interpreted. So I

thought that spending a little time on the other side of the table would be very educational and a good thing to do.

KD: Was your entrée into the Reagan Administration?

RB: I had done a little work, but nothing much to speak of. I met some people and got a chance to come down and actually worked as Chief of Staff for the Deputy Secretary of Labor my first year, and that was interesting. The real opportunity was about a year later when then Vice President Bush, his General Counsel C. Boyden Gray was my boss for many years thereafter, offered me a job to come over to the White House and work for him as his Deputy.

At that time Vice President Bush was involved in a whole lot of things, but one of the most important of which was that President Reagan had four pillars in his campaign, one of which was get the government off the backs of people, which was the catchy way of saying we had too much regulation and it expanded too far, and it's holding down the economy. It turns out I've long believed this and the longer I live the more clearer it becomes the deadly force or the deadly toxin that excessive regulation can have for an economy, and the ultimate judgment call that regulators have between the manifest dangers of no regulation and the people that can get hurt no matter what the area might be, environmental, securities, banking. There's a reason we have regulation, but on the other hand if it goes too far it can then start diminishing the vigor of the economy.

Reagan had created a task force on regulatory relief whose purpose was to review regulations all across the government and identify areas where regulations should be trimmed back or where new regulations should have a second opinion, basically put in a second opinion process that has been continued under Republicans and Democrats to this very day where new regulations are reviewed over in the Office of Management and Budget, whether they meet all the standards of being narrowly targeted and cost effective, and so on.

Reagan had appointed Bush to lead this task force, and Boyden was the counsel in the regulatory relief effort, and I became his Deputy. We looked at things all over the government: air conditioner regulations, airbags, Davis-Bacon rules for federal construction, everything you could think of. There was a group within OMB that provided the analytic capabilities. Boyden and I were the link to Bush who was leading the group, which was composed of a number of members of the Cabinet, but where political judgements had to be reached to disagreements and arguments between an agency that wants a standard to so many parts per million. The outside reviewers were the second opinion where they think, well actually that standard is perhaps too high. Instead of here, it should be here. Eventually you can do all the analysis, but somebody has to decide, and those decisions would come through the members of the task force and ultimately go up to, in some cases, the President.

That was my real introduction to the regulatory process, and it was terrific. It was really a little Ph.D. course every single day I came to work. And it was terrific because rather than being in a single agency and only seeing that agency, and only seeing its laws and how that worked, I got involved in dealing with regulatory programs in every corner of the government. It gave me a nice base of perspective that helped me a great deal at the SEC later on.

After a while, not that long, the Treasury Secretary was Don Regan, former CEO of Merrill Lynch at that time, he came to Bush and said that he was convinced that Glass-Steagall was going to be repealed in the following year. They had nearly gotten it passed. Congress had just passed something called the Garn-St. Germain Act, which deregulated controls on bank interest rates, and at the same time as it was going through Congress, there were provisions to also deregulate the assets that banks and securities firms could invest in. And that part had gotten dropped out at the end and Regan was convinced it was going to be enacted the following March or April, and so wanted Bush to lead an effort to study the financial regulatory system. It wasn't formally a subgroup of the parent original task force, which was limited to Cabinet agencies because of questions about constitutional authority, regulatory review over the actions of independent agencies.

All of financial regulation or 90 percent of it is in the independent agencies, so Regan said he could never lead a group to discuss what the future regulatory system ought to look like because the Fed would say, thanks, we're not coming. If the Treasury was organizing something, but if they were invited to a lunch at the White House they would of course show up.

Ultimately they decided to form this group, which was called Bush Task Group on Financial Regulation, Financial Services. And we spent the next two and a half years working with John Shad, then head of the SEC and CFTC, and the Fed, FDIC, all the agencies, plus we had Treasury and the Justice Department, and OMB. And it really was looking down the road and trying to say if Glass-Steagall is repealed, what principles are we going to use for what should take its place. I think a fairly rare example of where government is actually doing advanced strategic planning. It turned out that Don Regan was optimistic about how fast Glass-Steagall was going to be repealed.

The focus as the Bush group evolved was not limited to Glass-Steagall. That was a backdrop of why this issue had a lot of attention. When you added up all the federal employees and financial regulation, it was larger than the Labor Department and the Commerce Department put together. It was tens of thousands of employees and billions of dollars, huge apparatus with a gigantic impact on the economy. But it was very fragmented in the hands of all these different independent agencies and difficult for anyone to take a look at is it effective, does it do the job it's supposed to do in controlling risk and maintaining stability, and is it efficient. Does it do that job at ten times the cost it ought to take or is it pretty well adapted to the job at hand?

We spent a lot of time talking about that and looking at it. They used to joke, Bill Isaac was then the Chairman of the FDIC, and he and I were neighbors out in Great Falls, Virginia. We used to play tennis a lot together. We would have the meetings over at the FDIC, which was right across the street from the old BOB. There was a chairman's

conference room up there. It was made of paper, but he had a sign made that read “Richard Breeden Conference Room” because we had so many meetings over there.

We’d try and work out, Bush wanted something that was consensual. He didn’t want some academic theory of what would make sense. He wanted something that the independent agencies could buy into that would make the system, if not perfect, would take a step forward and making it more effective and more efficient. We spent a lot of time because you inherently were talking about agency turf, which is by far the most difficult subject of any in Washington.

KD: And making them smaller perhaps.

RB: The overall effort was to rationalize, not to shrink. This was not a budget cutting exercise. If that’s what it was you would have just let OMB throw numbers at people. This was really an exercise recognizing that major components of the system had been created in the 1930s. There were no computers. The world of financial markets, people were still clearing, using the Pony Express to carry checks around to be cleared. One of the interesting questions always was, why does the Federal Reserve need 12 regional reserve banks? And the answer they always gave was the system was created when they were moving checks, physically, and very slowly, and so they needed them scattered around. I think the real answer is political influence, but that was the theoretical influence.

That was a wonderful experience for me because I had been a securities lawyer and I did IPOs, five deals a week at times when the market was high, and I had done quite a bit of M & A early days, in New York, and I had actually represented major banks in banking transactions. I had a pretty good feel for both banking and securities. I didn’t know derivatives and futures. I didn’t know, truth is to this day, I don’t know too much about the credit unions, although they were on the group. I had never been exposed to the details distinguishing between the Fed, the FDIC, the Comptroller of the Currency, and the Savings and Loan Regulator.

We had five if you count the credit unions, depository institution regulators, four if you put the credit unions aside. And each had very different objectives and bitter rivals in some areas, but also were happy to work together in other areas. It was a great education in just how those agencies operated. And among the other things I learned was the importance of an agencies' culture. An agency's culture is really born out of its history, but their staffs can have a culture that's quite recognizable.

KD: Beyond this great educational experience, aside from it being a terrific education, what was the end result of the task group's work?

RB: We had about 73 or 74 unanimous recommendations for improving the financial system over the next three or four years. It was pretty typical. When you do a study like that Congress doesn't get it and say, "Terrific, thank you, we've been waiting for this, we'll pass it next week." You feed into the intellectual hopper ideas and things that could be done and then as bills are under consideration, as problems come up a surprising number of things will eventually get enacted. I would say I've never gone back to count to see how many of ours, but a number of them were adopted, but not the biggest.

The biggest change was to try and narrow the duplication caused by the Federal Reserve and its role overseeing all bank holding companies in the United States, and it was the very worst fault of the whole system in our view, in the view of everyone other than Paul Volker. We signed the report without dissent. Basically if you had Citibank and Citicorp, if you had the Comptroller regulating Citibank, and a different agency, the Federal Reserve, regulating Citicorp, that made for a hundred percent duplication.

Worse than that it eliminated direct accountability in the regulators for who's responsible for that organization. You have one business entity. Citibank and Citicorp are not two different things. It's one entity and it's got two different agencies. One says you should zig, and the other one says we think you should zag, and that's a problem, and then you just churn legal fees, people can't make decisions. And if anything goes wrong the one agency can say those guys over there, we thought they were looking at that, and the other

people say we thought you were looking at it. It can substantially weaken accountability among regulators, which is an overlooked but terribly important criteria of a system that works well, because regulators are human. They make mistakes.

I'm not talking political witch hunts or anything, but just that if a system is pervasively not doing a certain job, then you want to try and fix it, and make it better so that it will accomplish that.

President Bush, then Vice President Bush, was certainly very sensitive to the subject of accountability and making sure that people owned up to both. They loved taking credit for their good things, and they ought to own up to things that were not going so well.

The task force proposed that each business organization, the bank and its holding company, should be under one regulator. That could be the Comptroller or it could be the Fed, but it shouldn't be two agencies for a single company. That never got done, and of course the Fed saw the Holding Company Act as the heart of its power. Even though in trade, to get them to go along with that, the task force report said that that system shouldn't operate for the 50 largest firms, that the Fed needed to be sensitive to what was going on in the real economy. We would only apply it below that amount, which was what got Volker on board. Anyway, it was a mixed bag. Some got adopted, some didn't.

The two backdrops of what was really going on in the real world outside the gates of the White House, we already talked about Glass-Steagall, but the continuing breakdown of the 1930s market structure and the banks were in particular obsessed with having the ability to have securities affiliates. Glass-Steagall, the heart of it was that you could not take deposits and underwrite securities in the same entity, so the banks were trying to evolve the model that said we'll have one entity over here that takes deposits and one over here that underwrites securities, and that that should be permissible, and the bank securities affiliate can be regulated by the SEC and by the bank. That was a continuing push that went on until Glass-Steagall was eventually repealed, but a number of years later.

You had that, and then you had the markets attempt to survive the disastrous economics of the Jimmy Carter presidency. You had 14 percent double-digit inflation. You had the prime interest rate. When I got my first mortgage in Washington, D.C. it was at a 16.85 percent interest rate, which was not a thrill, since I had left a 7 percent mortgage back home. But you had this tremendous spike in inflation in interest rates which caused the birth of money market funds, which then disintermediated the banks massively.

Garn-St. Germain was passed to let banks—one of two things had to happen. Either you had to get rid of the money market funds and completely confiscate or destroy the entire savings in the middle class because if you're getting 5 percent interest on your savings and inflation is at 13 percent, your savings will be gone in a very calculable period of time. Either you had to put that genie back in the bottle, which was not going to happen, or you had to let the banks compete because otherwise every last dollar would come out of the banking system.

So Garn-St. Germain pulled the interest rate caps, what was then Reg Q of the Federal Reserve. Banks could offer 5 percent savings loans, 5-1/4, and they pulled those off. Unfortunately by the time that happened the savings and loans as an industry were probably completely insolvent, and there were certainly hundreds of them that were insolvent because they had fixed rate mortgage portfolios in the 3 and 4 percent, so you take the caps off and in order to fund their assets they're paying 10, 11, 12 percent to hold a 4 percent asset, so they're going bankrupt day by day at a very rapid pace.

You had this tremendous instability in the savings and loan industry and what Congress was going to do about it. At the time Garn-St. Germain was passed about there were \$650 million in savings and loan deposits, and by 1989 when we finally passed the Bush Rescue Plan, there was \$1.3 trillion, so the industry took the ability to bid for deposits and doubled its size, hoping to make new loans that would yield the higher market rates. Unfortunately they made loans that mostly became uncollectable.

You had Glass-Steagall going on, on one track and you had the savings and loan crisis inextricably building on another, and those were the reasons why the White House and Congress were very interested in financial regulation because the 1930 system was just fragmenting in front of our eyes.

KD: You've given us a good context for the next big story here, which is the S&L story. Did you go into private practice then after the task group?

RB: Not right after the task group. I can't remember when we finished our work in '84. I went back to private practice in the beginning of 1986 and I did it because in my job in the White House I was under the Hatch Act. This was the second term of Ronald Reagan and the principal thing that George Herbert Walker Bush was doing every day of the week was running for President.

Under my job, even though I was one of 25 people who worked for him, it was supposedly illegal to help him on the only thing he was really focused on doing, so I left government and became a partner of the Washington office of a Texas law firm where I could both. I could practice law and I could then help Bush and participate in the election campaign.

I might add something most people wouldn't know. The staff of the President of the United States is fairly large. I'm sure it's bigger today. When I was there it was about 780, just under 800 people. The staff of the Vice President was four little letters, V-I-C-E, but made a huge difference because I suppose our staff was maybe 25 people. So if you work for someone who is Vice President you get to know them very well because it's a tiny group. You don't have a large team. Everybody specialized in their siloes. Everybody has got to paint and hang wallpaper and anything else that needs to be done.

I had over the three years since I started in the White House working for Bush, gotten to know him extremely well both ways, he getting to know me and my getting to know him. When I first came to Washington I thought I would come for two years and then go back to New York and resume practicing law. It was way too interesting after two years to go

back, so I was determined to stay. But I needed to leave my job on the Vice President's staff because that was a legally non-partisan job.

KD: Did you help with the campaign?

RB: Yes. I was Jack Kemp.

KD: Give me a little more.

RB: In the debates. I did a lot of things. I ran a good deal of the policy operation of the campaign, but we were also in debate preparations, a staple. I went to a thing the other night, I think there have only been three presidential elections since the 1960s where there were no debates, and they've become more and more critical in the selection process. I was Jack Kemp for the better part of a year. I read everything, all his speeches, and watched all the video, so when we would have a practice debate I could give answers that would be as close as possible to what the real Jack Kemp would be likely to say.

Later on while I'm an assistant to the President under now President Bush then Secretary of Housing and Urban Development Kemp had come to the White House. I did tell Mr. Kemp that I had been him. While I couldn't throw a football nearly as well as he could, it was fun being him. I really grew to admire him. Kemp was passionate about policy and a first-class human being, really a terrific person.

KD: Sounds like another education as well.

RB: Well it was just drinking from a fire hose. I did go through a campaign at a very high level. Campaigns are huge, but there was a nucleus of people, before he was 41, hoping to be 41, who he knew really well that he could trust on policy issues we were a natural bridge between. When you're a sitting Vice President running, you're saddled with—it could be good or bad—your opponents are going to saddle you with everything your administration

did. And anything you propose doing in your campaign that's contradictory to the previous administration of which you were a part you're going to have to explain.

So Boyden and I and a couple of others were the bridges. We knew the record of what the administration had done. We knew the deregulatory program. We knew every aspect of what had gone on in domestic policy. I was in domestic rather than international. Although I was the person helping Bush when he was put in charge of Yen dollar talks with Japan; at that time people were of the view that Japan's trade surplus was abnormally, unnaturally large because of favorable currency rates and Bush was part of the team leading negotiations with them. And I had gotten to know a lot of people in administrative in Japan, who I later worked with at the SEC, but I actually first met them when I was in the White House.

KD: Is Bush putting together task forces for these sorts of things or is it handing out tasks to individual people?

RB: Some of both I suppose. The Presidential Task Force on Regulatory Relief that began in 1981 two weeks after Inauguration, that was formalized in an Executive Order. It was an official entity that the Executive Order set up along with the Office of Information and Regulatory Affairs in OMB. Other issues come up and people get asked to be the point person on taking a look at a particular issue.

Normally the White House policy structure runs to the President and it runs not through the Vice President, it just runs through the policy apparatus in the White House. Every President will assign their Vice President certain things to do. They go to a lot of funerals, but they do other things and that's just a mix of those two individuals and what their interests are. Sometimes a Vice President will say he's interested in something, I suppose, and other times it's just the President's staff decides this is something well suited for Bush to do.

For example, when we were Vice President he spent a great deal of time roving the NATO countries trying to buck up support for the introduction of short range nuclear missiles into the NATO countries because the Russians had just done a massive deployment of short range nuclear missiles on their side, and then offered to negotiate. And the KGB was busy whipping up all the people in the NATO countries saying don't let the Americans put nukes here, the short-range missiles. They're not landing 4,000 miles away, they're landing fairly close, and you don't want to become the battleground. In your Parliamentary elections, throw the party out, get rid of these missiles.

Reagan and Bush, the position of the American government was, the Russians have already put these in. We want to see Europe with no short-range nuclear missiles, not just one sided, and the only way to do that is we have to show the Soviets we're prepared to match them and therefore if we do maybe they'll agree to take them out.

Bush, who was a former Head of the CIA and a former Ambassador to China, head of the liaison office, had tremendous diplomatic experience that nobody in the Reagan team had, not just President Reagan, but none of his senior staff had anything like George Bush's knowledge and experience, and judgment and facility for those diplomatic things. That was not something embedded in an Executive Order, but it was simply, "George, saddle your horse, get over there and keep Denmark in NATO."

KD: Let's take it down a level. Now you're on President Bush's staff accepting tasks that come in. As the S&L crisis started to kick up, what was the response?

RB: You've got the timing wrong. The S&L crisis started to get, there was the Hunt Commission under President Nixon in 1972, which said the single greatest problem of the American financial system was the rising crisis in the savings and loans. It was not a new problem. The savings and loans were created in the '30s and it was a fundamentally economically unstable model from day one.

KD: Right. But we got a response.

RB: So in '82, Congress deregulates the interest rates and says, here, you can use federal deposit insurance to raise all the deposits you want, and they raise \$650 billion at a time when they didn't have any capital. So throughout the Carter Administration and the Reagan Administration, those 12 years, it was not just a simmering crisis, it was a conflagration that was building.

Throughout the time of Bush's vice presidency I was the point person for following this, and understanding it, and trying to diagnose it. We had, not formally in the task group, but in the discussions, tried to urge Reagan's policy people that they really needed to step in. This is always hard because the people running the savings and loan regulators at that time are Reagan appointees, so it's not somebody else, it's your own administration. But there's a forest fire going on over here and look where it's going. I vividly remember one presentation that I made to one of the top policy people in Reagan's White House. He smiled at me and he said, "Richard, I think this is a problem for the next administration."

Since the 1930s, Congress and administration after administration had kicked the can down the road. But the problem was when you deregulated interest rates you gave an unlimited supply of fuel to the fire. All during this time we were thinking about knowing, he's running for President and he might win. We all thought he would win, but this is going to land in our lap. So there was a lot of planning that went on, mostly in the '86 to '88 period, while I'm no longer in the White House, but we didn't stop thinking about it.

So when he won the election, I then was asked to come back in as incoming assistant to the president, of whom there were 12, we had 12, the most senior White House staff position. It was to come back in and lead the effort to stop the savings and loan crisis from destroying the American economy which it would have done. We would have had 2008 in 1989 had we not successfully extinguished the fire.

From November through January we worked full time, seven days a week, thinking about and talking to people, and reviewing the analyses, and trying to be sure we had the data

and ideas, and building a framework. We were fortunate because Nick Brady who had come in as Treasury Secretary at the end of Reagan's second term was going to carry over as Secretary of Treasury for Bush. So we had a bridge in Nick and his staff of people who were going to be involved in that effort. Myself and Governor Sununu, who was the incoming Chief Staff, and some others, principally myself, were busy figuring out what our plan was going to be.

You can see the results. We all went to Camp David, I think it was the second weekend after Inauguration for the President to make his final decisions. Back in December, I had given him a series of briefing papers, and more importantly, decision papers of options of what you're going to do. The scale of the crisis I think was still, we did such a good job eliminating the crisis that people forget how dangerous it was.

There were 110 million Americans who had insured deposits, \$1.3 trillion in insured deposits in 1989 dollars, in savings and loan institutions backed by an insurance fund that had three billion in cash backing nearly two trillion, billions backing trillions. That's not enough. The FSLIC had a statutory line of authority to borrow from the Treasury, capped at \$750 million, which would not handle even one large savings and loan closure.

There was a nationwide silent run going on. As a group they were losing \$30 to \$40 billion a month at that point. And the cupboard was empty after years of the second Reagan term when the savings and loan regulator kept trying to merge insolvent institutions. But the number of insolvent firms was going up, not down, because they were now paying triple the interest rates they used to pay. The cost of money was very high and they were losing money hand over fist in all these new loans. When they tried to go out and enter new markets, not surprisingly if you don't know an area like commercial lending and you do it for the first time you make a lot of mistakes.

Then we had a national real estate crisis and that was the real killer after tax reform, in 1986, which took away a lot of the tax benefits for every industry, including real estate. It was a huge slump in commercial real estate, so the savings and loans which had poured

their money into real estate loans, get whacked again. In the aggregate there were hundreds of billions of dollars of troubled assets sitting on the books of savings and loans being financed by very high, pricey deposits, so that was what we set out to cure.

Three weeks into his administration we came back from Camp David, the President made his decisions and we announced the program late January or early February, record speed to have a massive legislative program announced three weeks into a president's tenure. We then wrote the legislation and went to Congress, and it was signed in the Rose Garden that August.

KD: You make it sound so easy.

RB: It worked out well, but it was not easy every step along the way. But I think people, hopefully history will recognize the incredible skill and character of George Bush as President. He had served in the House of Representatives. He was bipartisan to the bottom of his shoes. He did not believe, in fact he told us just before Inauguration, warned the senior staff, he said, "I was not elected to be President of the Republicans, I was elected to be President of the United States, all the people. And your job as my staff is to find the best ideas in America, and I don't care who thought them up, to solve our problems." This combination of a new president and a honeymoon period, and a person that was widely respected on the Hill enabled us to pass that legislation with huge bipartisan majorities.

We then created the Resolution Trust Corporation and we issued tens of billions in bonds to pay the costs of closing savings and loans. And for the first time in American history, financial history, we actually solved a problem and we solved it once and for all, for good, finally, permanently. Bush used to look at me in the White House and say, "Richard, whatever you put in this plan it had better work and I don't want to have to come back and do this again. So solve this problem." He was very adamant that instead of trying to minimize the pain and minimize, and just do barely enough, he said, "No, put the fire out and I don't care what it takes, but get it done, because I have to be able to look the public in the eye and say this problem is done, and it's not going to bite us again.

Whatever it costs, it's the tragedy, it's the legacy of decades, literally of mismanagement, but let's get it fixed." And we did

KD: Were there hurdles in Congress that you had to get passed with this?

RB: There are always hurdles. You can't pass legislation without hurdles.

KD: Did this give you more experience working with Congress?

RB: I worked with Congress. We announced the plan in January and at that point it was a fairly compact set of principles. We then gathered together all the general counsels of the agencies.

The plan was 18 pages when it came out of my typewriter. I still used a manual typewriter in those days. It was 18 pages, single-spaced. We gathered together all the general counsels of all the agencies that had been the Bush task group. We put them in a room at Treasury. We fed pizzas under the door for three weeks and out came the legislative language, which was about 340 pages. When it came back from Capitol Hill, it was 1,285 pages or something like that, 1,800 pages. I used to say there were about 1,500 pages in there that I didn't vouch for. Our 300, I definitely would vouch for.

From March when we first sent the bill up, to August when we signed it, I spent most of my time working with Congress and all the different committees. The bill was very broad gauged. It created a new regulator. It created a new insurance fund. It redid the financing for deposit insurance. It passed widespread new criminal penalties for fraud on insured banks. It tried to plug some of the chronic regulatory problems, regulatory accounting principles. I won't belabor our history here with the sad saga of regulatory accounting principles other than to say no country should ever want them.

It covered a huge amount of ground, which meant that we had more than half the committees in the Congress with jurisdiction over parts of the bill. So I spent a huge

amount of time up on the Hill trying to walk people through what we were doing and why, and answer their questions, and talk about alternatives. It was a very enjoyable experience actually for me. It was hard work, but I made a lot of friends on the Hill, people who saw it as a huge national problem and this was an opportunity for Congress to step forward.

We couldn't do it administratively. It had to be done with legislation. Congress had to act, and more importantly, I think many of the members believed that it was time that Congress should act. I think the outcome was something everybody was proud of to this day.

KD: Let's work our way toward the Commission. Were you keeping a close eye on the SEC? Was the possibility that you would end up in the Chairman's seat? Did it ever go through your mind?

RB: No. I had the savings and loan crisis, and I was also in charge of the cleanup of the Alaska oil spoil, so I had my hands full. When I wasn't doing that I was supposed to worry about border security, although I really didn't have time to get much into border security. Whenever there was an oil spill or an environmental problem—within the White House you have different agencies that staff members have to worry about. I had to worry FEMA and NASA, and immigration, not immigration in the debates we have now, but physical border security. We weren't trying to build a wall then, but border security is an issue for any country and it was then as now. So I wasn't worried about the SEC.

My only contact with it at that stage in the White House was that I informally, because of all the time I had spent, one of my jobs on the senior staff was to vet all the appointments going into financial agencies. Presidential personnel did all the work, but before somebody would be appointed to run one of those agencies there would be a smell test from a policy perspective of whether the person was consistent with the President's views.

There had been a search going on for the heads of all the agencies. You have a turnover in an administration, and President Bush was fairly adamant that he didn't want, he

prized the holdover Reagan appointees. They were his friends, they were his colleagues. He admired the job they had done, but he believed it was time to turn over a leaf. President Reagan was no longer President, there was a new president and he should bring in new blood, so the heads of every agency were gradually being replaced.

I used to sit in on, not always financial agencies, but there were two of us who were in charge of domestic policy. I didn't have anything to do with appointments at the Defense Department or State Department, but things in the domestic economy, in addition to the pure presidential personnel there would be exposure of potential candidates in senior jobs.

KD: So you had seen the SEC from that perspective.

RB: At that time I wasn't looking at the SEC per se. I just knew a couple of people came up, a couple of names surfaced and each time they got shot down, not in the White House. We did have a Treasury Secretary who was former head of a securities firm and had definite opinions about persons who should lead the SEC, or qualified to lead the SEC. A couple of people, names had gotten close and not made it over the goal line.

KD: How did you find out that you were under consideration for that post?

RB: I talked to the President about it. I saw the President every single day. Talk about open door policies, I could go see the President whenever I wanted. Sometimes I felt like trying to hide. The Alaska oil spill was one of those events. The Exxon Valdez, the skipper decides to put the tanker up on a reef in the middle of pristine wilderness eight hours from the nearest human habitation. It took a couple of days before it burst on the national consciousness of the scale of this disaster, and the fish and the wildlife, and the scenery.

Then 41 being 41 said, "Well let's get this fixed." So I was in charge, in the White House of coordinating that effort. We'd have a meeting. I remember one day early on we had a meeting in the Oval. Talking about, I actually brought a naval chart, laid it on the floor in the Oval Office to show him where this was because it was not easy to get at. The

meeting ends. About 45 minutes later, the phone rings. It's the President. "Richard, how's the cleanup going?" "Mr. President, about the same as it was when we spoke 45 minutes ago," is what you want to say. I had to phrase it a little differently. I was completely busy and focused on savings and loan stuff, with Alaska and some other things thrown in. I was not really paying attention to anything other than those things going on.

Let's go to the SEC. The President told me he thought my going over there made a lot of sense, so it came to be.

KD: Why did it make a lot of sense to him?

RB: Unfortunately, I wish you could ask him, but you'd have to ask him. He had worked with me for ten or eleven years. He had seen me solve the greatest financial crisis since 1934. I don't know what other reasons he might have had.

KD: Did he talk to you about what he wanted to see at the SEC?

RB: Yes. The day before I went over there, after I got confirmed, we were down at the White House mess and having lunch. I think Jim Baker was there. We're having lunch, Baker got up to talk to someone, and I said to the President, "You know, Mr. President, I get confirmed, as you know. Tomorrow is my first day." I think it was a goodbye lunch or something. It was just two or three of us. I said, "These Mission Impossible movies, they start with this tape. You put the tape in and it tells you the mission, then it self-destructs. As of tomorrow I'm going to be running an independent agency. You're not supposed to give me orders, but we've never really talked about the mission. Maybe this would be a good time if you want to give me any instructions." I don't remember the exact words. We were kind of joking.

He thought for a little bit. He had worked with me for all this time. He had total confidence in my judgment, total confidence in my knowledge of the issue and the markets. He wanted me to use the good judgment I had and to do whatever I felt was the

right thing. He said, “Don’t worry about politics. Don’t worry about who’s going to think you’re popular and not popular.” He said, “Do the right thing and if you do that you’re going to do a great job and I’m going to be very proud of you.” That was the extent of any direction I had from him. He did also say that he was sending me over to have me lead the Commission, not to have them lead me, and that always stuck with me.

Bush is, I think one of the greatest, I think history over time will rate him very highly, certainly in my view he deserves to be, he was an extraordinary person in many ways. He had worked in many parts of government and he had a huge respect for senior staff and for the people who make the government work. There wasn’t any context of, in the Reagan Administration there had sometimes been a shrink the government, some of the deep state issues you have in modern times of lack of comfort, Bush didn’t have any of that. It was not part of his DNA. The world to him broke down into people who were competent and people who were not, people who were gradations of competency or incompetency. He didn’t wake up thinking about people as Republicans or Democrats, or black or white. It was meritocracy in his eyes.

It made it easy going over to the Commission because in many respects, not only the knowledge I had, but the close relationship I had with the President were huge advantages to me. Among other things, he assured me that I knew the presidential personnel process. It used to, in part, report to me, that nobody would be appointed that I wasn’t comfortable to any position at the SEC. And conversely, we didn’t quite say it, but I knew I had his confidence. The last thing I would do in my life would be to do anything to lose that confidence. But I knew if I wanted to appoint someone who was a Democrat rather than a Republican, if I thought that was the best person for the job that it would be fine with him, and that I should feel free to do it, which I did on multiple occasions.

The bond I had with the President was an immense asset to many facets of running the Commission in personnel appointments, budgets, things like that. I had credibility where it counted inside the Oval Office, not that the Oval Office messes around with an independent agency like the SEC, they don’t. The Bush White House didn’t, the Reagan

White House didn't. I suspect most White Houses don't. But if you need something like tripling your budget, which I did, that has to go through the White House. It has to go through OMB.

I remember our first year the Administrative Director of the SEC comes in. We're preparing, we have to submit a budget. The SEC regrettably is on budget, though I tried to get it off budget like the Federal Reserve, but failed. It was on budget, so we were preparing our budgetary request. I said, we should go for this, and this, and this. He laid out some options. I gave him a number of what I thought the total ought to be. Jim McConnell, a wonderful guy and wonderful staff like virtually every one in my senior staff, were tremendous people, he was horrified. He said, "We can't send that number over." I said, "Why not? I'm Chairman. Why can't I send it over?" He said, "No, no, no, OMB has already told us that the budget can't be more than 2 percent growth." I said, "Who told you that?" He said, "OMB." I said, "OMB is a lot of people. Let's start with Dick Darman." "Did he tell you that?" "No." Named the Deputy. "No."

We got down to one of the four pads who were the area chiefs and that person. The SEC was actually fairly low on the totem pole. Our budget when I started was \$172 million, I think, smaller than the budget for military bands. And we made a profit. We collected far more than that in fees. I was not bashful in saying we needed resources. In the Reagan Administration, I think the SEC's budget had actually declined in nominal dollars by about 25 percent, a huge source of controversy within the Commission and among the commissioners, but it had happened.

The agency was literally starving and I was determined to change that. McConnell said, "You can't ask for that." And I said, "Watch me." So I wrote a number that was a hundred percent increase, went over and it was approved. Imagine that. The next year, it happened again. Year after that, it happened again. So we were able to win resources for things.

When I started, the SEC had no email. It had no internet connectivity. It had no LANs, no WANs, no nothing. People wrote memos on typewriters and called each other on the telephone. The number of computers at the agency was very small. The number of information services—there were two, a grand total of two terminals to report the stock prices in the entire SEC, and they were sitting out in the hallway, one, so that divisions could share them. Imagine, we had just been through two years earlier the crash of '87. The Securities Exchange Commission in the United States has only two machines to tell you what's going on in the market. To find out what's going on in the New York Stock Exchange, when I arrived they would pick up the phone, call, hope the line wasn't busy, call the New York Stock Exchange, ask them, what's it look like. This is before cable TV with the prices going on. It was tragic crazy how under-resourced the agency was and I was determined to change that, and I did.

KD: Give me some more things beyond the budget. You were talking about organizational culture. What were some of the strengths, some of the weaknesses in the Commission when you came in?

RB: The strengths are we'd need weeks to go through this.

KD: Give me the thumbnail version.

RB: The strengths, this is an agency that is unique in all the world. I had seen it in private practice. I had seen it in the White House. I knew it to be true. And of course as Chairman I saw it even more so. Most agencies in the United States government build things. They build bridges, they build aircraft carriers, they build interstate highways or they give away money. They pay Medicare, Medicaid, food stamps, whatever. But transfer payments and acquiring things, the SEC isn't about either one of those.

There are other law enforcement agencies like the FBI and so on, but the SEC is really about values. And the values we expect in our capital markets, which are the single critical underpinning of the entire American economy and our way of life. The SEC was

founded on values of openness and fairness, and efficiency, but overwhelmingly the open market had to be fair to the little guy as well as to the big guy. It had to be open. Louis Brandeis's immortal quote, "Sunlight was the best disinfectant."

The Commission, as tiny as it is, had this extraordinary role in underpinning the capital markets, which finance the entire economy, because the banking system, unlike in Europe, the U.S. economy isn't run by commercial loans like the ones I used to document when I was in Wall Street. That's a tiny fraction of where the money for the economy comes from. It comes through the public markets. It is a pivotally important agency to everything else that happens in the domestic sphere, so it better be good, because the consequences, if the Commission gets it wrong, could be devastating.

I knew it was a very important agency. Culturally it had a proud history. It has a proud history of an agency that from a birth in the wake of the crash of '29 had created a structure built over time, addressing capital formation in issuers, addressing proxy rules, disclosures to shareholders, addressing trading markets and the stability of those markets, the barrenness of those markets, how do exchanges work. Make sure that they are the public interest, mutual funds. The Investment Company Act of 1940, which transformed the savings culture of America, actually reached its fiftieth anniversary when I was Chairman.

You had this tremendous span of responsibilities for the Commission, and yet it had always been a very small staff that had to be resilient, had to be flexible and had to rely on market mechanisms. It wasn't an agency sitting around rubber stamping pieces of paper. It had to let the markets go, but stop the worst abuses.

Big picture, the number one enemy of capitalism is corruption. Capitalist markets, this gets into personal beliefs, but in my view, are the engine for the greatest wealth development humans have ever come up with, but the vulnerability of capitalist systems is the potential for corruption. And the SEC is the principle bulwark against corruption of our markets.

KD: We were talking about the strengths and weaknesses of the SEC and you were emphasizing that disclosure-based regulation was fundamental.

RB: I think the Commission has, and we can talk about each of the different areas, I think they each fit together in a relatively seamless way that reinforces themselves. In many ways the disclosure principles are administered in the Corporation Finance Division, but the offerings that are made by issuers and the continuous disclosures reflect a core value of the Commission in transparency. We always used to talk about Justice Brandeis and his famous quote, “Sunlight is the best disinfectant,” and is better than other forms of oversight because something that’s out on the table for everyone to see the problems can’t hide.

That really is the bread and butter of one major component of the Commission, that dedication to the value system that America as a democracy should not have its capital markets or its corporate system behind closed doors. It should be open, it should be visible to the people. At that time there were probably 50 million Americans owning stock and what goes on in those corporations and in those capital markets should be visible to the country and that’s our best protection against capitalism’s greatest enemy, which is corruption.

Capitalist systems can deliver standards of living beyond any other system yet tried on the planet, but they are vulnerable to crony capitalism and market principles being tamped down and replaced by collusion. It is the SEC’s job to see that though that may happen in China or it may happen in Peru, or it may happen wherever, that it doesn’t happen in the United States of America. That’s a mission that inspires, has inspired the people who walk through the door at the SEC since 1934, and remains critical today. You are the firemen. You are the protectors of that openness.

KD: Let’s talk about when you walked through the door at the SEC. Did you go into it thinking that you would develop an agenda of some sort, come up with a plan or was it much more of reactive experience?

RB: I think any government job is in part reactive. You can't tell the world to just stop while you do what you're planning to do, so that's inherent in things. I had a pretty good idea of things I wanted to accomplish, things I had seen.

I used to do an IPO all day long, every day, six days a week, going to the printers until four and five in the morning, every night of the week. When I was first or second year in private practice I did the largest self-tender share buyback in the history of the United States. This was the very early birth of the hostile M & A movement and I had been very much involved in my New York law practice in that. The Williams Act and the M & A world and the IPO world, and the offerings practice were things that I knew extremely well and had seen at very close range, and understood the importance of things like the trading rules that governed execution of orders on the floor of the New York Stock Exchange, I hadn't dealt with in practice. But I was certainly well versed in the transactional side of practice.

In that sense, I suppose historically, it sets me apart from many chairmen who come to the SEC with a background in litigation and enforcement. I thought Enforcement was really important, a critical part of the SEC's capabilities and what enables it to deliver on its mission. My background wasn't suing people and putting them in jail, my background was helping people raise capital, and that was what I had a pretty significant focus on.

Also, international transactions. When I was in my first year of private practice, I had one client that was negotiating a joint venture between a small company in upstate New York and a giant state-owned French company to try and develop a new technology. I worked on a little high-tech American company that was developing plants in Northern Ireland with the assistance from the EU. I had done projects in Japan. So I had seen in my New York law practice, I tried to collect loans, banks that made it to Iran. I had seen international capital markets such as they were in the 1970s when I was practicing law, developing, and I knew that the Commission wasn't ready for it. The Commission had been in a domestic mind warp because there were almost no foreign companies really

traded here. There were ADRs and there were token listings, but big industrial companies from around the world were not coming here to do primary offerings and raise capital, but I felt it was likely they would.

I lived through the collapse of the Berlin Wall and the final stages of the Cold War, and this cataclysmic global transformation where 40, 50 percent of the population of the world went from being under socialist economies to market-based economies. These forces were coming on the market. Technology was enabling things that had never been done before in almost every area. So the impact on the Commission on those forces was such that I thought that when I was coming in one of my principle focuses was to make sure that the Commission addressed itself to these kinds of forces.

I remember—when you are nominated for a job that requires Senate confirmation you have a series of briefings with the staff to prepare you for your confirmation hearings because you'll get asked very detailed questions about this rule and that rule, and you do agree with this, or do you not agree with that. I had a briefing session with each of the Commission's divisions the last couple of hours before my confirmation hearing.

And I made it a point in every one of those sessions to begin asking them questions about the international aspects of their program because I knew that the first briefing that happened, all the other division directors would be in that division director's office five minutes after I walked out the door saying, what's he like, what's he interested in, what were the questions like, how did he do, to help prepare them. And I wanted them to say, you'd better be ready to answer about what we're doing about international markets and international capital flows because he's really interested in that. So that was another area. In almost every area I had areas that I thought could be improved.

KD: Let's talk about the creation of the Office of International Affairs because that was a fairly early initiative that you took.

RB: It was indeed.

KD: You've discussed the fact that you are interested in this. You followed it all these years. You had seen the collapse of the Wall. What was the challenge of getting this new entity up and running within the Commission?

RB: Leadership. It was not hard. If I said it was going to happen, it was going to happen. Yes, I would have to get buy-in from the other commissioners, but organizing the divisions is not something that you would normally anticipate having a struggle among the commissioners on. And several of my commissioners were similarly interested in the international side of things. The Commission—when I got there, I started trying to inform myself as deeply and thoroughly as I could on the state of play in international issues and what the Commission had been doing, and what it could do. The starting point was those briefings in advance of my confirmation hearing. Then once I arrived at the Commission that became a constant focus.

It became clear that there was an immense amount of work to be done, as I knew when I came in. In the late '80s, you had a series of high-profile insider trading prosecutions, Ivan Boesky and Jeffrey Siegel, and a large number of cases. One of the big early insider trading cases that had become very noteworthy was one involving trading by an American on inside information that had been run through accounts in Bahamian banks and then on to Beirut. Usually they went through Beirut back to Paris, then to the Bahamas again, eventually. You had somebody sitting in the United States using the mail, using telephones, using jurisdictional means to conduct trading in New York on the basis of illegal information, unlawful activity, but routing that to avoid detection through other countries. So I knew that was an issue. And more broadly a number of other policy issues between the U.S. and trading partners around the world.

KD: Had there been any Memorandums of Understanding created before you came in?

RB: Yes. The Memorandum of Understanding is a unique device of a treaty-light, a document that the parties intend or promise each they will obey as if it a treaty, but it isn't a treaty

because that requires majority vote by the U.S. Senate, and that's hard to get. Plus agencies like the SEC are not allowed to negotiate treaties. The State Department does that. There had been in these cases—one of the big ones and most pivotal ones before I became Chairman involved trading in Santa Fe Industries that was financed by persons in Kuwait. You had a number of big controversial cases. The SEC had started to work in its normal way piece by piece to find a way to make things happen.

There was an individual on the SEC staff, Michael Mann, who became indispensable to me as my first Director of the Office of International Affairs. Michael was working in the Enforcement Division. His career had evolved from a very early time in his career in the Commission to negotiating information sharing problems between the U.S. and Switzerland, between the U.S. and Britain, involving Kuwaitis. I think there was interest on the part of some countries in not becoming pariahs, in particular Switzerland, because of a very interesting and pivotal role in the role of Swiss bank secrecy. But under Swiss law bank secrecy does not extend to condoning criminal activities. So you had the desire as a competitive matter to have bank secrecy, but not to be seen as a haven for criminality.

Michael's oral history is one people should read and refer to because he's the master of these things, but Santa Fe gave a lot of impetus in the U.S.—the SEC worked out an early deal with the Swiss that Michael and I later elevated and improved considerably. There were one or two others. The Brits might have done something. There might have been an early one with Japan.

There were two or three of these MOUs, but it was not at all widespread, just selective. The bad guys had figured out this is an easy way to throw the SEC off the scent. And there were still huge insider trading cases going on. This is the era of a Goldman Sachs partner being walked off the trading floor in handcuffs, the level of controversy over some of the big insider trading cases. It was essential for us to be able to get information about people who had committed crimes or illegal acts in the U.S., but had used international borders to try and cloak what they were doing. And in return we were

certainly happy to try and provide reciprocal help. It turned out we didn't initially have the statutory authority to do that, but we later got it.

KD: When did you get it?

RB: I don't remember, but we got it.

KD: Was it during your chairmanship?

RB: Yes, I'm pretty sure. But we would have cooperated anyway as best we could. There were some technical glitches in every country on both sides. This was something that hadn't been done before. Michael had developed the model, the template, and had been the steady hand at the Commission pushing it forward. But you couldn't walk into somebody's office and ask them what they thought about MOUs. MOUs about what?

We had the guy, he had developed the model, it was needed by the times, but there he was buried in the bureaucracy of the Enforcement Division. I said, what's up with that? To me, it was very clear that since I had so many international issues I wanted to pursue and I felt the Commission fundamentally needed to be as involved globally as it would be domestically, that we needed an office, a division, that would focus on international matters, not as a byproduct of other things they were doing and not when they would get around to it, but from morning to night every day. That was a controversial decision within the Commission.

Linda Quinn, who then headed Corporation Finance, one of the most brilliant people I've ever known, bless her soul, a national tragedy when Linda passed away. I think she would have been a future SEC Chairman and had so much to contribute, a personal and national loss that we lost Linda at such a young age. Linda then running Corp Fin and the Enforcement folks, Market Reg, they didn't usually agree on very much, but they all agreed Michael should not be a division director. It wasn't because of Michael, it was because they didn't want to have to negotiate with a peer. It was much easier to keep this international

program under control if it was buried in somebody's department. Well that conversation didn't last very long. I just told them they didn't have a vote on that question and I probably put it more nicely than that. They had a certain amount of time to figure it out.

Michael would probably hate to hear me say this, but he's really an exceptionally talented diplomat and understood the importance of having the international affairs division born out of consensus rather than out of controversy. There was plenty of work to do and he didn't need to steal anybody's turf. He needed to just be able to work one-on-one directly with me. I was insistent that he was going to be a direct report to me, not through someone else, and we got it done. This worked extremely well and the office was very busy.

I think we signed 18 MOUs while I was Chairman and eight or nine, or ten Technical Assistance Agreements. I don't remember the exact number. We not only wanted to exchange information with established markets, but we wanted to use our knowledge and expertise to help emerging markets that wanted to pursue larger and more robust capital markets to help them do so. So we offered to help technical assistance as part of our package of things we did in working with different countries. What Britain needs (they didn't need anything from us, which was fine) was different from what Poland needs or the Czech Republic, or Hungary. So we did both and Michael proved very versatile in building a program that would handle both MOUs and technical assistance.

Then later we layered on the International Institute, which I created and is still running to this day. I'm not quite sure why they haven't named it after me since I created it, poor judgment, I guess, or oversight perhaps. Anyway we created it and it was Michael and I trying to decide how we could best help. We had simultaneously dozens and dozens of countries that were liberated from socialist economies. Literally the Russian Army just left. Now what do we do? We now want to start rebuilding the economies throughout Eastern Europe. They wanted to rebuild, but they hadn't had market economies or anything remotely. Sometimes even before the Soviet era they hadn't had much of what we would recognize as a market economy. But yet that was the direction the world had

turned. The Cold War was over. It was time to have a market economy. People would call up, can you help us get a market?

I used to joke that maybe DARPA, which was the black box guys over at the Pentagon, could develop for me, an “air-something” that could be deployed by a C-130 that would have a market in a box and you can push it out on a parachute, and it would land, and would have a probe that would go out searching for an electric connection and a satellite dish that would self-deploy, like a lunar lander and that we would say there’s your stock market, it will be dropped in the jungle over here.

Seriously, I make light of it, but there was a thirst, a real genuine thirst, it was an exciting time because minds that had been focused by the Cold War for a half century, all of a sudden were all free. It’s kind of the mindset. Broadly speaking, in the world there are two models of capitalist structures, universal banking, the Germans or the American public capital markets. I had a distinct idea and preference of which system other countries should adopt in their interest as well as in ours. Universal banking is simpler to understand. You have one big bank. You subsidize it, it monopolizes things and there’s your system versus this capital market, this fractious, you have all these different kinds of firms, all this activity, and how do you control this.

We wanted in the institute to create a mechanism for helping countries and market authorities, so either people running a stock exchange or in administrative finance, or an SEC to share with them the techniques that the SEC uses to regulate a capital market. So we set up this school to run for two weeks, and our first session, we didn’t know who to invite. It had never been done before. So Michael and I noodled over that for quite a while. We finally decided we would send a letter to the U.S. Ambassador in all the countries that we thought would be interested or might be interested, and we would also send a letter to the Finance Minister in those countries and in some cases to the Head of the Central Bank. And we would tell them that we were going to hold this school for two weeks. We would help people who came get internships in U.S. private sector firms for another two weeks if they wanted, and here are the dates, and you’re invited.

We had no idea whether anyone would come. Obviously, there was no track record. We didn't even know whether we were reaching the right people or not, so I had some anxious moments wondering whether we would have the inaugural session and nobody would be sitting in the audience. Michael came in one day and I asked him how it was going. He said, "We have a major problem." I said, "What is it?" He said, "We only have 95 chairs in the meeting room and we've got 120 requests to come, and they're still coming in." So we discovered that there was quite a thirst for what we were preparing to offer.

It's a lot of work to take the division directors and the senior staff, and really have them focus on, they all give speeches to groups of lawyers constantly. But it's really how to focus that on people who have a baby market that's just developing and how to help equip both the regulatory side and the market side with the challenges that are going to come your way.

It was a wonderful success the first year and then every year the attendance grew, and we had to figure out how to get more chairs and more people in the room. But it's been a wonderful example. I felt from the first day I was involved to today that the SEC has an immense amount of knowledge to share with the world because we've spent 85 years figuring out the tricky problems.

KD: You mentioned that other divisions had some involvement in international things as well. One of the things I thought was interesting was Reg S and 144A, both of which are important to internationalization on a broader scale. Those seem to have been in the works when you got there.

RB: Lots of things were in the works when I got there.

KD: What did it take to get those two things to happen?

RB: I don't much remember. Reg S is a very complicated reg, hopefully useful. Linda Quinn said we should do it. That was enough for me, but I looked at it a little more than that. Reg 144A, on the other hand, I was deeply involved in. Linda and her team had been developing that and the simple principle the SEC had for decades provided private offering exemptions. But things that were sold in a private placement could never then be traded by that purchaser. So if New York Life bought privately placed notes or bonds from General Motors they had to hold them. Unless the company came in and registered them later on they pretty much had to hold to term or sell them back to the company at discount or something else. Naturally those buyers would demand a premium return for that liquidity.

The Corp Fin concept that Linda had built into 144A was a perfectly logical extension of those decades of work of the SEC defining what could be privately placed without the registration protections of the 33 Act. It then said if you're a qualified institutional buyer of a private placement and you're New York Life and you bought these General Motors bonds, if Met Life wants to buy them from you that's fine. You're both QUIBs, you're both qualified institutional buyers, and why would the SEC care if one insurance company trades it to another as you're managing their liquidities.

I didn't think it was a particularly, you didn't have to be a rocket scientist to see the logic of it. Where you had to be careful and thoughtful was in constructing the rule and making sure the Commission staff, Corp Fin in particular, is always careful when they're creating a door to let some people out of the prospectus requirements, that the door—they know exactly how big the door is and that it not turn out to be something that could be abused.

I don't remember the exact numbers, but I know when the first draft of the rule came to me the concept was great. It made perfect sense. I thought it was too small. I thought they were so worried about the door being too big that there were only three or four qualified institutional buyers in the world and you could only sell this, trade something that was five million in size, or something. I broadened the rule and the exemption in every direction consistent with the principles, but I just told Linda if we're going to do this, let's be bold,

not timid. So I went to the commissioners and we talked, and there was unanimity, maybe one person against it. I don't remember, but very broad support, so we did it.

Trillions and trillions of dollars have been issued under 144A at lower cost, not just at lower cost in registration, but lower cost to issuers, making the capital markets more efficient. If you give people liquidity then they don't have to demand an ill liquidity premium.

KD: One last thing on the topic of internationalization, IOSCO. It appears that you were involved with that organization as well during your time.

RB: That's putting it mildly. IOSCO was the International Organization of Securities Commissions, then headquartered in Montreal, I believe. I suppose Montreal because one of the very close relationships in the securities regulatory world was between the SEC and the Canadian regulators, particularly with Quebec and Ontario, and some issues with British Columbia and penny stocks, but very close relations, particularly with Ontario and the Toronto Exchange, but also with Quebec.

We developed and implemented what we called a multi-jurisdictional disclosure that allowed the Canadian companies to issue in the U.S. using only their Canadian documents because their requirements were so closely parallel to ours, and they agreed and vice versa. The U.S.-Canadian relationship had been strong and in IOSCO originally, you had the SEC, the Canadian regulators, and then a mixed group of other countries that had major markets, but whose membership in IOSCO was mixed.

The Swiss originally were represented by the Swiss Bankers Association and the Germans had a representative that was a private sector German group that later became the German Banking Regulator. In the U.K., they were going through a period where they changed who their regulator was about every six months, every 18 months. It was a constant change, they had big bang, little bang, medium size bang, and they constantly changed who their regulator was. The British regulator in its different incarnations was there, it was the

Securities and Investment Board while I was Chairman, headed by Sir David Walker, who was a great friend and terrific individual, which I was close to. We had good cooperation. We had the Japanese Ministry of Finance, the equivalent of the U.S. Treasury in from Japan.

So the composition of the membership was different. IOSCO had functioned as a meeting place where regulators got to know one another personally. One should never underestimate the importance of that because when you need to do something then it's not just a name or not just a voice on the other end of the phone. But it hadn't really done much of substance.

By contrast, over in the banking side you had what had once been called Cooke Committee for Peter Cooke from the Bank Committee who chaired it. It later became known as the Basel Banking Committee. The central banks had made an industry out of their committee that cooperated. In fact, a good friend of mine, David Mullins, who became Vice Chair of the Fed was at Treasury when we were doing the Thrift Bill and then became Vice Chair of the Fed. His wife worked as a staff member for me and we were very close friends. David would describe his monthly trip to Basel to sit and coordinate.

Frankly I thought the securities community needed something much more homogeneous that was regulators only, where you could talk about supervisory issues and enforcement issues, and you can't do that if there's a trade association in the room. So we needed to help IOSCO evolve into something more like the institutional capabilities that existed in banking. Michael Mann, again, was instrumental in that in helping.

One of the first changes was, I began going to the IOSCO meetings personally. That hadn't typically been the case and that automatically upped the game and upped the ante, and encouraged counterparts who wanted to spend time with the Chairman of the SEC to come as well. So I started going and then we offered to do a study for the group of IOSCO and how it operated and see if we could recommend improvements. And Michael and his team wrote a terrific study that essentially proposed to take something called the

Technical Committee and build it into a model of what existed in Basel, as close as we could get. Not trying to do it in banking, they actually go to adopting global rules, which is probably a topic for another day, but I thought was a bad idea generally because they become inflexible. They're so hard. It takes you ten years to negotiate them, then when the market changes in three months it takes you another ten years to adjust your rules, and you can never catch up.

Common principles were, I thought, vital and they were missing across the board. Insider trading was illegal in the United States. It was a national sport in several countries that were on the Technical Committee, in those days. By the time I left it was pretty much illegal in every one of those countries.

But we succeeded in persuading the members of IOSCO to really invest intellectual capital into the work of IOSCO. They saw that it could be a bridge between the European Commission and the U.S, and that it was a nice meeting place without any framework at the outset of compulsory rules. It was just a place to exchange dialogue, exchange studies, and the serious people in the commissions all over the major markets could get together and have a program that worked.

We did a standard of MOUs that helped open the door for more and more MOUs and what should be in them, what shouldn't, and the principles that underlined that. Linda Quinn pulled off a worldwide agreement on global auditing standards. Account standards was controversial, but we were able to agree on what auditing standards should be on a global basis in almost every market adopted. We got some tremendous results, dividends out of the work at IOSCO.

KD: Terrific. I think that's a great place to wrap up for today.