UNOFFICIAL TRANSCRIPT OF THE
ROUNDTABLE OF FORMER CHAIRMEN

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

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

David Ruder served as chairman of the SEC from 1987 to 1989. His time as chairman included the stock market crash in 1987, a harrowing experience that summoned a grace under pressure for which he will forever be known. He also took charge of the Commission’s enforcement action against Drexel Burnham Lambert. He launched a penny stock fraud program and moved the SEC in significant ways into the arena of international enforcement where we increasingly find ourselves today. As a former dean of the Northwestern
Arthur Levitt served as chairman of the SEC from 1993 to 2001 and has the distinction of being the longest-serving chairman. Throughout his tenure, he worked to empower and protect investors. Important policies during his tenure included promoting the use of plain English, improving the market for municipal securities and promoting the education of investors, all priorities dear to my own heart. He created the SEC’s Office of Investor Investigation and Assistance, conducted dozens of town meetings throughout the country to interact with individual investors. Before coming to the SEC, he served as chairman of the New York City Economic Development Corporation and served for 11 years as chairman of the American Stock Exchange.

Harvey Pitt served as chairman of the SEC from 2001 to 2003. His love of the law, especially securities law, is evident in the ways in which he has devoted his time and abundant energies. Before becoming chairman, he was engaged in the private practice of securities law for more than a quarter century. He was a founding trustee and the president
of the SEC Historical Society, participated in numerous bar and continuing legal education activities on securities law issues and was an adjunct professor of law at Georgetown, George Washington University and the University of Pennsylvania. Prior to his private practice, he started in 1968 as a staff attorney in the SEC's Office of the General Counsel and in a mere seven years, he became the general counsel, a position in which he served for three years.

Bill Donaldson served as chairman of the SEC from 2003 to 2005. He arrived at the Commission with more than 45 years of experience working in business, government and academia. He co-founded and served as Chairman and CEO of the investment banking firm, Donaldson, Lufkin & Jenrette and served as chairman and CEO of the New York Stock Exchange. He co-founded the Yale University School of Management and served as that school's first dean. His very government service spanned five presidential administrations. Under his strong leadership, the SEC made great strides to address the fallout for the dot.com collapse and the accounting scandals.

And if for any reason you're not sure he's a tough advocate for investors, let me remind you, he's a Marine.

Thanks to all of you for taking the time from your exceptionally busy schedules to be here with us today. I am looking forward to what I'm sure will be an interesting and informative discussion and I wonder, just to kick things off,
since we've just finished with your very, very generous participation, an award ceremony that was very moving. I wonder if any of you would like to share a story you have about a particular staff member you worked with or say something about the staff during your chairmanship.

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

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

MR. LEVITT: I had a wonderful group of counsels. Everybody in my office were really fun-loving people who understood my eccentricities. They knew that I loved e-Bay and that I sold everything on e-bay; and, I think I told Laurie that "Boy, you know I'm putting four ties up for sale on e-Bay, can you believe that?" And I began to get messages over the computer. Do those ties have spots? If you're selling ties, might you have a brown pair of pants without -- do you have a left shoe? All kinds of crazy -- and then I sold the ties at $42 a tie. It was
pretty good; and, the next day when one of the counsels came in the office, something about him looked familiar. He's got my tie.

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

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

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

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

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

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

MR. DONALDSON: It's a nice building. Peter Derby, in an unsung way, managed that whole process. That wasn't
his normal job. That was his job and he was rewarded by
coming here with me. I have two days in my brand new office
before he came. Thanks.

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

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

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

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

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

I was outraged at the notion expensing stock
options had been sued by trial lawyers often enough to think
that they were a plague on our society. Here, I come to the
Commission and within six months at least a half a dozen
issues that I had firm convictions about totally changed my
mind. And this whole concept about the conflicts that beset
the accounting profession; their conflict with advisory work. It never occurred to me before. I never realized what the consequences were before.

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

There was always a tension, and I think that's probably as it should be, and one of the things I learned was that you can't be at war with all of your constituents at the same time. They've just got too much firepower going for them. And by the same token, I probably spend two-thirds of the time that I spent on the Hill working with people who didn't think as I did. Phil Gramm was the closest friend I had in Washington, and we didn't agree on anything economic. But we both loved Labrador retrievers, and this was the most wonderfully rewarding experience of my life, and it taught me so much. Mostly, it taught me what I really didn't know, because while I was here I thought I knew it all. And I am
so persuaded that a great staff makes chairmen and
commissioners look so much smarter than they are; and every
chairman learns the lesson that he's got to gain the support
of the staff to move any part of an agenda. And everybody's
always asking for an agenda.

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

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

MR. DONALDSON: I'd like to -- not to flog an old
horse, but rather to bring up a subject I'd be very
interested to hear what the gentlemen on either side of me
have to say and you may remain silent unless you want to, but I have the right to remain silent. I can tell this is going to be a great question. I continue to be concerned about the influence of who will be in the market place and by that I mean both aspects of private equity and the so-called leveraged buy-out funds, which are gobbling up American steadily, and hedge funds.

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

I think there are a lot of people with a lot of money that don't know what they've invested in. They've invested in a black box and some people they trust, but I think the simple fact, the kind of registration that we tried to do guaranteed that we weren't going after capital structure hedge funds. We weren't trying to tell them what they could invest in. They simply wanted to have the right
to go in the front door, see what kind of procedures, how
they price securities, the whole series of inside things, the
record or criminal record of the people; just know how many
funds are out there, much less the size of those funds. But
to me, the real reason was the impact of hedge funds on the
marketplace itself.

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

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

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

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

I'm just going to continue a little bit. That isn't the way to get all the information. Yes, there is information there among the regulators, but the regulators don't have the information about the unregulated entities. What I've heard is there's a reluctance by the known regulators to try to enter that area without jurisdictional means, because they're worried about moral hazard. They're worried about the fact that they may be seen to be trying to regulate this area, but not be able to do it and they don't want to be in a situation where they've tried and not been successful. I think there's a big whole here that needs to be addressed.
MR. PITT: Let me say, when I was chairman, we started an investigation into hedge fund practices. My concern at the time was not with respect to regulation, but with respect to the point that Bill makes, which I think is a very valid point in terms of we didn't know enough about what was going on and so I was curious as to what we could find out. In my view, the hedge fund community is making the huge mistake if they view the Commission's loss on its rulemaking effort as basically an invitation for open season on whatever practices they care to engage in.

In my view, you have a couple of trends that are coming, which might well lead to some of the problems that some perceive as our markets have become more efficient and as hedge funds try to produce the same kind of historical returns. They have to look for less efficient markets and alternative investments. At the same time that that's occurring, hedge funds are now becoming much more an investment vehicle for the masses. So far, it's been mostly through pension funds, trust funds and endowment funds, but the interesting thing about those investors is that they're completely risk averse. So at the same time that hedge funds are becoming riskier in terms of their investments, they are also being held by more and more people who were risk averse. I think that the President's working group came up with one of the right approaches, which was to suggest that the
initiatives should start with the industry, particularly the hedge fund industry, but also with respect to the pension funds and others, who need to do a lot more in the way of due diligence than many of them, although not all of them but many of them are doing. And in addition there needs to be a data collection, so the people have an understanding of the impact. I think that's as far as I'm concerned that's a very different direction from requiring registration, but it nonetheless suggests that regulators are very much like nature. They abhor a vacuum; and, if the industry doesn't take steps to do something itself, we can expect to see some kind of regulatory response if things become more precipitated in terms of losses and other problems.

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

MR. LEVITT: Bill, I think that you're absolutely on the right track, that the Commission gave the industry regulation light. The light is kind of regulation and by overturning it, by fighting it, they set the stage for
something that is as inevitable as we are sitting here. I
don't think the stars are aligned in the right way to get
regulation of hedge funds and private equity right now, not
in the midst of a runaway bull market where everybody thinks
it's their brilliance that has produced these results.

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

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

CHAIRMAN COX: Let me segue into another topic.
Now this is going to be a broad topic so you can pick your
piece of it that you're most interested in that's related to
this because when we look at systemic risk, we're really
looking at phenomenon that is global. Our capital markets
are converging faster than ever before. The international
piece of what we do is of extraordinary importance. I
wonder, if based on your experience and your focus on
America's capital markets in the midst of all that's going on
around us around the world, do you want to provide some
advice or some thoughts or some perspective on how the SEC
should view its responsibility to the global capital markets.

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

I think we have 2,000, or something like that. But
this dichotomy, I think, we have to have some resolution of a
global regulatory hands together. We've got to decide how
much of it is going to be principals-based, and how much of
it's going to be rules-based. And how do we get there,
because I see, and everybody in this room probably knows
better than I. I see an awful lot of things going on around
the world. We used to call it trading in the closet years
ago and now it's trading in the closet somewhere else in the
world and it worries me in terms of our market.
MR. PITT: I think the Commission is headed in exactly the right direction. I think there's a great need for global cooperation. I think the efforts that the SEC undertook with its counterparts in connection with the NYSE, Euronex merger. We're very constructive efforts in which the agency has tried to make certain that market developments carry the day but investor protection remains paramount and that's a difficult balance to come up with, but I think the Commission is doing an excellent job. I think that one of the Commission senior staff, Ethiopus Tafara has written a very thoughtful piece about the need for international recognition of comparable, regulatory schemes.

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

And I think where the stock is traded is infinitely more important than where it's listed, and so we are working
toward a diminution of the barriers that now exist and I encourage the Commission's efforts in this regard and think it's clearly headed down the right path with respect to that.

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

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

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

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

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

MR. RUDER: May I speak? I was a member of the Board of the Financial Accounting Foundation which oversees the FASB, and a member of the Board of the International Accounting Standards Committee Foundation which oversees the IASB. And I was very intimately involved in the efforts, both from the SEC side and internationally to create this convergence of reconciliation and I'm just as happy as I could be that we've gone as far as we can. And I don't know whether I was delighted or amazed with the intimation that once IFRS are accepted as the basis for filing in the United States.
States that the Commission may be willing to allow U.S. corporations to use IFRSs rather than U.S. GAAP.

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

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

But there's something else going on that I think deserves equal attention, and this has to do with the usefulness or lack of usefulness of accounting as we practice it today and as we publish it in our filing papers. Accounting systems are retroactive. They have no room for
attempting to get at what's really going on in the company, and you know, we can talk long and hard about this, but the kind of information -- let's say a leveraged buyout fund digs out of a company -- in terms of what its true condition is, what it's strategies are, what the equality measurement, what the quality of the various aspects of management, the quality of research, the quality of products, et cetera, et cetera.

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

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

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

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

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

MR. HILLS: I can't say anything.

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

So that it's very simple now for the old puppet
dumps games, the boiler room, and so on, that has always been
our bread and butter, to take place multi-jurisdictionally
and indeed intentionally so, so that the interest of any
particular nation, any particular regulator will pale, will
dissipate, because there are insufficient contacts there.
And so by collaborating, we have an opportunity perhaps to
still apprehend those who are playing to the jurisdictional
scenes, but there's a lot of experience here at this table
and it's not as easy as it sounds. What are the pitfalls here, as we go forward and do what we must. What should we be on the lookout for and what are the big opportunities.

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

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

MR. PITT: I think one of the biggest problems or pitfalls that the Commission may confront is its own sense of what operates as a fraud or deceit on investors. No matter
what reciprocity and what coordination exists, I think the
Commission is always going to have to make its own judgments
about whether public investors have been harmed by particular
conduct.

And so it will be very, very important to have the
time of constant communications that I believe will enable
the Commission to know how other regulators feel about
certain issues to be able to express its own point of view.

But one of the things that I had thought about doing but we
were never able to get around to it was opening up an office
of the Commission in Brussels, where the Commission could
have much more direct intersection with the EU and figure out
what its European counterparts were thinking and doing.

I think you would have to expand this at some

point, but right now, the EU has probably the most
sophisticated form of regulation outside of the U.S. and it's
the most comparable to the U.S. And so figuring out what
types of issues are likely to arise, how to work on them, how
to allocate responsibility in cross-border enforcement issues
so that in some cases the Commission takes the lead, but in
other cases, other countries take the lead and so on. These,
I think, are very critical elements, and it will be hard for
the Commission not because it doesn't want to achieve the
right result, but because at the end of the day we'll want to
make sure that U.S. investors are fully protected and
sometimes our views may differ from the views of other
regulators and that's a process that is best worked on before
you have a specific issue. It's much better to work together
to lay out some of the parameters when there's no immediate
crisis facing the regulators, and that's something I think
the Commission can be very, very, constructive in bringing to
bear.

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

MR. PITT: Thirty-nine.

MR. RUDER: Thirty-nine.

MR. DONALDSON: As an industrial power, we address
that in Sarbanes-Oxley by changing the whole financing of
FASB and getting these special interests out of it. And I
wonder whether that isn't the level that has to go on
internationally, some superbody, if you will, which maybe
even we are a part of. And as a super regulator that has the
power to set the standards consistently, country-to-country.
MR. DONALDSON: Well, IFRA is our International Financial Reporting Standards. This question of jurisdiction was addressed in the reorganization on the IASC when IASB emerged and the conclusion was that there ought to be a body which creates international accounting standards but that each jurisdiction would have the right to adopt those standards in whichever way he wanted. And I for one don't see any possibility that we get agreement by all the countries to accept a certain level of accounting standards that would become law in all those countries.

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

Well, here's another report from the hinterlands. We do not need to develop more non-financial. We do need to develop more non-financial indicators of value. This could be a worldwide effort. We do need to have more non-financial indicators of value. Somewhere along the lines, I think, with what Harry was talking about, but this can be a world-wide effort in the sense, I take it, that there would
be the same kind of cooperative looking at what our
accounting standards or our disclosure standards are creating
with cooperation by the various countries and regulators.

Is that okay? He says, thank you.

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

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

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

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

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

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

MR. DONALDSON: Open an office.

CHAIRMAN COX: Opening offices overseas, all right.
MR. RUDER: I would say yes. I think Brussels is the place because of the importance of the EU in the developments of our market. Bill, is that a yes?

MR. HILLS: Ruder, Bill says yes.

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

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

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

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

MR. COX: Absolutely nothing is the answer.

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

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

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

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

We tried to get the office of Economic Analysis involved at the beginning stage of every rulemaking, but I
think what we did was rudimentary, even compared to what's been done subsequently. And I think that's an area where the Commission can sort of become the agency vis-à-vis the capital markets that the Federal Reserve Board is with respect to the financial markets.

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

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

(Laughter.)

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

So I want to take this opportunity to recognize the current commissioners: Commissioner Campos who is sitting right here in the front row; Commissioner Nazareth is here
also and may have been here with us all day; Commissioner Atkins and Commissioner Casey were with us here earlier, but you all know their exceptional backgrounds and extraordinary experience with this agency and with these disciplines. And I have to say that without their intellectual and energetic support, and what we do here at the agency that would be the same; and I'm sure that if we had another hour, you could tell stories about your fellow commissioners that prove the same point.

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

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

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

CHAIRMAN COX: That concludes the Second Annual Former Chairmen's Roundtable. Thank you all for joining us. (Whereupon, at 6:10 p.m. the forum was adjourned.)