

NEWS

**SECURITIES AND
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(202) 755-4846



Address by

Harold M. Williams

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Thank you. I don't know what to acknowledge first. I appreciate the reception; I certainly appreciate the very sound advice; and it is with a great deal of pride that I watched the presentation. It is impressive. It speaks for the institution and the institutional quality of what is going on at GSM. I think it speaks extremely well for the future.

When I accepted the Deanship seven years ago, I expressed my appreciation to Chuck Young for the opportunity to test the Peter Principle. I guess I now need to express my appreciation to the President of the United States for an equal opportunity -- and also my appreciation to all of you for being here rather than across the alleyway where our confreres across town are honoring President Ford and for your choice to address the future rather than honor the past.

It really was not my plan to appear at a public forum as an "instant 21-day wonder" at the Securities and Exchange Commission. My basic posture, as many of you know from our association in industry and at the University, has been to listen, to learn, and I have a lot of both to do. Yet it seemed so right to me when I was invited to be the dinner speaker tonight that my first platform appearance

as Chairman of the Commission should be in conjunction with GSM -- an institution for which, as you know, I have the highest regard, great affection, and quite a sense of pride. This is an institution to which I gave nearly seven years of my life and commitment until I got one of those "offers you can't refuse."

The Graduate School of Management had for me a very vital set of ingredients: a most worthy purpose; an opportunity to participate in the development of the quality and the dimensions of professional education; and the resources with which to work -- a fine faculty; open-minded, creative, responsive, dedicated to quality management education and research -- a campus administration prepared to allocate scarce resources behind a program it found worthy -- a private sector which was responsive, encouraging, and financially and professionally supportive -- and students around the country who increasingly have knocked on our door to provide us with the yeast, the stimulus, and the product which, in my judgment, will, when coupled with the other resources, assure that this is, and continues to be, an outstanding management school. My personal thanks, gratitude, and appreciation go to all of you who, in so many ways, have participated in the building of the School. You have made it possible for us to achieve what we did during the last seven years and have provided me with the resulting sense of satisfaction, accomplishment, pride, and prestige for what we have done.

What we have achieved, as in all situations, is not the product of any one individual, but of a collective of all of us. We have engaged together in building an institution -- one dedicated to the quality of professional management education and research; one which understands, as I have described to you on other occasions, the qualitative as well as the quantitative dimensions of professionalism in management; and one which also promotes an awareness of the limits of knowledge and discharges our obligation to produce something other than, or more than, a well-trained technocrat. Unfortunately, the technocrat seems to me to be the end product of much of today's professional education. These technocrats then, in turn, become absorbed without questioning in such activities as the cover-ups of Watergate and inflated body counts of Vietnam.

GSM is an institution which does not depend on any one person for its future. If we all collectively continue to provide the kind of encouragement and support that you have provided over the last several years, I have no doubt that GSM's valuable contribution to management education and research and to the professional community will continue to grow. I trust that we can count on you for that continued support.

It would be presumptuous for me to be specific or prescriptive tonight about the SEC or about what I might expect to achieve as Chairman. The role and responsibility of the Commission is too important and too sensitive for me to be other than open-minded, listening, questioning, and learning. I am prepared, however, to share with you informally some observations, impressions, and personal beliefs that I expect will be important to me over the next five years and two months.

The fact of a five-year-plus commitment is significant unto itself. In the 43-year history of the Securities and Exchange Commission, I am its 21st Chairman. The average term of the prior Chairmen was 2.2 years. No Chairman has severed a full five-year term. During the last five years, we have seen four SEC Chairmen, four Presidents of the New York Stock Exchange, and three Presidents of the United States. That has certainly not been a set of circumstances reflecting or promoting stability in securities or securities markets. My commitment to serve a full five-year term as Chairman, as the President requested, provides at least the opportunity for what I hope will be a unique period of continuity and leadership that could not be planned or achieved by Chairmen thinking in two-year time-frames. That commitment can tend to provide those who look to the Commission for oversight, regulation, or direction with a sense of continuity and

predictability concerning what the Commission's attitude is likely to be -- whether they agree with the substance of it or not -- recognizing, of course, that the Commission is a collegial, five-member body.

This Commission is one of the smallest of the independent government agencies. It has some 2,000 employees, and a budget of \$58 million; those are limited resources, so limited that the Commission could not, in effect, assume a straight regulatory posture, and as a result of which deployment and leverage are critical. My sense of the staff, after three weeks, is that its members are bright, dedicated, and hardworking -- people of integrity, with a sense of commitment to the public interest. I have not heard or seen much of what one might call a "siege mentality"; that is, the staff does not consider the Commission the savior of the public. I do, however, expect the staff to become overly enthusiastic at times, just as any spirited, high-morale group in a similar setting might do.

Substantively, the Commission functions differently than most independent regulatory agencies. It has discharged its responsibility to oversee the integrity of securities and securities markets in order to protect the investor and the public interest essentially through full disclosure and the policing of fraud. Its posture, contrary to that of many regulatory agencies, is to encourage responsive self-regulation. I personally am committed deeply to the concept

of self-regulation. I believe that self-regulation by the private sector is desirable, preferable to government determination, and an essential dynamic if we are to continue to be substantially a market-oriented economy in which personal freedom is cherished and preserved. I do not believe that a regulated society can exist without destroying personal freedom. As I have said in the past, we need to search carefully as a society, with more wisdom than we have heretofore demonstrated, for that optimum position which provides the degree of regulation necessary to assure a basic order, and yet is supportive of both personal freedom and a marketplace that accepts and rewards risk and the risk-taker and recognizes profit as both socially desirable and necessary.

The role of the Commission is to provide oversight, that is, to goad and to prod as necessary to assure that the self-regulatory bodies are responsive to the changing needs of society, of investors, and of the public. These self-regulatory bodies are a broad array, running from the stock exchanges, to the National Association of Securities Dealers, to the accounting profession, and to the legal profession. In this context, several observations are probably true. First, in many instances, and very understandably,

not created by the establishment of a market mechanism itself, but by what lies behind it. At the moment I suspect we have a shortage not of capital, so much as of incentives, confidence, and cooperative and self-regulatory efforts needed to create an environment conducive to capital investment.

We all have a role to play in the creation of that environment. The Commission needs to pay close attention to these objectives. Commission oversight of the integrity of securities and securities markets is primary, but the agency also needs to express itself on the impact, for example, of tax policy on capital formation. The Commission also needs to review its reporting, regulatory, and registration requirements to minimize, particularly for smaller companies where possible and appropriate -- negative impacts on capital flows. The Commission needs to point out the negative effects on capital markets that over-regulation through governmental or governmentally-inspired controls have had. Further, the Commission should help make clear, through disclosure, the impact of inflation on corporate earnings, on the adequacy of depreciation to replace assets, and on the real value of retained earnings. Finally, the Commission should continue to address areas where shareholders or public misunderstanding, disaffection,

or dissatisfaction adversely impact the integrity of securities and markets.

A number of these have, in a sense, been ongoing Commission activities, but I would expect to see two areas continue to be of, and in fact perhaps grow in, importance over the next several years. One of these relates to the area of corporate governance and accountability and the second to the role of professionals, whether they be accountants, lawyers, or securities professionals. The principal fallout of the Commission's questionable payments program -- or perhaps, more accurately, one of the basis for that program, is a re-examination of the philosophy and pragmatics underlying the way in which corporations govern themselves. As a result of the Commission's urgings, the New York Stock Exchange recently adopted a proposal requiring corporations listed on that Exchange to establish and maintain audit committees composed of outside directors. That urging appeared in a letter to the head of the New York Stock Exchange which also contained two other requests. The first was that the NYSE consider the optimal mix between outside and inside directors on corporate boards, and was obviously a suggestion that the Exchange begin considering whether some minimum percentage of the boards of listed companies should be composed of outside directors. Second, the Commission asked for the NYSE's views on whether the important roles

of the board and its outside counsel could be enhanced, if the critical aspects of the two functions were kept separate.

The Commission has issued for comment a proposed rule which would expand the disclosure of background information on management and on directors, and within the last week announced a broad re-examination of corporate proxy rules, including the issues of whether shareholders' views should be solicited on significant matters; whether the proxy rules should allow shareholders to propose charter and by-law changes to permit them to nominate candidates for election or directors, even where such matters are not appropriate for shareholder action under state law; and whether there are other types of disclosure which might provide stockholders, if they care, with an opportunity to be more involved in corporate governance and corporate accountability. I, for one, have some very real questions concerning whether today's stockholder really cares, or whether today's stockholder -- largely an institutional investor -- is genuinely interested in corporate governance or corporate accountability. My principal concern is that, unless we can find a way to make the corporate accountability process work in its present form, many of the emerging suggestions relating to federal

chartering, federal standards, and federal governance of the American corporation will become a reality -- a prospect that I do not support.

On the question of professionals, there have been a number of recent developments that seem to focus increasingly on the role of securities professionals in the corporate context. Perhaps the most significant is the Metcalf Report, on which would I like to touch briefly.

I consider it essential that the establishment of accounting standards remain in the private sector. I believe that we are making progress. I believe that the issues being addressed by the accounting profession are as complex as they appear to be. I recognize, however, that progress has been slow, and I accept as valid the criticism that the Commission has not always been terribly aggressive in its oversight function with respect to accountants. I think the Committee report is wrong, however, in its accusation that the profession is not competitive. I believe, if anything, that it is too competitive. Rather than being monopolistic, I suspect it's oligopolistic, and that creates a good part of the problem. I think we need to address some very difficult issues that will not be addressed by auditing standards or by the rules of the FASB. We

need to address how auditing firms deal with the quality of an audit, especially when the auditors are pressed to keep costs down, and what happens to the integrity of the audit when the firm is threatened with the loss of an account. I think those are the issues that are posed by the competitiveness of the industry. They are difficult qualitative issues that are key to the future of private self-governance of the accounting profession.

Generalizing from that, it seems to me that we need to consider carefully the standards of care to be observed by all of those who offer professional advice to publicly-held corporations or securities investors -- accountants, lawyers, investment advisers, brokers, etc. Subsumed within this broad area are questions that relate to the appropriate relationships to be shared between clients and their professional advisers, the role of self-regulatory and professional organizations in standards setting, and, finally, the authority to be given to governmental agencies by Congress to regulate professional activity. This entire area raises some very difficult philosophical questions, but it appears to me clear that investor confidence in our capital markets will not be enhanced by a change in the tax law alone or by the leveling of inflation alone. What is required

is a composite mix of factors to encourage and stimulate the private investor and to provide a sense of integrity in the marketplace that will bring him back. That environment will encourage the individual to save, encourage him to invest, and encourage him to have confidence in the marketplace.

Investor confidence in our capital markets is dependent primarily upon a belief that investors are being dealt with fairly. Professionals have an important responsibility to see that investors' reasonable expectations are not disappointed. In a very real sense, professionals represent the public's first line of defense in investor protection. Their opinions are the pass-keys which allow commercial transactions to proceed or not proceed, as the case may be, and the integrity of those opinions, and of the professionals who prepare them, is vital if the system is to function effectively. That integrity must not be sacrificed for other considerations which can only serve to undermine the respect and confidence that the professionals seek and which the public has the right to demand. No set of governmental laws or regulations, no matter how complex, can assure or substitute for that integrity. Technical skills are essential to the success of any professional, but it is the quality of integrity and independence that

ultimately determines his usefulness to society. No matter how skilled the person might be, if he cannot be depended upon honestly to express professional judgments, whether or not his client likes them, he is not a professional.

With that I find that I have made a full circle, because, with my hat on as Dean of the Graduate School of Management, I have talked in past years about what it means to be a professional, and what it means for the Graduate School of Management to be a true professional school. The more I experience, the more I come back to the same place -- individual integrity, professional responsibility and self-regulation. That is where the future of our society lies for all of us, whether it be in the context of the Graduate School of Management or securities markets or the integrity of this Country in the world scene. Thank you again for all you have done for me and for the School -- it has been great to be back with you even if I have only been gone three weeks. I look forward to seeing you again soon in the future. Thank you.