U.S. Securities and Exchange Commission
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Press Coffee with Chairman John S.R. Shad
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CHAIRMAN SHAD:

You have received a very brief statement which will give you an indication of where "I'm coming from" in terms of my background and attitudes – bias, if you will – and I will be glad to respond to any questions which you would like to raise.

Q: Don't you look upon it as a tremendous waste that there are corporations going out and trying the raise $3 billion to $5 dollars to buy existing businesses, when American industry as a whole is really starved for capital?

A. I'll tell you why I don't. Most situations where there is a merger or takeover involve a substantial premium for the existing shareholders' equity and are motivated by the belief that the acquirer can more effectively utilize the assets and organization than the company as an independent entity. I think that that has been, on balance, the result of these major mergers. So there has been a net economic gain, by and large.

Q. Most of the money, of course, goes to individual stockholders.

A. That is right, but they reinvest it. If they get a big premium, and invariably it is substantial, that is a direct, immediate enhancement – it is coming out of somebody else's coffers. In some of these foreign takeovers I have a concern, as the Congress does, over exportation of control of American companies – especially when it relates to the sort of thing that has been going on with Canada recently. This is an area that the Administration and the SEC have addressed, as well as the Senate Banking Committee, in its present hearings. However, to the extent that money is being brought in from Canada and premium prices are being paid, that is a form of capital formation; it is adding capital to the U.S. marketplace which those shareholders, in turn, reinvest in other securities, by and large. But, the question is whether it should be on a fair, competitive basis with U.S. acquirors. We have supported the position that in the case of

acquisitions of over 5 percent of the company's shares, the buyer should be subject to the same margin requirements as domestic acquirors.

Q. Mr. Chairman, you were quoted as saying that you felt that corporate governance had been more form than substance. Do you think there have been any benefits to shareholders derived from the changes that have been made in the last three years in proxy rules and proxy statement forms?

A. I thought I had qualified my own statement – which had been taken from one of the public hearings. I think some of the consequences of corporate governance will not be apparent for quite a while. For instance, nominating committees of boards of directors consisting of independent directors, with a view to greater independence of boards. It will take a number of years before you will see whether or not that, in fact, results in greater independence of directors. Having been on quite a number of boards when I left Wall Street to come to the Commission two months ago – I resigned from the boards of eight NYSE companies – and as a so-called independent director in many of these companies, I was always being asked to serve on various committees, which I reluctantly did. I found that in some areas there was a lot of "make work" going on that could not justify the kind of time and talent that was gathered at the table concerning the issues confronted. It was not a very effective use. I have also said, I believe at the confirmation hearing, that nothing is free in this world and if we are to continue to impose more and more responsibilities and time requirements on directors, corporations will not be able to attract the top people – they are not going to be willing to accept those positions. That is especially true when their legal exposures are constantly increased. Some have said that we may end up with a high percentage of companies with boards that are not made up of the leading members of the business community, as they are today. I do not think the issue is black and white. I certainly have an open mind concerning aspects of it. But I would not say that it is clearly the answer to all the nation's problems or all corporate problems.

Q. A year or so ago, the SEC submitted to Congress a bill to revamp the Williams Act and change the tender offer laws. In view of the recent upsurge of hostile corporate takeovers, would you like to see legislation in this area?

A. The issue as to whether or not there should be further regulations issued concerning tender offers and takeovers is an area that is presently under review by the Commission.

Q. Has there been any other view toward following the same approach that was followed several years ago when the SEC drafted legislation?

A. I am sorry but I cannot answer. It is an area where several alternatives are being considered.

Q. Could you give us your assessment of the morale problem in the Enforcement Division; how you view it; and whether you think anything can be done to improve it.

A. I think that the Enforcement Division is one of the strongest and most effective organizations of its kind in government. I think that the morale problem is not as great as some of the stories I have read. In fact, I have not seen an actual story "on the morale problem", but I have seen what I thought were humorous illusions to it such as "The last guy out, turn out the lights." I think that is a gross exaggeration of the problem. John Fedders is – and many of you met him at the press conference where he was introduced to you – an absolutely outstanding person, with tremendous leadership qualities, who is committed to doing an outstanding job. I think that once he is on board – he will be joining us on July 20 – you will see a marked improvement in the attitude of some concerning that activity.

Q. Could you elaborate on what alternatives would be considered in the tender offer area?

A. I can't, because I have not spent the time on the overview of the tender offer alternatives.

Q. Is there any plan for the Commission to meet the leaders of the CFTC to work out jurisdictional overlaps?

A. Yes. In fact, there has been a meeting between Phil Johnson and myself, and our respective Executive Assistants, to talk about working this out between ourselves rather than making a major public issue of it. I really think that it would be desirable if we could do this

quietly, because doing it in press conferences and the public arena sometimes exacerbates the problems the two Commissions have.

Q. Following up on that, at the last meeting with the CFTC, was there an attitude that a decision could be reached with some kind of amicable unity, privately? The other question is part of a much larger issue and involves questions as to whether the whole regulatory structure of the financial services industry ought to be revamped.

A. As to the first point, it was an attitude of – "yes, let's see if we can" – by both of us. Everybody, I think, wants to resolve it on a reasonable basis. If it does to the courts or Congress – particularly if it goes to Congress – for resolution it could open up, as you have suggested, a much broader area of consideration – whether or not there should be consolidation, perhaps, of these areas within a single organization.

Q. What is your feeling about this?

A. I do not have a feeling on that issue. I think that we ought to deal with the discrete problem on the table and see if we can't work it out first.

Q. Do your have future meetings scheduled?

A. Our staffs are in conversation with a view to setting up meetings. I do not think we have a specific meeting scheduled at the moment, but that is what is in the works.

Q. Is your notion to work something out before the CFTC reauthorization comes out?

A. Yes. What is the date on that reauthorization? September 1982? I would hope that we could resolve our jurisdictional questions before then.

Q. Mr. Shad, Would you elaborate on what you think the SEC in particular, and the Administration in general, can do about the collapse of the bond market?

A. The SEC is taking deregulatory actions which will facilitate companies' public financings and simplify their required reporting, etc. But I think the bond market's primary problem is the product of inflation and high taxes. There is very little incentive to hold fixed income assets during a period of rising inflation. And that is what the Administration and others have said. The solution to the problem with the S&L's and the other thrift institutions, in the opinion of the

Commission, as we testified, is not to put greater regulation on the money funds. The reason the thrifts have their problems is in part due to over-regulation. Our direction would be to go the other way. We have said on this particular issue that the reserves are not required for investor protection purposes, which is the Commission's area of responsibility. I think that the bond market's problem is one of inflation and high taxes – tremendous disincentives to save and invest. When you tax interest at the rate of up to 70 percent, and when the capital gains tax rates are among the highest in the civilized world, you are not providing much incentive for people to put money into securities – and that's the capital formation process. You give them tremendous incentives to buy things like tax shelters and stamps and paintings. While that is a very pleasant hobby, it is certainly not capital formation in the sense of providing the oxygen injection furnaces in place of our open hearth furnaces so that we can compete with Japan and Germany. They are rebuilt with the most modern facilities that industry can provide and we are still using outmoded systems which we are not able adequately to depreciate to generate the cash to replace with effective modern facilities.

Q. Do you think the Commission could do more to make it easier for foreign firms to issue securities in this Country?

A. That is a question of concern. The question that it poses is, should we facilitate exportation of capital to countries which enjoy higher rates of capital formation, growth and productivity than we do and which do not afford U.S. corporations equal access to their markets? In fact, the Commission is committed – as is the Administration – to the free flow of capital throughout the world. The freest market in the world would be the Eurodollar market where there are less restrictions on issuers than even here. But the United States certainly has an open door policy toward access to our capital markets by foreign issuers. They would like us to provide for them even more lenient regulatory and reporting requirements than American companies comply with. Our regulations are not tougher than a lot of other countries because some are absolute in terms of the regulatory prerogatives. What we have achieved in America has been the most fluid, the most active, the best public markets for securities the world has ever

known. It is in part as a result of the confidence inspired by the SEC's regulatory activities – disclosure, enforcement, and antifraud prohibition.

Q. Do you see any particular enforcement problems ahead for the Commission in assuring the credibility of financial information or other areas?

A. I think, as was mentioned in the press conference for John Fedders, the emphasis will be on organized criminal activity, abuse of inside information, manipulation and fraudulent activities. Those are the hard core areas where enforcement has to do a good job.

Q. One of the things that I have noticed in recent years is that when a company is involved in enforcement proceedings, a consent decree is often entered which requires that certain things be done to the board of directors. Do you see that as a pattern that you would continue?

A. In some of the recent decisions that have come before the Commission, there have been questions raised by members of the Commission concerning the Commission's use of sanctions within the board itself. But it has been a tool used in the past, and I have not seen any kind of a serious question as to whether it is effective or not. My impression is that it must be or we would not be doing it, but I have not seen an analysis of that.

Q. Is more enforcement activity going to be transferred to the regional offices? The Los Angeles regional director seems to feel that is the case.

A. Yes, I saw his interview. I do not see that there is going to be any material change between the present home office and regional enforcement activities. They work extremely well together. There is a need for special talents and expertise that can function on a national basis. There are also things that go on that certainly move broadly across the nation, and which are not limited to any geographical area.

Q. But you don't see any moves towards decentralization?

A. No. But I am not making the policy in this area in the sense that these will be areas that perhaps John Fedders will want to carefully review. But I have not heard any questions raised that were serious. The transition report had suggestions along that line, but I have not heard anything since then.

Q. Speaking of the transition report, at your confirmation hearing you said you would not treat it as a guide, but a number of things that were in the report have come to pass. Mr. Sporkin has left the Commission, and your statement is very much concerned with capital formation, which the transition report says should be the primary focus of the Commission.

A. Did it say that? I read the report very carefully and do not recall that it gave that degree of emphasis.

Q. The Report recommended changes in the Foreign Corrupt Practices Act as well, I am wondering if anything else it recommended is going to be important?

A. If you take an overview of the transition report, it proposed a rather drastic reduction of the entire Commission and, in fact, the Commission is a pretty lean operation right now. It has less than 2,000 people, and it has been relatively flat at that level for several years, despite a dramatic multiplication of the volume of activities that it is responsible for overseeing. Some areas of government are dramatically reducing activities, but I don't think it would be prudent in the case of the Commission. I do not think that others who review the SEC would feel that it would be prudent – including the OMB's review and recommendation as far as budget was concerned. That is where the knife cuts, if you are going to cut. It is going to be the budget cuts, which will in turn force cuts in the activities among the agencies. The Commission was cut slightly but not as much as most others. I think that was in appreciation of the job that is to be done here and the fact that it is a very lean organization to do that job. Before I ever arrived I wanted to laud the Corporation Finance Division, for instance, for their very innovative and creative integration project. First they dramatically simplified the filing requirements for public financings, and they are now in the process, and will be announcing within 30 days, the balance of their integration package, which will further simplify the registration reporting requirements and eliminate a lot of duplication. This is especially noteable because it will not be at the expense of public disclosure of essential information. It is one of those 100 percent gain propositions – no downside.

Q. One of the things the transition report stated was that your predecessor beefed up the General Counsel Division possibly by 40 or 50 attorneys. Are there any plans to slim down that area and redistribute some of the staff?

A. In the short time I have been here I have been very impressed with the counseling function of the General Counsel's Office. Most matters which come up to the Commission are staff memoranda, which are circulated among the various divisions for their concurrence or qualification of the recommendation. The fundamental area of concern is the enforceability, legality, -- what are the legal grounds? The repository of the most professional and capable people in that respect is within the General Counsel's Office, so I think that its counseling function is very desirable. You don't want to authorize investigations and spend a lot of staff time in pursuit of infractions unless you are on solid ground, especially in novel areas where there is not a lot of precedent to look at. Getting involved in those questions is one of the functions performed by the counseling group of the General Counsel's office.

Q. Do you think that under Stanley Sporkin the Enforcement Division did waste a lot of time chasing wild geese?

A. No, I don't. I certainly was impressed with Stanley Sporkin's initiative, integrity and leadership. I think that Stan is an extraordinary person and did an extraordinary job here at the Commission. I also think the counseling function of the General Counsel's Office is a desirable adjunct to this activity of review. They are the ones who are committed to follow up in so many of these areas and to taking the legal actions necessary to achieve the results.

Q. When you testified on the Foreign Corrupt Protection Act you limited your testimony to the accounting provisions. Would you comment on the bribery aspects, more specifically? Do you endorse the Chafee bill's recommendation on the anti-bribery section of the Foreign Corrupt Practices Act?

A. Yes, as to Chafee on bribery. The Commission did not argue in favor of being assigned responsibility for the civil enforcement of the bribery provisions of the Act in the first place when the Act came up. They were sort of given that responsibility. But the Commission's type

of enforcement activity is not the monitoring of day to day business activities. So what we testified was that we did not oppose consolidation of the entire foreign bribery enforcement within the Justice Department.

Q. What about the other part of the Chafee Bill – The reason to know standard and the notion that a payment through an agent is okay?

A. We have concurred with the Chafee Bill, the Administration, and everybody else as far as I can tell, that foreign bribery enforcement should be consolidated within the Justice Department. They should be asked the question because everybody seems to agree that they ought to be responsible for enforcement.

Q. Are you just limiting yourself to the jurisdictional issues and not to the definition of such?

A. Once you decide the jurisdiction, I don't think you have to deal with the underlying substantive questions. If we are not going to have the responsibility, I do not want to be expressing opinions about how the Justice Department ought to react to it. I think they are the ones to be concerned.

Q. You mentioned abuse of inside information as one of the main areas of enforcement activity. How broad a coverage should be applied to the term "insider"? How enforceable is the insider law?

A. Certainly, it goes beyond the officers and directors of the company. People who are in a professional capacity are assisting and advising management on major transactions and are therefore privy to, and are, in fact, influencing corporate conduct. If these people, in turn, abuse that information, they should be pursued and, I believe, exposed and prosecuted. It is very difficult to ferret out such abuse. That is one of the reasons we developed the MOSS system as an oversight mechanism, to observe anomalous market activity as do the self-regulatory organizations who have their own surveillance systems. Often times you get the best clues from extraordinary market action, not just in the stock market, but in the options market where the inside information can result in the most dramatic return.

Q. One of the questions to come before Congress, as it does every year, is bank underwriting of municipal revenue bonds. Last year, the SEC took a neutral position, they did not say that they were for or against, just that they were worried about the effects on the regional market. It appears this year that the SEC might get backed against the wall and have to say "yes we are for it" or not.

A. My interpretation of Chairman Williams' views on this was that he pointed out that the consequences to regional securities firms could have more serious results than merely the competition for that business. What he was alluding to was the fact that the regional firms do account for a significant portion of the underwriting of revenue bond issues and are also the principal underwriters of initial public offerings by smaller companies. Their municipal bond underwriting revenues are a very important leg on their stool. If you put them up against the banks who have a number of advantages in terms of tax reserves that they are able to set up and in terms of access to the Federal Reserve to rediscount their notes and things, it is not equal competition. If we talk of leveling the playing field, as they say, the banks coming in have a lot of advantages over the regional securities firms, and if these firms' financial liability is hurt, they will hurt more than just the competition in that market. It will also have a significant effect on the ability of those firms to render other services to the community.

Q. So are you saying then that you do not think that the banks should be allowed entry into this field?

A. Before I express an absolute on this, you can tell from what I have just said, that this is my personal view at the present time. But it has not come before the Commission nor has it been an area where we have done an in-depth analysis which we would do before expressing a formal opinion on it.

Q. Is that something you are planning on working on?

A. If we are called for testimony, as I expect we will be, we will properly prepare for it.

Q. Continuing on this theme, there are a lot of areas the banks are getting into that have been considered securities areas, and visa versa. Do you have any plans to meet with people say, from

the Federal Reserve Board or Comptroller's Office to discuss some of these overlaps and changes in financial services?

A. I have had informal conversations with various people in those areas, but we do not have any formal meetings planned. I would say that what will put the issue clearly on the table will be the decision to revisit the Glass-Steagall Act. It is true that the two industries have moved into each others back yards – not just the two, but three – the banks, securities firms and insurance companies. These areas are becoming less clearly defined, as are the distinctions between their activities. I know that Chairman Volker of the Fed favored reserves for money funds – those engaged in transaction activities, check-writing to third parties. He did not propose it for those who have a delayed redemption provision. There are a lot of areas of overlap. It is a very complicated issue because, as I just mentioned in the case of industrial revenue bond underwriting, you have to look at all the financial advantages, tax and regulatory aspects of the industries. Banks have the ability to create tax deductible or deferred reserves to reduce future risk, as do the insurance companies, but the securities firms don't. The securities firms do not have access to rediscount their paper; they own it, and, if they want out they have to sell it and take their loss. These are protective features that are available to the banks and that are not available to the securities industry, that also have to be weighed in the balance as to whether or not you just take off the prohibitions as to specific activities such as industrial revenue bonds or commingled funds. Also a bill has been proposed for the banks to be permitted to, in effect, create their own mutual funds through commingled accounts. The bill does include the provision that these mutual funds would be subject to the Investment Company Act and therefore, to SEC supervision or oversight. So that is another area. When you start talking about whether or not you take off all the sanctions or redefine them, who is going to administer them – the Fed, the Comptroller of the Currency, the SEC or Commodity Futures Trading Commission?

Q. Then you see this as a problem then – as to who has jurisdiction over what type of areas?

A. I think that is one piece of it. I think it is an enormously broad issue because it raises a whole host of – not necessarily secondary questions – but primary questions.

Q. Do you see with a lot of these changes, such as the S&L's getting into more commercial banking areas, having an adverse or good impact on the financial markets?

A. I think that a lot of these very innovative and creative things that are being done are serving the public interest. There is a great demand and need for them. I hope that through the regulatory process we do not diminish the public benefits. The reason the money funds have exploded is because they provide such a high rate of return as a hedge for the average person, and liquidity. You have also seen in the past decade an enormous variety of new financial instruments being introduced. The money funds are one of the vehicles. If you are going to postulate our continuing high level of inflation and taxes, you are going to see that new bond issues are not going to be long term bonds. They are going to be much shorter term, and they will have some form of an equity or a floating rate feature to deal with the problems – to be able to attract money from investors who are not willing to put it out 30 years at a fixed rate today. And so, the investment banking and brokerage industry has been extremely creative and innovative to deal with the problems that we are confronted with. I think that kind of innovation should be encouraged and not inhibited.

Q. Considering the complexity and the breadth of the problem we are talking about, I am curious that there have only been informal discussions. Are we going to have to wait for a crisis before the government starts to get together to formulate some new ideas on its own of how these institutions should be regulated?

A. I do not think anybody has projected that. We have got a very serious problem among the thrifts, but that is not because of the Glass-Steagall Act. In my opinion, it is because of fundamental inflation and tax problems and disincentives to save. So that if you are talking about dealing with a crisis, the crisis is inflation and taxes – not the regulatory overlap or the presence or absence thereof.

Q. The phrase "getting a level playing field," has been around for a long time but nothing has been done. Why is that?

A. Things are being done. I think that we are constantly addressing the equality of competitive opportunity. The Commission has never been a player, but rather has tried to not inhibit nor give preferential position to any one side. That is also true in the tender area that was raised earlier and in other areas. The Commission has tried to create a level pool table and not be a shooter.

Q. You are talking about the securities area. I'm talking about something broader, where you have to get together with the Fed, the Comptroller and so forth.

A. I think that what you will find, is that most of us are responsive when the questions are being raised are being raised seriously enough by the private sector to warrant getting into it. The private sector is doing extremely well. The banks are doing well. The securities firms are doing well. The insurance companies are doing well. The one soft spot is the S&Ls and that is being addressed by Congress now. But it does not necessitate a total overhaul of the financial and regulatory industry.

Q. What is your personal priority right now for the SEC?

A. It relates to doing what the SEC is doing – just extending the existing trends which have been going on in the Commission for a long time – which are deregulation and oversight; doing a better job of oversight, assuming less direct involvement in a number of areas and doing it through self-regulatory organizations.

Q. Can you name some of the areas?

A. One area in which we do not have self-regulation is the investment company and advisers area. The Commission has direct responsibility for reviewing the enormous number of investment companies and advisers in the country and supervising their activities. I think that it would be very desirable to improve that oversight. Another area is within the securities industry where they are, by and large, certainly doing an outstanding job, but where there are gaps in the inter-market areas of surveillance and oversight. That becomes especially important when these markets are derivative of existing markets and we are not covering all the gaps.

Q. The Commission is taking substantive steps to lighten the load of regulation on smaller companies. But, at the same time, in late 1977, Chairman Williams said to me that public problems of credibility and some of the other types of problems are more concentrated in smaller companies for which he thought the board structures and substantive actions would be even more important than in the big companies. Do you agree that the system could be adapted to their scale of operations, and it would not be too expensive and yet desirable?

A. I appreciate Chairman Williams' observation. I have not actually read that he did make that observation, but I appreciate what he is saying. Often times the most speculative and promotional issues are by small companies. If the underwriters are paid much greater gross spreads, if you will, to bring those issues to market, and if the promoters receive a substantial piece of the equity, and a nominal investment is not uncommon, then I think you have a serious question as to whether there is proper supervision so that the passive public investor is not being taken advantage of. Capital formation for small business only occurs if the small business does well. If the public invests money and those securities become very low value or worthless, that is de-formation, not formation.

Q. If I could follow up on that – since that interview in late 1977, we have followed the cases reported in the SEC Docket affecting and principally involving small businesses. Is it possible that improved mechanisms of corporate governance would be beneficial for smaller companies?

A. I am not sure that the area you are suggesting, more committees for corporations – audit, nominating and others – is an effective answer for the small business risks that we are addressing. An area that I have asked the Economic and Policy Analysis group to take a look at is the aftermarket performance of these small company offerings. I do not have a conclusion. The point is that one outstanding small company can make up for a lot of unsuccessful ones. Like any venture capital operation, if you have one out of ten as winners, it can carry the load for the nine losers. That is what you have to look at from an overview in terms of capital formation.

Q. Do you recommend lifting any of the restrictions on options trading?

A. Do you have any specific items in mind?

Q. There just seem to be a limited number of stocks where you have options trading.

A. You mean expand the number of securities covered by options? I have not heard the subject raised before and I do not know if there is any analysis going on in the Market Regulation Division on that subject. I can't answer you.

Q. Do you support SEC's power to discipline lawyers under 2(e), and if so, do you support the standards laid down in the Carter Johnson case?

A. Yes.

Q. Mr. Chairman, in years past some of your predecessors have occasionally received pressure or phone calls from the White House or people on the Hill concerning on-going investigations in the Enforcement Division. I am thinking of cases like ITT. Would you make plans to maintain a log of phone calls initiated to you by the White House or the Hill concerning on-going investigations?

A. I have not had any such calls. When and if the problem arises I would expect to respond to it. But I have not had any efforts to direct or qualify our Enforcement activities by anybody.

Q. But what if that problem arises?

A. I would react to it then.

Q. Presently, the Congress is considering inclusion of the All-Savers bill and certificate into the tax bill. The Investment Company Institute and others have gone on record as saying that will affect the corporate market in terms of being able to raise capital. How do you feel about the All-Savers certificate?

Q. I really should not express an opinion because it is not an area of responsibility of the Commission. I thought that there were less expensive ways to do it. But there are a lot of people who are spending a lot more time than I am on the problem. It is not my area of expertise.

Q. If the legislation is approved eventually to transfer corporate anti-bribery enforcement to the Justice Department, to what extent could that or any other matter you have under consideration cut down on the public disclosure of these activities?

A. It does not.

Q. Just to use a rough example, if a company, for example, was in the habit of paying for foreign troops to guard its plantations in a central American country and this service only cost $500,000. In the terms of the balance sheet, it is really small potatoes, but if they stop paying they are going to lose their assets for this country. You people would require that they be made public – Chafee would not – is that right?

A. I cannot answer that. It is a very interesting question, but I would not even give an answer on that. I think that security is not a payoff. I don't know. That is complicated. Do you have someone specifically in mind you would like to tell me about?

Q. I know of a firm that does it, they make no secret of it.

A. So it is publicly disclosed?

Q. In that case it was. But the question is would it now be if it were something new?

DAN GOELZER:

A. Chafee doesn't change the materiality standards with respect to disclosure, only with respect to the accounting provisions of the Foreign Corrupt Practices Act.

Q. So if it were material in a sense, it would still have to be disclosed.

CHAIRMAN SHAD:

A. Right. In case any of you do not know, this is Dan Goelzer who is the Executive Assistant to the Chairman.

Q. On the Chafee bill, have Chafee's people contacted the Commission on the possibility for a compromise bill that would be acceptable to the Commission and the members of the Senate Banking Committee. During the hearing there was an indication that there was a compromise.

A. No. We have testified and it is all in the public record – our views as well as others. Nobody has called me. I have seen Senator Chafee and have talked about various things and that was not one of them.

Q. One of your predecessors favored a topic of conversation that was always considered to be marginally of interest to the Commission, trying to raise American management's

consciousness beyond the next quarter's balance sheet and beyond the next year's. He had a number of ideas in mind, such as trying to make options back-end loaded so that a person would be more interested in making a long term investment that would pay out four or five years from now. Is there anything the SEC can do in this area?

A. I appreciate Chairman Williams' concern that management performance should not be measured from one quarter to the next. The performance of many companies today is a product of decisions made ten to fifteen years ago. I appreciate the necessity to take a long view, and I think that by and large companies do. My basic bias is that they are more intimately familiar with what their problems are and how to accommodate the national interest than people in regulatory agencies are. It is not perfect, but we have a tremendous system here. It is so easy to cite a problem and come up with a solution without knowing the full cost of the solution. To the extent you divert people from doing other things to deal with the immediate problem you identify that is sometimes prohibitivly expensive – you never identify the full cost of it. I will ask for one more question and then we will call it quits.

Q. The Commission has an advisory committee underway to study the question of improving shareholder communication. Do you have a feeling that this committee will come back with a serious recommendations for rule changes this year?

A. I do not have a feeling on it. It is surprisingly complicated. The questions and the solutions are not self-evident. The problem is that there are a lot of advantages in the present system, but one of the disadvantages is knowing who the beneficial holders are of a lot of securities that are out there in street name and are moving all over the country. It is a difficult problem. I hope the solution is not prohibitively expensive.

Thank you.