

1 THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION

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UNOFFICIAL TRANSCRIPT OF THE

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ROUNDTABLE OF FORMER CHAIRMEN

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SEC Headquarters

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13 Commission, 1993 - 2001

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15 Harvey Pitt, Chairman, Securities and Exchange

16 Commission, 2001 - 2003

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18 David S. Ruder, Chairman, Securities and Exchange

19 Commission, 1987 - 1989

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P R O C E E D I N G S

CHAIRMAN COX: Welcome to everybody here with us in the Auditorium at Station Place and to those who are watching by video around the country. This is the Second Annual Past Chairman Roundtable. You have to have two before you can be an annual event, and so officially, now this is one. And since this is my Second Past Chairman Roundtable, I'm happy to report that I'm not even a past chairman myself yet.

OPENING REMARKS

CHAIRMAN COX: Our December 2005 roundtable was thoroughly enjoyed by everybody who participated, I know, and I hope everybody who was able to join and watch those proceedings. And it's been a valuable source, I think, for staff throughout the agency; the insight from past chairmen about not only the issues that they faced during their tenures, but the continuity of these issues over time. This agency is an institution that endures over a long period of time. It is very much relevant to the issues we face today and tomorrow.

The chairman has an office on loan, temporarily, and each of us have been a participant in something that has been moving down the stream with a great deal of institutional integrity and force for a long period of time. So I hope that these gatherings will become a long tradition at the SEC and that we'll see many more in the future. Today

1 we are privileged to have with us no fewer than five former  
2 chairmen, and I'll introduce each one of them.

3           Rod Hills served as chairman of the SEC from 1975  
4 to 1977, and under his leadership the SEC took the important  
5 initiative to stop the corporate practice of making  
6 inappropriate payments to foreign governments. He is founder  
7 and chairman of the Hills Program on Governance at the Center  
8 for Strategic and International Studies. He served as  
9 counsel to the President and spent his career in both the  
10 public and private sectors. He is founder and former  
11 chairman of the U.S. Asian Business Council and he is a  
12 trustee of the Committee on Economic Development and a  
13 Professor at Harvard University School of Law and a  
14 distinguished faculty fellow at the Yale University School of  
15 Management. He has also been visiting lecturer at the  
16 Stanford University School of Law, his alma mater.

17           David Ruder served as chairman of the SEC from 1987  
18 to 1989. His time as chairman included the stock market  
19 crash in 1987, a harrowing experience that summoned a grace  
20 under pressure for which he will forever be known. He also  
21 took charge of the Commission's enforcement action against  
22 Drexel Burnham Lambert. He launched a penny stock fraud  
23 program and moved the SEC in significant ways into the arena  
24 of international enforcement where we increasingly find  
25 ourselves today. As a former dean of the Northwestern

1 University School of Law, he now supervises the university's  
2 administration of the San Diego Securities Regulation  
3 Institute, the Ray Garret, Jr. Corporate and Securities Law  
4 Institute, and the Northwestern Corporate Counsel Institute.  
5 He is also currently the chairman of the Mutual Fund  
6 Director's Forum.

7 Arthur Levitt served as chairman of the SEC from  
8 1993 to 2001 and has the distinction of being the  
9 longest-serving chairman. Throughout his tenure, he worked  
10 to empower and protect investors. Important policies during  
11 his tenure included promoting the use of plain English,  
12 improving the market for municipal securities and promoting  
13 the education of investors, all priorities dear to my own  
14 heart. He created the SEC's Office of Investor Investigation  
15 and Assistance, conducted dozens of town meetings throughout  
16 the country to interact with individual investors. Before  
17 coming to the SEC, he served as chairman of the New York City  
18 Economic Development Corporation and served for 11 years as  
19 chairman of the American Stock Exchange.

20 Harvey Pitt served as chairman of the SEC from 2001  
21 to 2003. His love of the law, especially securities law, is  
22 evident in the ways in which he has devoted his time and  
23 abundant energies. Before becoming chairman, he was engaged  
24 in the private practice of securities law for more than a  
25 quarter century. He was a founding trustee and the president

1 of the SEC Historical Society, participated in numerous bar  
2 and continuing legal education activities on securities law  
3 issues and was an adjunct professor of law at Georgetown,  
4 George Washington University and the University of  
5 Pennsylvania. Prior to his private practice, he started in  
6 1968 as a staff attorney in the SEC's Office of the General  
7 Counsel and in a mere seven years, he became the general  
8 counsel, a position in which he served for three years.

9 Bill Donaldson served as chairman of the SEC from  
10 2003 to 2005. He arrived at the Commission with more than  
11 45 years of experience working in business, government and  
12 academia. He co-founded and served as Chairman and CEO of  
13 the investment banking firm, Donaldson, Lufkin & Jenrette and  
14 served as chairman and CEO of the New York Stock Exchange.  
15 He co-founded the Yale University School of Management and  
16 served as that school's first dean. His very government  
17 service spanned five presidential administrations. Under his  
18 strong leadership, the SEC made great strides to address the  
19 fallout for the dot.com collapse and the accounting scandals.  
20 And if for any reason you're not sure he's a tough advocate  
21 for investors, let me remind you, he's a Marine.

22 Thanks to all of you for taking the time from your  
23 exceptionally busy schedules to be here with us today. I am  
24 looking forward to what I'm sure will be an interesting and  
25 informative discussion and I wonder, just to kick things off,

1 since we've just finished with your very, very generous  
2 participation, an award ceremony that was very moving. I  
3 wonder if any of you would like to share a story you have  
4 about a particular staff member you worked with or say  
5 something about the staff during your chairmanship.

6 MR. RUDER: I was fortunate enough to have Linda  
7 Feinberg as my executive assistant, chief of staff, when I  
8 was chairman. And she provided the eyes and ears throughout  
9 the whole agency and kept me informed about whatever anybody  
10 was thinking and there was a lot of thought going on and I  
11 was every happy to have her eyes and ears to help me know  
12 what was going on.

13 We had far fewer staff people in my office than  
14 subsequent chairmen have had, but I found that that was  
15 really essential to my administration.

16 MR. LEVITT: I had a wonderful group of counsels.  
17 Everybody in my office were really fun-loving people who  
18 understood my eccentricities. They knew that I loved e-Bay  
19 and that I sold everything on e-bay; and, I think I told  
20 Laurie that "Boy, you know I'm putting four ties up for sale  
21 on e-Bay, can you believe that?" And I began to get messages  
22 over the computer. Do those ties have spots? If you're  
23 selling ties, might you have a brown pair of pants  
24 without -- do you have a left shoe? All kinds of  
25 crazy -- and then I sold the ties at \$42 a tie. It was



1 pretty good; and, the next day when one of the counsels came  
2 in the office, something about him looked familiar. He's got  
3 my tie.

4 And then next one came in. All four of them had  
5 conspired and that really nailed home what a rigged market  
6 was.

7 MR. HILLS: I have the great pleasure of having  
8 Harvey Pitt and Sam Sporkin on our staff and that probably  
9 tells it all. They got along pretty well. We had the first  
10 economist, Harvey, may recall -- Chief Economist Dick Zecker,  
11 and nobody really wanted to know what the hell he did with  
12 economists. Harvey may not remember this, but one day he  
13 came in and he said, "You know, we had Dick to a meeting and  
14 he did all right. I want to thank you Harvey for letting  
15 Dick join the SEC."

16 MR. DONALDSON: I'd like to memorialize several  
17 people. Obviously, the counsel's and the chairman's office,  
18 but one particular person: Peter Derby. And I don't know  
19 how many of you remember Peter, but he was a very successful  
20 businessman, entrepreneur in Russia. He started a bank in  
21 Russia and built it over ten years, and exhibited true  
22 entrepreneurial instincts if you will. And I asked Peter to  
23 come here with really no background, except in Russian law  
24 and Russian Securities regulation, of which there was none,  
25 to come in and take a hard look at the way we were organized

1 and how we could do things better.

2           And Peter had an amazing capability to think out of  
3 the box, if you will. He was the main force behind the risk  
4 control, risk mapping efforts that we made, which seemed  
5 particularly appropriate. But what he really was the unsung  
6 here of is this building. Peter came in to me one day at the  
7 beginning and said do you realize how many suits -- not this  
8 kind of suit, but suit-suits -- are being levied against the  
9 construction of this building.

10           Great controversy among the developers, et cetera,  
11 et cetera, and he started to resolve some of that. And then  
12 one day, there was a terrible rainfall in Washington,  
13 downpour, night and day for about two days. And somehow the  
14 top of this building was left open and the rain came in and  
15 soaked it down, you know, four story. They had to tear out  
16 everything on the top three stories of the building and start  
17 all over again. And Peter, in an unsung way, managed that  
18 whole process. That wasn't his normal job, but that was his  
19 job and he was rewarded by coming here with me. I had two  
20 days in my brand-new office before he came. Thanks.

21           CHAIRMAN COX: Well, before we leave that, I just  
22 want to say thanks to all that effort. We had a very nice  
23 reception on your terrace.

24           MR. DONALDSON: It's a nice building. Peter Derby,  
25 in an unsung way, managed that whole process. That wasn't

1 his normal job. That was his job and he was rewarded by  
2 coming here with me. I have two days in my brand new office  
3 before he came. Thanks.

4 MR. PITT: Well, before we leave that, I just want  
5 to say that thanks to all of that effort, we had a very nice  
6 reception on your terrace. I would just say, I thought we  
7 had just some fabulous people I had the privilege of knowing  
8 almost everybody who I came in to see at the SEC when I took  
9 over as chairman and in particular there were a number of  
10 people in the senior staff who were terrific. The division  
11 directors, Steve Cutler, David Becker, who probably is as  
12 immature as I was, Allen Beller, Paul Roy and others.

13 One person who really did a phenomenal job was Jane  
14 Seidman, who helped us weather the terrorist attacks of 9-11.  
15 One of the most important things we had to do was get the  
16 Commission back up and running, as well as getting the  
17 markets back up and running. And Jane was just tremendously  
18 instrumental in making certain that we did that.

19 The other person was my secretary, Phyllis Sommers,  
20 who was such a gift to the Commission that when I left, she  
21 stayed behind. It's a tribute to the Commission's drawing  
22 power, because she had been with me for over 30 years and  
23 it's phenomenal. There were a lot of very, very fine people  
24 that I worked with and all of them contributed enormously.

25 CHAIRMAN COX: Well, let me now just open it up to

1 the free-for-all that we instituted the last time we did this  
2 a little over a year ago and invite anyone to jump in on any  
3 sort of international, national, regional or local topic of  
4 interest to you and to everybody who's listening here. Let  
5 me just tee it off with Chairman Levitt, because you have  
6 just been asked by Treasury to co-chair a group that's going  
7 to be looking at issues surrounding auditing market, and I  
8 wonder if you might discuss your own experiences in the past  
9 that are relevant to this or, you know, what you intend to do  
10 in the future.

11 Well, someone had told me when I came to the  
12 Commission that accounting would be the number one issue that  
13 would occupy my thinking. I would have bet a lot of money  
14 against that. I had so many views about issues that I  
15 confronted at the Commission that were diametrically  
16 different and views I had coming to the Commission. I headed  
17 a business group of 100 entrepreneurs. We used the standard  
18 business rhetoric of government workers are overpaid and  
19 underworked.

20 I was outraged at the notion expensing stock  
21 options had been sued by trial lawyers often enough to think  
22 that they were a plague on our society. Here, I come to the  
23 Commission and within six months at least a half a dozen  
24 issues that I had firm convictions about totally changed my  
25 mind. And this whole concept about the conflicts that beset

1 the accounting profession; their conflict with advisory work.  
2 It never occurred to me before. I never realized what the  
3 consequences were before.

4 I served on many boards and just thought that a  
5 board was kind of a fraternal place. You got there because  
6 you knew the chairman. Your spouse may have worked for the  
7 same philanthropy. It was a fraternal environment and life  
8 just changed. And I don't consider myself particularly  
9 combative person but I found myself in constant disputes,  
10 either with congress or other government agencies that were  
11 encroaching on our turf or elements of one of our  
12 constituencies, either the business community or the exchange  
13 community.

14 There was always a tension, and I think that's  
15 probably as it should be, and one of the things I learned was  
16 that you can't be at war with all of your constituents at the  
17 same time. They've just got too much firepower going for  
18 them. And by the same token, I probably spend two-thirds of  
19 the time that I spent on the Hill working with people who  
20 didn't think as I did. Phil Gramm was the closest friend I  
21 had in Washington, and we didn't agree on anything economic.  
22 But we both loved Labrador retrievers, and this was the most  
23 wonderfully rewarding experience of my life, and it taught me  
24 so much. Mostly, it taught me what I really didn't know,  
25 because while I was here I thought I knew it all. And I am

1 so persuaded that a great staff makes chairmen and  
2 commissioners look so much smarter than they are; and every  
3 chairman learns the lesson that he's got to gain the support  
4 of the staff to move any part of an agenda. And everybody's  
5 always asking for an agenda.

6 Well, what you call an agenda is a function of  
7 what's going on in the economy and society at that point in  
8 time. You don't really set an agenda and almost always comes  
9 cascading down upon you. And so much of life, particularly  
10 life in Washington, is a function of good or bad luck. I was  
11 fabulously lucky in having a wonderful market in which to  
12 operate. And I was lucky because I had the experience of  
13 owning the congressional newspaper and serving on two  
14 base-closing commissions; that I knew so many people on the  
15 Hill and I liked them and I enjoyed them.

16 And I liked the turmoil; I liked the strife. I  
17 liked the arguing with them. So you've got me rambling and  
18 what can I say about it except the only thing I would say is  
19 be open to the impossible, because it's going to happen and  
20 it is a great experience. All of us have had terrible  
21 moments and wonderful moments, but I don't think any of us  
22 would say that it would have been at a different place.

23 MR. DONALDSON: I'd like to -- not to flog an old  
24 horse, but rather to bring up a subject I'd be very  
25 interested to hear what the gentlemen on either side of me

1 have to say and you may remain silent unless you want to, but  
2 I have the right to remain silent. I can tell this is going  
3 to be a great question. I continue to be concerned about the  
4 influence of who will be in the market place and by that I  
5 mean both aspects of private equity and the so-called  
6 leveraged buy-out funds, which are gobbling up American  
7 steadily, and hedge funds.

8 By the way, hedge funds continue to grow. They are  
9 a trillion, 3- or \$400 million, and it seems rather  
10 inconsistent to me that we have that sort of economic force  
11 operating in a market place without having any jurisdiction  
12 over them. And I say this as the court turned down what we  
13 tried to do. I think there was a misunderstanding, at least  
14 as far as I was concerned, summed up by the fact that George  
15 Soros doesn't need protection inside a hedge fund. But I do  
16 not think people investing in hedge funds need SEC  
17 protection. They're sophisticated investors. I would  
18 challenge that.

19 I think there are a lot of people with a lot of  
20 money that don't know what they've invested in. They've  
21 invested in a black box and some people they trust, but I  
22 think the simple fact, the kind of registration that we tried  
23 to do guaranteed that we weren't going after capital  
24 structure hedge funds. We weren't trying to tell them what  
25 they could invest in. They simply wanted to have the right

1 to go in the front door, see what kind of procedures, how  
2 they price securities, the whole series of inside things, the  
3 record or criminal record of the people; just know how many  
4 funds are out there, much less the size of those funds. But  
5 to me, the real reason was the impact of hedge funds on the  
6 marketplace itself.

7           You have every time a hedge fund -- and that's a  
8 lousy name because most of these funds aren't hedged  
9 anymore -- pooled capital gets into the market place. It  
10 buys and sells from public investors -- from little people,  
11 big people, and institutions and so forth. And I'm  
12 concerned, it's a main concern about the impact of that on  
13 the market place and we've seen movement here by the SEC in  
14 terms of digging inside under the brokerage firm and finding  
15 out some of the stuff that does go on; inside information and  
16 all that sort of stuff. But it seems to me that we ought to  
17 figure out some way to know more about this entity, the hedge  
18 fund. By the same token, know more than we do about  
19 leveraged buyout funds. I see them on the horizon as  
20 becoming a bigger and bigger problem of potential for not  
21 necessarily inside trading, but also to deals being made  
22 where managements are involved in takeovers themselves to  
23 their benefit and not for the benefit of the company. So I'd  
24 just be interested to hear what any of my colleagues here  
25 think about this. I see a ticking time bomb out there that's



1 going to blow up at some point.

2 MR. RUDER: Bill, after the long-term capital  
3 management crisis, I testified before congress and I was  
4 probably alone in what I said, but I was concerned about  
5 systemic risk. I was concerned about the fact that these  
6 large conglomerations of capital enter into derivatives and  
7 over the counter contracts which their counterparties are  
8 known to them, but the counterparties are not known. And  
9 that whole market has since that time just expanded  
10 tremendously. And I know that at some point the Commission  
11 joined with others to say that we didn't need to have  
12 jurisdiction over this market because it was an open economic  
13 free market area, but I think the regulators need to know  
14 what the risk positions of these large firms that are out  
15 there. I don't think they need to know their strategies, but  
16 I think they need to have some sense of what the dangers are  
17 to the economy if one of these or several of them should blow  
18 up at the same time.

19 We've seen indications that what Amaranth advisors  
20 went down they sold off all their good products and they were  
21 saved by Citadel and some others are situations in which  
22 there was risk to the society. I just think that the  
23 Commission ought to look carefully and again at whether there  
24 is danger for risk to the economy if things blow up, not  
25 quite where you were with Bill, but I'm agreeing with the

1 necessity of looking at the dangers of these new investment  
2 deals.

3 CHAIRMAN COX: As you jump into this topic, which I  
4 encourage to do, I'd be interested myself in hearing from you  
5 based on your experience what you think is the prospect for  
6 getting any legal result from interagency cooperation to the  
7 extent that we're worried about, for example, counterparty  
8 risk management. We're worried about systemic risk. The SEC  
9 has some of the information, but so do banking regulators; so  
10 does the Treasury; so does the CFTC and through the PWG, of  
11 course, we're trying to focus those energies and share that  
12 information in a much more sophisticated way that have been  
13 proved in the past if that's possible.

14 I'm just going to continue a little bit. That  
15 isn't the way to get all the information. Yes, there is  
16 information there among the regulators, but the regulators  
17 don't have the information about the unregulated entities.  
18 What I've heard is there's a reluctance by the known  
19 regulators to try to enter that area without jurisdictional  
20 means, because they're worried about moral hazard. They're  
21 worried about the fact that they may be seen to be trying to  
22 regulate this area, but not be able to do it and they don't  
23 want to be in a situation where they've tried and not been  
24 successful. I think there's a big whole here that needs to  
25 be addressed.

1           MR. PITT: Let me say, when I was chairman, we  
2 started an investigation into hedge fund practices. My  
3 concern at the time was not with respect to regulation, but  
4 with respect to the point that Bill makes, which I think is a  
5 very valid point in terms of we didn't know enough about what  
6 was going on and so I was curious as to what we could find  
7 out. In my view, the hedge fund community is making the huge  
8 mistake if they view the Commission's loss on its rulemaking  
9 effort as basically an invitation for open season on whatever  
10 practices they care to engage in.

11           In my view, you have a couple of trends that are  
12 coming, which might well lead to some of the problems that  
13 some perceive as our markets have become more efficient and  
14 as hedge funds try to produce the same kind of historical  
15 returns. They have to look for less efficient markets and  
16 alternative investments. At the same time that that's  
17 occurring, hedge funds are now becoming much more an  
18 investment vehicle for the masses. So far, it's been mostly  
19 through pension funds, trust funds and endowment funds, but  
20 the interesting thing about those investors is that they're  
21 completely risk averse. So at the same time that hedge funds  
22 are becoming riskier in terms of their investments, they are  
23 also being held by more and more people who were risk averse.  
24 I think that the President's working group came up with one  
25 of the right approaches, which was to suggest that the

1 initiatives should start with the industry, particularly the  
2 hedge fund industry, but also with respect to the pension  
3 funds and others, who need to do a lot more in the way of due  
4 diligence than many of them, although not all of them but  
5 many of them are doing. And in addition there needs to be a  
6 data collection, so the people have an understanding of the  
7 impact. I think that's as far as I'm concerned that's a very  
8 different direction from requiring registration, but it  
9 nonetheless suggests that regulators are very much like  
10 nature. They abhor a vacuum; and, if the industry doesn't  
11 take steps to do something itself, we can expect to see some  
12 kind of regulatory response if things become more  
13 precipitated in terms of losses and other problems.

14           So I think that's really the issue; and  
15 registration in my view was not ever really that significant.  
16 It might become necessary once one has more information, but  
17 what is significant is that the industry itself recognize  
18 that they need to take steps to make sure that they are  
19 transparent, which right now they are not. And, secondly,  
20 that they are taking care of due diligence issues for those  
21 who invest in them.

22           MR. LEVITT: Bill, I think that you're absolutely  
23 on the right track, that the Commission gave the industry  
24 regulation light. The light is kind of regulation and by  
25 overturning it, by fighting it, they set the stage for

1 something that is as inevitable as we are sitting here. I  
2 don't think the stars are aligned in the right way to get  
3 regulation of hedge funds and private equity right now, not  
4 in the midst of a runaway bull market where everybody thinks  
5 it's their brilliance that has produced these results.

6 But when we have the next blowup, when we have the  
7 inevitable market downturn, congress will step in, in  
8 characteristic fashion, responding to a crisis and do  
9 something that's Draconian. The industry will absolutely  
10 regret they didn't take your deal. They will look back upon  
11 that as being having missed a golden opportunity. I think  
12 it's appropriate. I think it's a step in the right  
13 direction. I don't think we can expect the industry to do  
14 this on their own. They need some nudging and I think you  
15 nudged them and you got turned back.

16 MR. HILLS: Excuse me. Let me see if I can get my  
17 voice back. Sorry. I think I'll pass. I'll come back  
18 later. Sorry about that.

19 CHAIRMAN COX: Let me segue into another topic.  
20 Now this is going to be a broad topic so you can pick your  
21 piece of it that you're most interested in that's related to  
22 this because when we look at systemic risk, we're really  
23 looking at phenomenon that is global. Our capital markets  
24 are converging faster than ever before. The international  
25 piece of what we do is of extraordinary importance. I

1 wonder, if based on your experience and your focus on  
2 America's capital markets in the midst of all that's going on  
3 around us around the world, do you want to provide some  
4 advice or some thoughts or some perspective on how the SEC  
5 should view its responsibility to the global capital markets.

6           Prior to that, just as an add in, clearly the  
7 regulatory enforcement side of things is going to require  
8 tremendous cooperation of independent agencies in sovereign  
9 nations so that we get some coordination that doesn't allow  
10 some part of the world to be the place where games are  
11 played. I think, I for one, would like a clear examination  
12 of what's going on in London. The FSA has a great reputation  
13 for sort of a principals-based approach to regulation. I  
14 remember talking to the head of the FSA a number of years ago  
15 and discovered they have 8,000 rules at the FSA.

16           I think we have 2,000, or something like that. But  
17 this dichotomy, I think, we have to have some resolution of a  
18 global regulatory hands together. We've got to decide how  
19 much of it is going to be principals-based, and how much of  
20 it's going to be rules-based. And how do we get there,  
21 because I see, and everybody in this room probably knows  
22 better than I. I see an awful lot of things going on around  
23 the world. We used to call it trading in the closet years  
24 ago and now it's trading in the closet somewhere else in the  
25 world and it worries me in terms of our market.

1                   MR. PITT: I think the Commission is headed in  
2 exactly the right direction. I think there's a great need  
3 for global cooperation. I think the efforts that the SEC  
4 undertook with its counterparts in connection with the NYSE,  
5 Euronex merger. We're very constructive efforts in which the  
6 agency has tried to make certain that market developments  
7 carry the day but investor protection remains paramount and  
8 that's a difficult balance to come up with, but I think the  
9 Commission is doing an excellent job. I think that one of  
10 the Commission senior staff, Ethiopus Tafara has written a  
11 very thoughtful piece about the need for international  
12 recognition of comparable, regulatory schemes.

13                   I think that it's going to be impossible for any  
14 one governmental regulatory to manage all of the facets of  
15 global trading and by working along the lines that have been  
16 suggested in that article in particular, which I realize is  
17 only a staff view and not the Commission's view, I think the  
18 Commission can achieve some very, very major accomplishments  
19 by working with other regulators, coordinating the  
20 activities, taking joint enforcement actions when those  
21 become necessary, and making certain that as we move to a new  
22 environment, it isn't really important where stock is listed.  
23 It's important where it's traded.

24                   And I think where the stock is traded is infinitely  
25 more important than where it's listed, and so we are working

1 toward a diminution of the barriers that now exist and I  
2 encourage the Commission's efforts in this regard and think  
3 it's clearly headed down the right path with respect to that.

4 MR. RUDER: I think you're absolutely right,  
5 Harvey, but I would urge the Commission to look at whether or  
6 not it should start over -- should ask whether some of the  
7 ideas that exist in foreign countries, particularly European  
8 Union, may make sense for the Commission. We simply don't  
9 want to be, it seems to me, isolated in which we try to  
10 protect our own markets when the result of that may be that  
11 the market trading, as you put it, Harvey goes over seas,  
12 goes to other markets, and these markets are fungible in a  
13 way.

14 I don't mean we should abandon everything we have,  
15 but we should look to see whether there are ideas abroad that  
16 make sense for us, whether we can interact with the other  
17 regulatory agencies abroad to see that we can have agreement  
18 and I have thought for quite a while that the Commission is  
19 on the right track looking at what its relationship is with  
20 foreign regulators. But I urge as much new thinking and  
21 flexibility in that thinking as possible in trying to get to  
22 a good answer.

23 CHAIRMAN COX: Rod, I don't know how you're doing.  
24 You can vote.

25 MR. HILLS: I could vote.



1           CHAIRMAN COX: All right, well, then the question  
2 occurs on the motion from the former chairmen. Let's stay  
3 with this for just a moment. One of the things that has been  
4 going on is this. Certainly you and Chairman Hills, and I'm  
5 quite sure before that, because the gestation period for IFRS  
6 has been over a decade in a serious way. 2005, the European  
7 Union mandated the use of IFRS were now very close to  
8 considering finally reaching the reconciliation requirement  
9 here which would give us the result of two accounting systems  
10 operating side-by-side in the United States.

11           That's virtually unprecedented. Where is this  
12 taking us? In many respects, the chairmen and former  
13 commissions have set the Commission on this path. Where  
14 should this lead and what should the Commission be thinking  
15 about in the future on the issues.

16           MR. RUDER: May I speak? I was a member of the  
17 Board of the Financial Accounting Foundation which oversees  
18 the FASB, and a member of the Board of the International  
19 Accounting Standards Committee Foundation which oversees the  
20 IASB. And I was very intimately involved in the efforts,  
21 both from the SEC side and internationally to create this  
22 convergence of reconciliation and I'm just as happy as I  
23 could be that we've gone as far as we can. And I don't know  
24 whether I was delighted or amazed with the intimation that  
25 once IFRS are accepted as the basis for filing in the United

1 States that the Commission may be willing to allow U.S.  
2 corporations to use IFRS rather than U.S. GAAP.

3 That would be an outstanding result in terms of  
4 creating global financial markets with the opportunity to  
5 have comparability internationally, the holy grail, if you  
6 will, of accounting, at least as far as I've been concerned.  
7 Of course, it raises the question of how the United States  
8 would then interact. The FASB would then interact with the  
9 IASB to create standards that are acceptable in the U.S. for  
10 U.S. corporations. I think it's a wonderful opportunity,  
11 requires a lot more work by the Commission, and I urge you to  
12 continue along the lines that you apparently have announced.

13 MR. DONALDSON: Can I just take up where you left  
14 off? I think the moving toward getting away from the  
15 reconciliation is definitely a step in the right direction.  
16 The 2009 date, I hope we do it sooner than that. I think the  
17 next step will be quickly allowing U.S. Companies to do this  
18 and I think to use IFRS, I think the devil is going to be in  
19 the details of that. I mean, there's a lot of work to be  
20 done down in the trenches as far as I can make out.

21 But there's something else going on that I think  
22 deserves equal attention, and this has to do with the  
23 usefulness or lack of usefulness of accounting as we practice  
24 it today and as we publish it in our filing papers.  
25 Accounting systems are retroactive. They have no room for

1 attempting to get at what's really going on in the company,  
2 and you know, we can talk long and hard about this, but the  
3 kind of information -- let's say a leveraged buyout fund digs  
4 out of a company -- in terms of what its true condition is,  
5 what its strategies are, what the equality measurement, what  
6 the quality of the various aspects of management, the quality  
7 of research, the quality of products, et cetera, et cetera.

8           The accounting systems don't have any room for  
9 that. I think we need to make the recordkeeping, if you  
10 will, more forward looking and more helpful to investors than  
11 it is now; the accounting system, I defy anybody that's not  
12 a CPA, anybody that doesn't have a lot of time to look to  
13 really get out of accounting what you should be getting. So  
14 to me, it's two tracks there.

15           MR. PITT: I think I agree completely with Bill and  
16 Ed. I'm not sure that it relates strictly speaking just to  
17 accounting. I think our whole disclosure system is  
18 retrospective. We give investors a review of what took place  
19 but not what's going on and what can be expected and I think  
20 we have to come up with a system that encourages companies to  
21 provide that kind of disclosure. But with respect to IFRS  
22 and GAAP, it seems to me that in the United States, GAAP has  
23 lost a lot of its juice or leverage. People aren't receiving  
24 what they need in the way of guidance many times the process  
25 is too slow. The use of prescriptive rules as opposed to

1 principle-based rules is a problem. And so I think I agree  
2 with David.

3           Moving toward one global standard will be quite  
4 important and quite valuable. The difficulty will be in  
5 interpreting that standard. Because even if you have one  
6 standard, if 100 different countries can interpret the  
7 standard differently, then you have 100 different standards.  
8 And there has to be some mechanism built into the process so  
9 that we get to a single standard, but we also have some way  
10 of giving corporations all over the globe the assurance that  
11 whatever the interpretations are, whatever the rules are,  
12 they understand. Most rules are basically going to be  
13 followed in every single country where those standards are  
14 applicable.

15           MR. RUDER: I'm happy to announce that I speak with  
16 two voices. Chairman Hills has authorized me to read a  
17 statement on his behalf, which strangely agrees with what has  
18 been said here. He says: "We need to move away from 'the  
19 brittle illusion of accounting exactitude which can collapse  
20 in times of economic stress'." I understand that to be  
21 paraphrased from an "Economist" article, but what it does I  
22 think is to agree with what you're saying, Harvey, and you,  
23 too, Bill. And I think we need to look at our accounting  
24 system to see whether it's giving us the right information.

25           I know from conversations with Rod in other areas

1 that he would subscribe to the proposition that we ought to  
2 look at the accounting certification to see whether we're not  
3 being too harsh on the economists for having them certify to  
4 matters which really are matters of judgment, and whether we  
5 should change that system in a way so that the accounting  
6 profession doesn't purport to give us what it's not capable  
7 of giving us. That's all I care to say about it. Thank you.

8 MR. HILLS: I can't say anything.

9 MR. RUDER: He says, he can't say it at all. Ed,  
10 while we're staying on the international point for a moment,  
11 in the area of enforcement, certainly more than anywhere  
12 else, if we ever thought we could go it alone, we're unable  
13 to do so now, because so much of securities fraud takes place  
14 using, if you will, instrumentalities of global commerce,  
15 specifically, telecommunications, computers, and the  
16 internet.

17 So that it's very simple now for the old puppet  
18 dumps games, the boiler room, and so on, that has always been  
19 our bread and butter, to take place multi-jurisdictionally  
20 and indeed intentionally so, so that the interest of any  
21 particular nation, any particular regulator will pale, will  
22 dissipate, because there are insufficient contacts there.  
23 And so by collaborating, we have an opportunity perhaps to  
24 still apprehend those who are playing to the jurisdictional  
25 scenes, but there's a lot of experience here at this table

1 and it's not as easy as it sounds. What are the pitfalls  
2 here, as we go forward and do what we must. What should we  
3 be on the lookout for and what are the big opportunities.

4 MR. RUDER: Commissioner Campos is here, and I  
5 attended a conference in which he was the representative of  
6 the United States on International matters at IASCO. And I  
7 want to say what a wonderful job he's done. That's my  
8 observation of it. And IASCO has adopted a common memorandum  
9 of understanding, which it's expected he have all of the  
10 securities regulators in the world sign within a few years.  
11 But the signing of that document, which promises equal  
12 cooperation and obtaining information isn't enough.

13 I think that you're going to need to have some  
14 additional cooperation in terms of joint enforcement efforts,  
15 because if you have an international fraud, which affects  
16 many jurisdictions, you can't have one regulator reaching one  
17 result and another regulator reaching another result, and a  
18 third regulator wondering what to do. It seems to me that  
19 this area requires more than agreements towards international  
20 cooperation, but an effort to see that there's a way to  
21 engage the enforcement apparatus in all the countries when  
22 there's a true international problem.

23 MR. PITT: I think one of the biggest problems or  
24 pitfalls that the Commission may confront is its own sense of  
25 what operates as a fraud or deceit on investors. No matter

1 what reciprocity and what coordination exists, I think the  
2 Commission is always going to have to make its own judgments  
3 about whether public investors have been harmed by particular  
4 conduct.

5           And so it will be very, very important to have the  
6 kinds of constant communications that I believe will enable  
7 the Commission to know how other regulators feel about  
8 certain issues to be able to express its own point of view.  
9 But one of the things that I had thought about doing but we  
10 were never able to get around to it was opening up an office  
11 of the Commission in Brussels, where the Commission could  
12 have much more direct intersection with the EU and figure out  
13 what its European counterparts were thinking and doing.

14           I think you would have to expand this at some  
15 point, but right now, the EU has probably the most  
16 sophisticated form of regulation outside of the U.S. and it's  
17 the most comparable to the U.S. And so figuring out what  
18 types of issues are likely to arise, how to work on them, how  
19 to allocate responsibility in cross-border enforcement issues  
20 so that in some cases the Commission takes the lead, but in  
21 other cases, other countries take the lead and so on. These,  
22 I think, are very critical elements, and it will be hard for  
23 the Commission not because it doesn't want to achieve the  
24 right result, but because at the end of the day we'll want to  
25 make sure that U.S. investors are fully protected and

1 sometimes our views may differ from the views of other  
2 regulators and that's a process that is best worked on before  
3 you have a specific issue. It's much better to work together  
4 to lay out some of the parameters when there's no immediate  
5 crisis facing the regulators, and that's something I think  
6 the Commission can be very, very, constructive in bringing to  
7 bear.

8 MR. DONALDSON: One of the things that I wondered  
9 about in the struggle on getting IFRS accepted in different  
10 countries was the cultural differences in Italy and France  
11 and China, and so forth, coming together somehow on the IFRS  
12 that would be acceptable to all of them. This leads me to  
13 wonder what sort of regulation is going to be brought to the  
14 standard setters themselves. We're seeing the issue, I  
15 believe, in France, where I forget the numbers of the IFRS  
16 standards that the French banks refuse to go along with.

17 MR. PITT: Thirty-nine.

18 MR. RUDER: Thirty-nine.

19 MR. DONALDSON: As an industrial power, we address  
20 that in Sarbanes-Oxley by changing the whole financing of  
21 FASB and getting these special interests out of it. And I  
22 wonder whether that isn't the level that has to go on  
23 internationally, some superbody, if you will, which maybe  
24 even we are a part of. And as a super regulator that has the  
25 power to set the standards consistently, country-to-country.



1                   CHAIRMAN COX: Do you want to add to that?

2                   MR. DONALDSON: Well, IFRA is our International  
3 Financial Reporting Standards. This question of jurisdiction  
4 was addressed in the reorganization on the IASC when IASB  
5 emerged and the conclusion was that there ought to be a body  
6 which creates international accounting standards but that  
7 each jurisdiction would have the right to adopt those  
8 standards in whichever way he wanted. And I for one don't  
9 see any possibility that we get agreement by all the  
10 countries to accept a certain level of accounting standards  
11 that would become law in all those countries.

12                   But it seems to me the best we can do is to try to  
13 get the standards, which are widely accepted by a lot of  
14 countries and then the other ones will follow. Because not  
15 having those standards will put them in a situation in which  
16 their securities are not fairly tradable. So I agree with  
17 your result, Bill, but not with the way to get it done. I  
18 just don't think an international body is going to work.

19                   Well, here's another report from the hinterlands.  
20 We do not need to develop more non-financial. We do need to  
21 develop more non-financial indicators of value. This could  
22 be a worldwide effort. We do need to have more non-financial  
23 indicators of value. Somewhere along the lines, I think,  
24 with what Harry was talking about, but this can be a  
25 world-wide effort in the sense, I take it, that there would

1 be the same kind of cooperative looking at what our  
2 accounting standards or our disclosure standards are creating  
3 with cooperation by the various countries and regulators.

4 Is that okay? He says, thank you.

5 CHAIRMAN COX: You have a new career. I'm going to  
6 have to wrap this up just because of the time constraint that  
7 we're all under here, but I want to do two things as we wrap  
8 it up.

9 First, we have an interesting, fascinating proposal  
10 on the table that the SEC consider opening an office in  
11 Brussels and I would be interested, particularly since  
12 Chairman Hills can vote, just have a quick vote on that one.

13 And then second, I want to ask each of you just  
14 quickly if you could do one thing differently in hindsight.  
15 As chairman of the SEC, what might you have done while you  
16 were chairman. So let's take a quick vote while you're  
17 thinking about the answer to that question.

18 How many people here think that this idea of  
19 opening a Brussels office is worth pursuing?

20 MR. RUDER: Can we modify that and say open our  
21 office, maybe a couple of offices, not necessarily just in  
22 Brussels but perhaps out.

23 CHAIRMAN COX: I take it that's a yes.

24 MR. DONALDSON: Open an office.

25 CHAIRMAN COX: Opening offices overseas, all right.

1           MR. RUDER: I would say yes. I think Brussels is  
2 the place because of the importance of the EU in the  
3 developments of our market. Bill, is that a yes?

4           MR. HILLS: Ruder, Bill says yes.

5           MR. PITT: I want to make sure that David Ruder is  
6 not getting two votes here.

7           CHAIRMAN COX: Rod, are you really a yes on that?

8           MR. RUDER: He wants a diplomatic office, I take  
9 it, one that has more power than just the SEC, one that has a  
10 broader good relations which come from good diplomacy.

11          MR. DONALDSON: Well, I hope that that quick vote  
12 has given you all time to think of the answer to the final  
13 question before this very distinguished panel. What, if  
14 anything in hindsight, would you do differently as chairman  
15 of the SEC?

16          MR. COX: Absolutely nothing is the answer.

17          MR. RUDER: I think I would have, knowing what I  
18 know now, you would have warned people before that 1987  
19 crash.

20          MR. COX: That's right. I would have known a lot  
21 more about the securities markets. When I came in, I would  
22 have had more attention to it when I left and I would have  
23 left a better legacy to tell the Commission that this is  
24 probably still the most important aspect of the Commission's  
25 operation; that is, if the markets aren't stable and good,

1 then our economy won't be that way.

2 MR. DONALDSON: I wish that I had put more emphasis  
3 on changing the structure of the SEC working at the so-called  
4 stovepipe structure in getting at structures that would bring  
5 cross-disciplines together in a more permanent way. And I  
6 wish that I'd spent more time on the whole concept of risk  
7 mapping in order to meet the problem of limited resources and  
8 explosive number of things. For instance, we've got to get  
9 more efficient in the way we do it. We've got to figure out  
10 ways to use our limited number of people to concentrate on  
11 the real problems or we're going to come apart at the seams,  
12 like an explosion, financial securities throughout the world.

13 MR. PITT: I don't know if we have enough time for  
14 me to try to answer that but the one thing I would say is I  
15 had a notion that the SEC, and we've spent a lot of time  
16 saying how wonderful the staff is and it is wonderful, but  
17 the SEC has traditionally been a lawyer's agency and the one  
18 thing I would have liked to have had the opportunity to  
19 change would have been to make it more of an economic agency,  
20 not to diminish the importance of lawyers, because I think  
21 the lawyers do a fabulous job, but to introduce much more in  
22 the way of economic thought in everything that the Commission  
23 does.

24 We tried to get the office of Economic Analysis  
25 involved at the beginning stage of every rulemaking, but I

1 think what we did was rudimentary, even compared to what's  
2 been done subsequently. And I think that's an area where the  
3 Commission can sort of become the agency vis-a-vis the  
4 capital markets that the Federal Reserve Board is with  
5 respect to the financial markets.

6 I think that's really a function the Commission  
7 needs to evolve and it's something I think it's capable of  
8 evolving over time.

9 MR. RUDER: Commissioner, Chairman Hills says he  
10 can't talk.

11 (Laughter.)

12 CHAIRMAN COX: Well, before we properly pay tribute  
13 to each of you for being here, I also want to pay tribute to  
14 a very special group that are truly the backbone of this  
15 institution. It was remarked upon earlier during our award  
16 ceremony that no chairman is any good at all without an  
17 excellent staff. It's the staff that makes the chairman,  
18 certainly not the other way around. That's undoubtedly true;  
19 but I think we'll also agree that this is a five-member  
20 commission and no chairman can do anything without the wise  
21 advise of counsel and votes of the other members of his/her  
22 future commission.

23 So I want to take this opportunity to recognize the  
24 current commissioners: Commissioner Campos who is sitting  
25 right here in the front row; Commissioner Nazareth is here

1 also and may have been here with us all day; Commissioner  
2 Atkins and Commissioner Casey were with us here earlier, but  
3 you all know their exceptional backgrounds and extraordinary  
4 experience with this agency and with these disciplines. And  
5 I have to say that without their intellectual and energetic  
6 support, and what we do here at the agency that would be the  
7 same; and I'm sure that if we had another hour, you could  
8 tell stories about your fellow commissioners that prove the  
9 same point.

10 So I want to ask everybody here to join a round of  
11 applause for the current commissioners and by extension, all  
12 those that preceded them.

13 And with that, this is an opportunity for all of us  
14 to express our thanks for the presence of these  
15 five -- currently four, now -- former chairmen who have been  
16 with us for the awards ceremony. And now for this  
17 extraordinary roundtable, it's really just such a privilege  
18 and a pleasure to be here with you and to share in your  
19 wisdom and your expertise.

20 Let's all show our appreciation to the past  
21 chairmen of the Securities and Exchange Commission.

22 CHAIRMAN COX: That concludes the Second Annual  
23 Former Chairmen's Roundtable. Thank you all for joining us.

24 (Whereupon, at 6:10 p.m. the forum was adjourned.)

25

