Securities and Exchange Commission Historical Society
Interview with Donald Calvin
Conducted on June 13, 2007, by Kenneth Durr

KD: This is an interview with Donald Calvin on June 13th, 2007 in New York City, by Kenneth Durr. We talked on the phone briefly about your background, as Commissioner of Securities in Illinois.

DC: Yes.

KD: Did you go to school there as well?

DC: Yes.

KD: Where did you go to school?

DC: I went to Eastern Illinois University as an undergraduate. In those days it was a teacher's college, and therefore you had to have practice teaching to graduate, which I didn't do. Later, in 1990, Eastern awarded me an honorary Doctor of Laws degree.

I went on to the University of Illinois College of Law. And at that time, they had a four-year law school program, where you could enter in your senior year in college. I didn't have an undergraduate degree, because of the practice teaching. I started in the middle of the year, in February. There were twenty-six of us that started, and we took Contracts II and Torts II, Rights and Land II, because they had made no accommodation for us.
So the first period was terrible. But then I went to summer school. When I cam back that fall, I took Contracts I, and so it really got easier as you went on.

KD: You must have been good at it by then.

DC: It was tough. I was married and we had a little daughter, Jane. I worked full-time in different jobs. We couldn't afford to rent an apartment. My wife and I had been in Charleston, Illinois, which is where Eastern Illinois is located in, and Champaign-Urbana is about fifty miles to the north. The law school was right on this back road, as you came from the south from Charleston. The first road you really hit in Urbana led you right into the University, and right to the law school. It was very convenient. Down that road was a new real estate development being put up by National Homes, which are pre-fabricated homes. I had a friend at Eastern, whose family lived in Urbana, and he said they had an apartment that they would rent to us for ninety-five dollars a month. My wife and I went to see it, and it was in their basement. On the way out, going back to Charleston, we stopped at the display home at National Homes. The fellow there was a graduate of Eastern Illinois University. I told him that we had looked at this apartment for ninety-five dollars a month, and he said, "For fifty-nine dollars a month I can put you in this house we're building right down the street, on Florida Avenue." They were just putting this thing up. It took them two days to put it up. We looked at it. It was fifty-nine dollars a month, including insurance and everything, so we bought it. It was three hundred dollars down. So we lived in that house. And right down the street, you went around down Florida Avenue, past the president's home, to the law school. So it was very convenient.

KD: Did you specialize in corporate law when you were in law school?

DC: No, the law school there, at that time, was heavy in real estate law and estates, because of the agricultural nature of the state. But there was a professor that taught corporate and securities law, by the name of George Frampton. He was from New York City, and he had been a partner in one of the major New York City law firms. He was terrific, and that's what got my interest in corporate law.

KD: So by the time you got out of law school, you were thinking in those terms?

DC: No, not at all. When I was in law school, I read this book. Again, I worked full-time; I worked initially as a meat-cutter in a market in Rantoul, Illinois, which was to the north about twenty miles; so I would have to drive to Rantoul in the afternoons and work in the market to the close, and I worked there all day Saturday. That was difficult. And then somehow I got to know this fellow who was a local agent in the insurance business. I worked with him and sold hospitalization insurance for a while, for White Cross, which was opposed to Blue Cross. You worked on a commission; that was very difficult. And through that I met somebody else who was an insurance investigator. They didn't want you to call them insurance investigators, because that upset people. People applied for life insurance, or people applied for auto insurance; you'd do an inspection, and you'd get paid a dollar, or a couple dollars for each inspection. So I did that. And in the process, I read a book in law school about the country lawyer. And it was about some small town lawyer, in Illinois, or somewhere, and what a great life it was, and he helped all these people out. I was impressed with that, and I thought, this is terrific. It's like the small town doctor. When it came time to look for a job in the law school, they had one professor who in his spare time ran a placement service, and I told him that. He said, "I got the ideal job for you in Farmer City, Illinois." Farmer City was about, thirty or forty miles west of Champaign-Urbana, so it was very convenient. And I was a country lawyer really.

I went to work for that law firm. It was Herrick and Rudasil. The Herrick of the firm was an elderly man whose brother had been a justice of the Illinois Supreme Court, Wirt Herrick—I remember his name. Their father, after he was discharged from the Civil War, set up this law office in Farmer City, Illinois, but had no formal legal education and he had studied law in somebody's law office. The office was basically untouched since the 1860s. To make copies they had a letterpress. In the old cases they talked about a letterpress copy, and that's what they had in the office. They had this woman, Nora Tobin, who was the secretary, and she ran the office; she had a cane, and she must have been in her eighties. Her mother was over a hundred years old, and she cared for her mother. And whenever you wanted to do anything you had to say, "Miss Tobin, would you please come in?" It was like that Carol Burnett comedy show. She would come in with her cane, and she would then sit down with her stenographic book. Then you'd say, "I'm going to dictate this letter." And you'd think a minute. She would then put down her pencil and her book, and you'd say, "Okay. Dear So-and-so," and she'd pick her pencil and book—just a minute, she'd pick up—it was impossible.

After a few months I realized this was not for me. So I went back to Professor Bauman at the law school, and said, "Do you have any other jobs?" I'd moved the family; we were in this big house in Farmer City. I was in this office by myself because the principal office was in Clinton, the county seat. He said, "I just got a call from the Secretary of State's office in Springfield, and they're looking for somebody in their securities division." And as luck would have it, among other things, Nora Tobin, the secretary, was the correspondent for the *Bloomington Pantagraph* newspaper, which is the local daily newspaper. They wanted to do an article about something having to do with the law, and for some reason, they picked securities law and Nora said, "Would you do this interview with this reporter?" I said, "Sure." It was on the Illinois Securities Law, and so I read the Illinois Securities Law to get prepared for this article. It was the Illinois Securities Law 1953, and it turned out it was really a good law, and I said so. Then—moving fast forward—when I had the interview, I went to Springfield, and I met the Assistant Secretary of State, Samuel H. Young III, who was a terrific guy. And he's still terrific. He had seen the article. But he didn't want somebody in the securities division; the legislature was in session, and he wanted somebody to assist him in following legislation in the state legislature. Sam was a fellow that had a tic; he'd always put his hand under his collar, like his collar was too tight, even when he didn't have a shirt on. He was in and out of this office in the State Capitol. I sat there all day, and I saw him maybe a total of ten minutes. And during that time, he would say, "Here is some paper. Write out your background, and what you would like to do." I wrote this thing out. At the end of the day, he said to me, "I got to go to this meeting." He said, "Leave your phone number. I may or may not call you." So I drove back to Farmer City, and when I got home that evening there was a phone call waiting from Sam Young, which I returned, and he said, "I want you to start work tomorrow in our securities division." I said, "Doing what?" And he said, "Being an attorney in the securities division." I said, "Well I can't do it tomorrow, but maybe I—" So I gave two weeks notice, and I started. This would have been in the spring of 1957.

KD: So what kind of work did you do as an attorney?

DC: The law was the Illinois Securities Law of 1953, which had been written by Sam Young. Sam Young had worked for the SEC for a while, I think in their regional office in Chicago. Illinois had had a "Blue Sky Law," as they called it—a securities law—since 1918. What happened in that period is that these laws were directed against the bucket shops and boiler rooms of New York City, to protect the local populace. They were fair, just and equitable laws. In other words, it wasn't just disclosure, as under the '33 Act. It also had a comprehensive scheme of registration for broker/dealers, investment advisers, and so forth. When Sam Young and his associates rewrote the law in 1953, they wrote it as a fair and just and equitable law, and disclosure wasn't adequate. And so each offering was reviewed, each securities registration was reviewed carefully as to whether there were options to promoters; that was not permitted, unless they paid the same price as the public paid. There were all type of standards like that. They would require appraisals of property. There were two or three other attorneys in the office; we examined these filings, and if we felt that they were not equitable, or the disclosures were not adequate, or whatever, we would refuse to register it in the state. It was totally different than the SEC's approach.

KD: Yes. And that must have been pretty good experience, because you were really scrutinizing these filings.

DC: That's right. Well I remember when Freedomland, in New York City—I'd never been to New York City at that point in time, this is 1957; and some promoters here had developed Freedomland, which is up where Co-op City is now, in New York City. Freedomland was to be like Disney Land. And one of the things which we required—and they had contributed the property, and for that they got cheap stock, which is a no-no, under our regulations—and if you did that, we required an independent appraisal of the property to determine if it was valued at the same price as the stock being sold to the public—which, of course, it wasn't. So we refused to register Freedomland.

KD: So how long did you do that kind of work?

DC: Well that was '57. And then May 5th, 1959—my wife and I, when we first moved to Springfield—we had the one daughter, Jane—we rented this apartment in a duplex complex called Gordon Court. We wanted to build a new house. So there was this new development on the outskirts of Springfield, and we went to the local lumber company, which was doing the development, and they arranged financing, as well as finding a contractor. So we found this contractor that they recommended, who was a retired high school teacher in Springfield, and he said that he would build this house for seventeen thousand dollars if I did some of the work. And some of the work that I had to do was to dig the water line from the street to the foundation. Well anyhow, on May 5th was the day that I had to do that. I went home early from the office and was digging the water line, and a neighbor came running over and said, "There's a call from the Secretary of State's office on our phone. They're looking for you." So I went next door to the neighbor. It was the then Assistant Secretary of State, Bob Cronson, who'd succeeded Sam Young. Bob said, "We want you to have dinner with the Secretary of State tonight," who was my big boss. I didn't tell him I already had dinner, and I was digging this ditch; I said, "Okay."

I went to dinner. The Secretary of State wanted to be around people, he did not like being alone, it was sort of a quirk of his. He always had to have somebody with him. His name was Charles F. Carpentier. He was a statewide elected official. He was the top vote getter in the state at the time. And we go through this dinner, and they're telling all these political stories and stuff, and I wonder: What in the world am I doing here? And at the end of the dinner, we're walking out of the restaurant, and Bob Cronson turned to the Secretary of State, and said, "Isn't there something you want to tell Don?" And he said, "Oh, yeah." He said, "This Securities Division: you're it. You're the head of it." He said to Bob Cronson, "Anything else?" And he said, "Well yes, do you want to tell him anything?" He said, "Oh yeah. Don't do anything that'll embarrass me." And then he said to Cronson, "Okay, let's go." And I turned around, and Bob Cronson shook my hand. I was the Illinois Securities Commissioner. I was twenty-six years old.

KD: So what did that involve?

DC: What Sam Young had done, in writing the Illinois Securities Act of 1953, he had put in there that the head of the Securities Division of the Secretary of the State's office would have the title Illinois Securities Commissioner. That was very significant in those days, because the politicians didn't want anybody to have a title. Every letter we sent out of that office we signed the name Charles F. Carpentier. We never signed our own name. Everybody practiced signing it. I can still sign his name, in his distinctive way. And so there was only one commissioner. It's not like the SEC. And we made the decisions on all these offerings coming in, any broker/dealer that was doing business in the state had to be licensed, all investment advisers. And then the other thing we had under the Illinois law is a person could buy anything they wanted, but you couldn't sell any securities unless it was either registered or exempt from registration, or sold in an exempt transaction. And what we would do is, we would scour the newspapers. Complainants would come in that had bought securities that were not registered, were not exempt, or were not in an exempt transaction. One of the exempt transactions was that you could sell to fifteen persons or less, if you filed a report with the Secretary of State's office within thirty days, and disclosed all the details. Of course, many people didn't do that. So when we would find them, we would have them come in, or we would have investigators go out; and we would then have them make an offer of rescission. They would send out a form letter that we'd prepared, that offered to buy the securities back at that price, plus the legal rate of interest; and that offer would be outstanding for thirty days. Millions of dollars of this would happen every year. It was terrific.

KD: A real change from the way the SEC would do it.

DC: That's right. Exactly.

KD: So you got some administrative experience.

DC: That's when I first had contact with the SEC. One of the people that I had the first contact with was Irv Pollack, and a few years later, with Stan Sporkin Irv, at that time, was the head of enforcement for the SEC; and of course, we were vigorous enforcers. We got a lot of publicity because of the Chicago papers and the Springfield papers. We would arrest people in the office. The state's attorney in Sangamon County was a good friend of mine, and I would sign a complaint for these people's arrest, and they would take them down to the jail and lock them up in this old jail in Sangamon County where Abraham Lincoln probably had people locked up. And then sometimes we would have the state police catch them out on the road; they were trying to leave the state. And we would give these stories to the press, and we got a lot of good publicity, and did a good job, really.

KD: Why did Irv Pollack come then?

DC: Because we were very active, and just because the SEC would register an offering of securities didn't automatically mean we would. A lot of people were upset in the securities bar in New York and in Chicago, because they would make what they thought were routine filings, and under this law there was nothing routine. You had to meet these standards. And all of the things that promoters love to do we would always turn that down, like the cheap stock, or options to promoters, or whatever—and like the real estate appraisals, and all of that type of thing. So it attracted a lot of interest.

KD: You would catch things that would slip through the SEC.

DC: Nothing slipped through. And because of that, what happened too, with the SEC, is that there were a number of states that were like this at that time, such as Wisconsin and California. California's commissioner then was a man by the name of John Sobieski, and he was appointed by the first Governor Brown. Sobieski admired what we did, and the commissioner in Iowa, for example, started to do the same thing. So Bob Cronson and I organized what we called the Midwest Securities Commissioners Association, which were the fair and just and equitable regulators. And even though it was Midwest, it included California, Arizona, Kansas—which is still Midwest—and there were probably half a dozen or ten states that formed this association. We would cooperate on enforcement matters, and also in the registration of securities process, if we thought there were options, or whatever, that shouldn't allow it to be sold in this state, they would do the same. So it became a formidable thing.

KD: How much would you work with the regional office of the SEC?

DC: The regional office at that time was headed by a man by the name of Tom Hart, in Chicago. And Tom Hart was terrific. I think he probably had been the head of that regional office since the SEC started it in 1934. We cooperated with them all the time. But again, they were doing different things than we were doing. We were looking for people who were local, who were selling securities in Illinois that were not registered, or fraud type things. And they were not doing that type of thing. They were doing it on the bigger, overall type of picture. And our authority was much broader than their authority.

KD: How did you get to F.I. DuPont?

DC: I was twenty-six years old when I became the commissioner. We were very busy, because in that period—if you check back in history, the 1957, '58 period was a very active period for IPOs. It was very busy. And our workload increased tremendously. And at the same time, the Secretary of State was up for re-election. Remember this is a political office. And matter of fact, I might mention that, that I was a political appointee that day that Sam Young hired me, and he said, "You know this is a Republican office, so you're Republican." I said, "No, I'm a Democrat." And he said, "Well," he said, "okay." He said, "But you have to be sponsored by a Republican. I'll get some state senator that's a friend of mine to sponsor you." So I became an instant Republican, as a result. But anyhow, the Secretary of State was a dedicated man, I thought, at the time. And he was up for re-election, so I worked in the re-election campaign and so forth. And in early 1962 we had one of our Midwest Securities Commissioners meetings, which we had in the winter, in January, in Scottsdale, Arizona—which is a good place to be in January.

KD: Sunny. Yes.

DC: And at that meeting I met again who I'd met before, Alger B. Chapman, who was the vice-president of the New York Stock Exchange for government relations—Duke Chapman is his nickname. I'd met Duke before that, and he would come to these meetings in his liaison capacity with the state regulators from the New York Stock Exchange. At this meeting in Scottsdale—this was '64. He told me he was looking for somebody to be his assistant at the New York Stock Exchange in government relations. I said, "Well, I might be interested in that." I skipped a period, to Dupont.

KD: F.I. Dupont.

DC: F.I. Dupont. What happened: after the Secretary of State's election, I got this offer for a job with A.C. Allyn and Company in Chicago—A-L-L-Y-N. A.C. Allyn and Company was the largest NYSE member firm in the Midwest. They were headquartered in Chicago. The Allyn brothers were quite well-known business people, entrepreneurs. Among other things, they owned the Chicago White Sox. Their father had started this firm and he was still alive when I came there. I went to work with a partner of the firm by the name of Jim Snyder, as the syndicate manager, in doing underwritings—IPOs. Jim was the partner, and he had another fellow who was his assistant, who was much more knowledgeable than I, but I also worked with him on getting these things registered in the various states, and getting the underwriting group together. And that was very interesting. And then the market broke in May 1962. After that market break, the older Allyn brother, Arthur Allyn, made a deal over a weekend with Francis I. Dupont and Company—which was here at One Wall Street—to buy the firm. And this was a shock. There were twenty-six partners. After he made this deal, he called them together and they had what they called a last supper, and notified that they no longer were partners; he'd sold the firm. The younger brother, John reluctantly went along with it. But anyhow, it now was a firm headquartered out of One Wall Street, New York, not on La Salle Street.

KD: So did you pick up and move?

DC: They invited me to come to New York. I came to New York. I met the fellow that was in charge of the investment banking area, and he said, "Well you'll hear from me." And I went back, and there was a fellow who now headed the office in Chicago, by the name of Tommy Thompson—he'd been an ex-pro football player—very nice guy. And he was Francis I. Dupont and Company now—the firm was. And I talked to Tommy, and he said, "That's the same thing he said to me, and I heard from him three years later."

Now I'm back to where I was before. So about that time, I went to this meeting in Scottsdale, and I met Duke Chapman, and Duke said they were looking for somebody, and I said I might be interested. This is now 1964. And anyhow, so I left Duke on a Sunday, and that night I went back to Wilamette, Illinois, where I lived and I get a call from Duke, and he said that the president of the Exchange, Keith Funston, wants to meet you tomorrow. And I said, "Tomorrow?" He said, "Yes. Tomorrow. Can you come to New York?" And I said, "I guess so." So I went to New York. I walk into Keith Funston's office with Duke. Keith Funston was a terrific, legendary figure. He was a very tall handsome Swedish man and he was president and CEO of the New York Stock Exchange. He's the one that started this program, 'Own Your Share of America,' which is another whole interesting story. He was a very aggressive, very personable type of fellow. So I go into Keith Funston's office, whom I'd never met before, and it turned out that Keith Funston was from somewhere in South Dakota—from the Midwest. And I was from this little town in Illinois, Mount Olive, Illinois. He asked me the questions like you and I are talking about. He then says, "Okay, you're hired. And the salary will be so-and-so." And I said, "I can't move my family to New York for that salary." We now had our second daughter, Sally, who was a few months old. And Keith Funston said, "What do you mean? This is a great opportunity!" He got angry. Duke Chapman said, "Just a minute. Just a minute. Come here Don." He said, "We'll work it out. We'll work it out. Just say yes to him." So I said yes. I said to Duke, "I cannot move my family for—" whatever the amount of money it was. And he said, "Don't worry. I'll work it out." He said, "What we'll do is after three months I'll get you a raise to another thousand dollars, or whatever it is, and we'll pay all your living expenses; we'll pay all your moving expenses, and so forth. And we'll work it out." And he did work it out, and I did move. Stayed there twenty-five years.

KD: Did Keith Funston remember that you'd said no to him on your first meeting?

DC: He never forgot anything. He was terrific. Duke still is a terrific friend, and I'm in contact with him all the time. Duke then left after two years, and I succeeded him. Keith immediately made me vice-president of the Exchange, of which there were only eight at that time, most of whom had been there fifty years or more. Duke and I were the young boys on the block. Yes, he remembered everything. And he had this policy that you had to be there when he was there, and he would take the month of August off for vacation. You had to be there when he was on vacation. And then every year I got two weeks vacation, and he would come in and complain, "You haven't taken your two weeks vacation." I said, "Keith, you told me that I had to be here when you're not here, and I had to be here when you are here." So when I actually left the New York Stock Exchange paid me a year's vacation. I'd accumulated a year's vacation, because I never could take a vacation.

KD: Keith Funston had had some run-ins with the SEC by this point.

DC: When I first started, they had all kind of problems with the SEC. I might mention that during this period, when I was in Springfield, one of the lawyers that I dealt with was Milton Cohen. Milton Cohen was the lawyer that created the Chicago Board Options Exchange. I was the Illinois Securities Commissioner at the time; and Milton came to see me, and they outlined this scheme. And I said, "Milton, I don't think you can do this under Illinois law." And I went to the law library and found this old case that had ruled that put and call options were gambling contracts under the Illinois criminal code, which had not been changed. The criminal code provided that if you made a delivery in cash, that was a gambling contract. And that's what they were going to do. And so what we worked out is we changed the law to allow the CBOE to be created, thanks to the efforts of Milton and some other people. When Milton became the head of the SEC's Special Study—which again, was created by a congressman from that district in Illinois, Peter Mack; he was from Carlinville, Illinois. They created this Special Study of the Securities Markets because of the market break in May of 1962, that's what led to it. Milton called me, and said he had taken this job, and would I go to Washington with him to be his associate? And I said, "I don't think so. I mean I don't want to—" I enjoyed working with people at the SEC, they were terrific people, I had a good relationship with the staff and the commissioners, but I didn't think that I wanted to do that. And I went to the New York Stock Exchange instead.

KD: So did you get Keith Funston's take on the Special Study?

DC: When, Milton was finishing up the Special Study, a lot of it had to do with regulation of specialists. By that time, Bill Cary was Chairman of the SEC, and I'd known Bill Cary, again, from my dealings as the Illinois Securities Commissioner. I went down to see Bill Cary, and he was not very happy about—well, floor traders was the first thing that they did, floor trading. And they were trying to put the floor traders out of business.

KD: What was the stock exchange's position?

DC: Well the stock exchange's position—which did prevail—was that they did contribute to the liquidity of the market, and therefore if the regulation made them have—I can't remember what we called it anymore—but they had to meet certain standards whereby their transactions were beneficial to the market, and there was a whole term for that, which I don't remember anymore, and a whole formula. All their trading was surveilled, and that trading had to contribute to the efficiency of the market. Most of them went out of business, but a few did continue on after that. In the case of the specialists, there was a whole body of regulation of the specialists developed too, at that time, as part of the Special Study. And by the time that came along, Bill Cary had gone, and Manny Cohen was chairman. I'd known Manny from his days on the SEC staff, and had a good relationship with him. Duke Chapman and I—primarily Duke—worked out that specialist regulation with Manny. And after it worked out, the SEC staff thought this is going to put these people, for the most part, out of business, like it did the floor traders; but it didn't, because they did contribute to the liquidity of the market, and so forth.

KD: The specialists.

DC: Yes. And it was a reasonable compromise that still exists to this day. It really has not been changed in any significant way over these past—what has it been now—forty years.

KD: Now didn't the stock exchange do its own study on floor traders—Cresap, McCormick and Paget?

DC: That was a part of it. The exchange did studies on floor traders. I think they did a study on specialists, and so forth, too. And that's what came out of this. I mean it was a process of negotiation over a period of years. But the government relations staff at that time was Duke Chapman and myself, just the two of us. There was no Washington office or anything. And about that time, when I came in there, there was the Association of Stock Exchange Firms, ASEF, which is the predecessor to SIFMA today, formerly the SIA. So it was ASEF, SIA and SIFMA. In those days it was ASEF.

KD: SIA was a lot easier.

DC: ASEF was an organization of the top CEOs of the top firms around the country, not just New York, but regionally, of which there were many. And I would go to those meetings as the New York Stock Exchange representative. One of their major members in activity was a firm in Chicago called Cruttenden Podesta, headed by a fellow by the name of Bob Podesta, who was a terrific personality—very outgoing type of personality, you know the type of fellow that played the piano and sang and always told stories, and everybody loved him. When I was in Springfield, he was one of the people that tried to keep me in line in working with the Chicago firms. And he did the same thing in Washington with the SEC. And there was a fellow that worked for him as a PR person, by the name of Sam Lyons. And Sam Lyons, in his earlier days, had been a reporter for some newspapers in Washington. And around the time of the Special Study, Sam Lyons went to Washington full-time, covering the Special Study activities, and all the hearings they had. An arrangement was worked out between Bob Podesta and Duke Chapman: the New York Stock Exchange would pay half his salary, and the ASEF would pay half his salary. So he had a small two person office—himself and a secretary -- on Capitol Hill, near the Supreme Court building, in a building that no longer exists; and he was the New York Stock Exchange office in Washington, along with the ASEF office. He was not a lawyer. Sam was a reporter; and he would go to the SEC every day, knew everybody at the SEC staff, knew the commissioners, and he would report to us daily by writing a memo, which he mailed, on what was happening at the SEC.

KD: One of the things I want to unpack a little bit is the idea of the floor traders and the specialists. Now one of the issues for the SEC had was that they did not fulfill a "public good" function—the idea that they weren't contributing to the market. It also had something to do with governance of the New York Stock Exchange.

DC: That's right.

KD: Tell me a little bit about that.

DC: The governance issue came to a head later on. When I first came there, there was a board—thirty-three or thirty-four persons. I'm not certain whether thirty-three or thirty-four.

KD: I think it was thirty-four.

DC: Of those thirty-four, three were called public—they were called board of governors. They met every Thursday. Three of the governors were public governors. They were elected by the other thirty, and the thirty-one being the president of the Exchange, Keith Funston, in those days. So Keith would nominate these people to be public directors, and the rest of the board would elect them. The others were elected by the membership. Some of them had been on the board for more than twenty years. The board met, as I said, every Thursday. I had to give a report every Thursday on government relations. And the way the boardroom was configured, it was like a legislative chamber, with tiers. There were three or four tiers, then there was a well—the lowest point in the room; and then there was a dais-type thing, which is still over there. And it was from the old call market. And behind that dais there was a chair, and a footstool; and the chairman sat on that chair, with his feet on that footstool, and he was at the highest point in the room. The staff that reported to the board, or whoever reported to the board in the well, was at the lowest point in the room. And then there were the tiers. And they sat in college-type chairs, with that little arm thing, where you could write on. All their papers would be stacked up there. And they had to approve every listing. They had to approve every new member coming in. They had to act on every disciplinary process. And the older, more senior members sat in the last row, rather than the first row, because they were up high, and they could see what was going on. The members in the first row—and there were no microphones, nobody had a microphone—and the people in the first row—the public governors were in the first row—they would have to turn around to see who was talking, and try and hear what they had to say from up there. That's the setting. So I'd give a report every week to that board.

KD: How much back and forth was there at these meetings? Or was it Funston's meeting?

DC: In the 1940s a revolution took place, and it was led by a floor broker by the name of William McChesney Martin. He was a floor broker for a St. Louis firm. He led a revolution, because the Exchange was being run by committees; and the committee chairmen were all-powerful, and there was a committee for that, and a committee for that. Bill Martin in 1940 became the first full-time president and CEO of the New York Stock Exchange. Then the war started, and he enlisted in the military as a private, and worked his way up as an officer, and ultimately became chairman of the Fed. But he revised the place so that you had a full-time professional staff, and the committees were less important. They were still important, but less important. But what he didn't do—or what happened over those intervening years, from the '40s to when I got there in the '60s—is you had this thirty-four-person board that met every week, but the public governors only were invited in once a month. There was the third Thursday of every month. And so they didn't know what was going on. Most of them said very little for the whole time they were there, except at their retirement dinner. And there were some very distinguished people. When I got there, Milton Eisenhower was on the board; he was the brother of the president, and the head of Johns Hopkins. Jack Strauss, who was the chairman of the board of Macy's—people like that—terrific people. But they had very little input, because whatever happened at the board meeting, happened during the month, and that one board—that policy board meeting was anti-climatic. There was also a committee, which I can't remember the name of, that met before the board meeting; and they decided everything at that meeting. So the board meetings were anti-climatic, for the most part.

KD: And so the idea then is that the floor traders and the specialists are electing these thirty—

DC: The floor traders and the specialists controlled the board, as well as the institution. They were clearly in control. And in some ways that was good, because their primary interest was maintaining that institution as a viable institution. And they devoted their lives to it, that's where they got their livelihood. The chairman of the board rotated every two years. And up until the time when Gus Levy, who was then the head of Goldman Sachs, was elected chairman, all of the chairmen had come from the floor—from the trading floor. And he served a two-year term. He was not paid. He didn't receive a salary. But what he did receive is—the chairman always managed to get the good new listings, which was important for his business.

So, in terms of corporate governance then, what happened there was Keith Funston left; Bob Haack became the president of the Exchange. Bob Haack was from Milwaukee. I'd known him when I was in Chicago with A.C. Allyn and Company. He was with Robert W. Baird and Company, and became the chairman of the NASD, which was a part-time, non-executive position. Bob Haack was selected as president of the Exchange, and succeeded Keith Funston. About the time that Haack came in, the paperwork crisis developed because at that time, firms were—and the New York Stock Exchange was—switching to computers. When I came there they didn't have one computer. Zero computers.

KD: The paperwork crisis set in about '68 or so?

DC: Yes, '67, '68, '69. The Exchange was able to handle the volume, but the member firms who were converting to computers were not able to handle the sustained volume—which was like a million shares a day. By today's standards, it was nothing. The Exchange shut down on Wednesdays so that the firms could try and catch up on transactions. Several firms lost control of their records, and went bankrupt—most notable was Goodbody and Company. The partners—it was a partnership—declared bankruptcy. Also I might mention, at that time when I came there, the firms had to be partnerships. Corporate firms were not allowed. And every partner had to be approved by the board of the Exchange. Quotes, for example, at that time could only be given to a member firm of an Exchange; they were not available to the public, at that time. I was involved in changing that, which is another story. But the paperwork crisis came about because of computerization, the switching to computers—and no different than it is today, the computer people tell you everything is great, and you turn the switch and the thing blows up. This happened at A.C. Allyn when I was there, for example.

KD: It wasn't because the market was going so big that they just couldn't keep up?

DC: Well what happened is a combination. It was a perfect storm type thing—they were switching to computers, and at the time they were switching, the volume suddenly surged. Again, by today's standards, it was low. But it was the combination of the two. And these firms were partnerships, they had very little expertise with respect to technology—which was true throughout all of the industry, it was not unique to these firms. The technology people were not partners, for the most part, in those days. The firms could not handle the volume of business; they lost control of their records, and financially, they were destroyed.

KD: What did the Exchange do to help the member firms?

DC: Not very much. What the Exchange did is they shut down on Wednesdays, so that they'd have time to try and catch up on their record-keeping. Well anyway, out of this came the SEC hearings, and led to legislation H.R. 5050—the Securities Acts Amendments of 1975 ultimately came out of this. But also, what came out of it was a look-see at the governance of the Exchange. Also the creation of what became DTC came out of that, because one of the other problems was that since these firms were partnerships, and corporate firms and institutions were not allowed to become members, the banks were outside the clearing system, which was then owned by the New York Stock Exchange. Each exchange in the country had its own clearing system. There was no such thing as a depository. One of the first things I worked on when I came there with Duke Chapman was to change the laws of all fifty states to allow the transfer of securities by bookkeeping entry—which was not allowed by the Uniform Commercial Code, at that time.

KD: So you were still issuing certificates at that point?

DC: You had to issue certificates. The Uniform Commercial Code required certificates. And I went around the country and we got the laws changed in two years in fifty states by amending the Uniform Commercial Code in those states to allow transfer of securities by bookkeeping entry, which is another series of interesting stories, like in Louisiana. They had a special session of the legislature in Louisiana to do it. There were two listed companies for Louisiana, and once they found out that they were going to be outside the system, they got it done. But anyhow, so the New York Stock Exchange had been working on what they called a CCS – Central Certificate Service - which was the predecessor to DTC. After the paperwork crisis the Banking and Securities Industry Committee was created, headed by a fellow by the name of Herman Beavis, who was a banker. And they looked at what could have been done, and what should be done, to avoid this again in the future. Out of that came DTC, which is a New York trust company. The New York Stock Exchange contributed all of the work it had done in creating the CCS system, and therefore it was initially the majority shareholder of DTC; and there was a whole complicated provision whereby each year the banks would buy these shares that were held by the New York Stock Exchange at some nominal value. I was the New York Stock Exchange representative on the DTC board during those years.

KD: Do you remember what the acronym stands for—DTC?

DC: Depository Trust Company. And it was headed—it was headed by—by Bill Dentzer. Bill Dentzer had been the New York State Banking Superintendent. Again, the banks wanted to have a say in this and all the top New York bank institutions were represented on the board, usually by their chairman. That whole scenario led to hearings by Congressman John Moss and the House Securities Subcommittee, and by a senator from New Jersey—Harrison Williams—and Steve Paradise on the Senate side, Alton Harris—Al Harris—on the Senate staff, Charlie Curtis on the House-side staff that worked for John Moss; Consuela Washington, who's still there, by the way, worked on this at the time. And they had this comprehensive legislation being considered in the house. As luck would have it, Sam Young—the fellow that hired me—was a congressman from Illinois, on the House Securities Subcommittee.

KD: How about that?

DC: And the lawyer for John Moss's subcommittee was Bill Painter—William Painter, who was a professor at the University of Illinois College of Law. He had not been there when I was there, unfortunately for me. And the legislation, as originally proposed, would have done away with the New York Stock Exchange. Any broker/dealer could automatically become a member of an exchange—the original legislation would have done away with the concept of membership. The New York Stock Exchange was an unincorporated association, which it had been through its period of history, when it first organized. One of the things we did after the paperwork crisis, when these firms were failing, was incorporate the New York Stock Exchange as a not-for-profit corporation in New York, which is another interesting story, as to how that happened. But anyhow, the legislation, and John Moss, and Bill Painter, and the staffs there, that original legislation would have done away with the New York Stock Exchange. So it was a tough period of time. And out of it came what became H.R. 5050, which ultimately the New York Stock Exchange supported—a lot of the members opposed it, but it was a good compromise, still exists today. The National Market System—all of those standards that are still in there were developed at that time.

And the cooperation with the SEC, I might say, was very good. I always had a good relationship with the Chairman of the SEC during that period as well. Hamer Budge was chairman during part of that. With the SEC staff—they were terrific. I remember John Evans, who was a commissioner that a lot of people in the Wall Street community did not like. John Evans was terrific. The New York Stock Exchange continued to support that legislation and urged its signing by President Ford, which he did sign—although many of the firms opposed it strenuously.

KD: At the outset though, you said that it was not good for the exchange.

DC: It was a disaster.

KD: How much was that due to the SEC shaping the initial legislation?

DC: A lot of it. Yes.

KD: So, there was a great deal of compromising.

DC: That's right. And it was done through—for example, on the membership issue, they had a hearing; and one of the key members of the Moss subcommittee was Congressman Bob Eckhardt from Texas, who was a Democrat. I remember I testified, and I had a memo prepared by Milbank, Tweed, who were the outside lawyers for the New York Stock Exchange during this whole period—who were terrific, by the way; I mean just to mention, there's a fellow by the name of Sam Rosenberry that represented the New York Stock Exchange for years, and his associate was Floyd Brandow and later Richard Bernard, and then at one point, there were a hundred and some anti-trust and other suits against the New York Stock Exchange—all of which Bill Jackson and Ike Shapiro, who were the lawyers—Bill Jackson was the son of Justice Jackson. They successfully represented the New York Stock Exchange in all these anti-trust cases. One of the anti-trust cases involving the odd-lot firms went to the Supreme Court twice on the definition of a class action, and so forth. So you had that going on at the same time.

But on the membership issue, Milbank, Tweed produced a memo that essentially said that the Congress could not take away property rights without providing compensation. And I appeared before this hearing, and Congressman Eckhardt listened to this, and I remember him saying to John Moss, "You know, he's right. We can't do this." And Moss said to me, "Okay, how much will it cost to buy these people out?" And I said, "Well I can't answer that." And he said, "Well I want an answer for the record." I said, "I can't answer. I mean we can't answer that." And so forth. So that provision was dropped because of Eckhardt.

KD: Well, wouldn't you figure that out by seeing what a seat is worth at that particular point? Is that the cost you're talking about, is buying everybody's seat?

DC: You could do it that way, I suppose. Yes. We didn't want to do it that way.

KD: Well, we're talking about legislation. And I wanted to track back a little bit. The '60s, we're looking at the big conglomerate movement—Gulf and Western, and all those companies; and I know that there was a run-up to the Williams Act, which was essentially looking at how you could counter these sorts of takeovers.

DC: That's right. The Williams Act—the background there is that the New York Stock Exchange, for years, had had its own regulations on takeovers, and tender offers. There was no federal legislation, nor were there any state requirements. And working with Senator Williams and his staff—Steve Paradise, among others—the Williams bill, which was the takeover legislation which still exists today, was developed. I was deeply involved in that.

KD: And were you again working with the SEC?

DC: And the SEC staff as well, yes. Throughout, I might say that the relationship with the SEC staff was always very good. We had Sam Lyons down there, and Sam was the type of person that everybody liked. He was non-political. He wasn't confrontational. He was a reporter. And he would report what's going on, and so forth. He knew more of what was going on at the SEC than the Chairman probably did, because he spent his whole day roaming the halls, and talking to people, and so forth—schmoozing. And so the relationship was always good with the staff. There were Shelly Rappaport, I remember was very good on the staff down there. The commissioners were always open, always willing to listen, and so forth. At very few points was it adversarial. Over fixed commission rates it got very adversarial. That's a whole other story. Al Sommer was down there. Ray Garrett—I knew his father, Ray Garrett, Sr. His father would come to me when I was the Illinois Securities Commissioner, that's how I met Ray Garrett, and Ray became chairman. And it was always a good relationship. There were a lot of things that they didn't like, and a lot of things we didn't like. But it was a common effort. I might say that during this period I was also involved with the Business Law Section of the American Bar Association, who were really outstanding business lawyers. And I became chairman of the State Regulation of Securities Committee of the ABA, and would go to the meetings of the Council of the Business Law Section. And this was always headed by fantastic people—Al Sommer was one of the chairmen. That's how I got to know Al Sommer. That's long before he became a commissioner. And a matter of fact, one of the things that I did, which I still do today, by the way, is that even after we re-organized the board—which is another story, which we haven't talked about—the problem had always been, in my view, and the view of a lot of others, how do you get input into an organization like the New York Stock Exchange? We had different constituent groups. There were the members on the floor, there were the upstairs members, there was the public investors, there was the SEC, there was—we haven't mentioned the State of New York, but we had a lot of problems with that. My God did we have problems with the State of New York.

KD: And that was your business too.

DC: What we did is, when Jim Needham was chairman—which is whole other story—he agreed to create these advisory committees I'd suggested. The first one was a capital markets advisory committee, and this was headed by Bob Roosa, who was then partner of Brown Brothers Harriman; he had been a top official in the U.S. Treasury. We got top people from the Wall Street firms that did the international business, which was then developing—which is a whole other story about internationalization. But one of the advisory committees we created was a legal advisory committee. And of all the lawyers that dealt with the New York Stock Exchange, it was hard to pick people, and so what we decided to do was to name the past chairman of the Section of Business Law of the American Bar Association to that committee. And the first chairman was Mendes Hirschman. Mendes Hirschman was, among other things, the General Counsel for New York Life. And Mendes Hirschman was a terrific guy, had been chairman of the section. All of the members of that committee were former chairmen of that section—which included Ray Garrett, who had chaired of that section. And that's how we created the legal advisory committee. And initially it reported to the chairman, who was Jim Needham. And then one day Jim Needham decided he didn't want that anymore, and he fired them all. But then we got a new chairman at the New York Stock Exchange by the name of Mil Batten. And he saw the merit to this, and so the New York Stock Exchange still—the last I checked, a year ago—has eight advisory committees to the board. And the purpose of that was to get input from these different people as to what the Exchange ought to be doing—beyond what you got from the board.

KD: Well you touched on the thing that was next on my list. And it's a big subject. Let's cover that, and then jump back to some of these stories that you talked about. And that is: commission rates.

DC: Right.

KD: I think there was some discussion about this coming out of the Special Study—

DC: That’s right.

KD: How did this rise to the level of a pretty hot issue, in that period? In‘68 you had the SEC’s hearings on commission rates.

DC: Right, with Gene Rotberg. A lot of things happened. But one thing that happened which was a seminal thing, is Bob Haack, when he was president of the Exchange, got invited to address the New York Economic Club in September.

KD: Is this 1970?

DC: Yes. Thereabouts. He was the president and CEO of the Exchange. He was from Robert W. Baird Company in Milwaukee and the NASD, and he never quite fit in with the New York Stock Exchange, for some reason. He never moved to New York. He lived in Potomac, Maryland, outside of Washington. He was a very thoughtful guy, very articulate. And those were his real strengths. Plus he was very knowledgeable, having run a brokerage firm in Milwaukee all those years, and having been involved with the NASD all those years. He did like Keith Funston did, he took the month of August off. And he called me one day in August, and he said, “I’m coming up to New York, and I’d like for you to meet me at the airport and I want to show you something.” And I said, “Fine.” So we get into the car, and he hands me this speech. And in this speech to the Economic Club, he calls for the abolition of fixed commission rates. And in the speech, he attacks the New York Stock Exchange board for not agreeing to do it—which he had not proposed to them. Right? But if he did, they wouldn’t have done it.

KD: He knew not to do it.

DC: That’s right. And he said, “What do you think?” And I said, “Well— ” I said, “First of all, I wouldn’t make it personal,” I said. “Why do you have to attack the Chairman of the board?”—who was Bunny Lasker. Bunny is a two-dollar broker on the floor. I said, “You know reading this speech, I’m not going to be able to talk you out of making the speech, obviously.” He said, “No way you can talk me out of it.” I said, “But you need to tone it down. You need to talk in an objective way. I mean if you want to make your case, don’t make it emotional, make it objective.” And that he did do. And he did make the speech, and it made the front page of the *New York Times,* and it got a lot of people fired—

not of least which was the executive vice-president of the Exchange in those days. The then chairman of the board was Ralph Denunzio—Kidder, Peabody; he was a great guy. And that was the end of Bob Haack. And he knew it. It was a self-destructive act. But he was a man of principle; he felt very strongly about this. He lived in Washington, and he heard all the talk at the SEC over the years, and from the commissioners, including Al Sommer, who was a big advocate of negotiated rates, and a good friend of Bob's, and so forth. And so then the controversy really began—I mean that was the beginning of the end, at that point.

KD: Yes. Well the beginning—or the middle of the beginning was the '69 commission rate hearings.

DC: Right.

KD: I think that there was somebody from the stock exchange who was number one witness. I can't remember his name. Fulton or something?

DC: Who?

KD: Fulton maybe? I can't remember the guy's name.

DC: Well, there was Bill Freund, who was the economist for NYSE, and Irwin Stelzer. Remember Irwin?

KD: I remember the name.

DC: Irwin Stelzer headed up a consulting firm, and they had done a lot of studies on the impact of negotiated commissions, and so forth. Irwin, today, is in London, and writes on political and economic matters in London. And he had a terrific team. They were the third-party advocates that the New York Stock Exchange had hired—if you approach it objectively rather than emotionally—it was primarily emotional. After Bob Haack left the Exchange, you had the reorganization of the board, which is a whole other story. That was done by Bill Martin.

KD: Is that directly afterwards?

DC: It was around that time, in 1972. It was in that period. The board then hired Jim Needham, which is another story where I was involved. Jim Needham had been an advocate for negotiated rates as an SEC Commissioner. And we had a membership meeting at the Chase Bank, down the street here, I remember, and at that membership meeting, Jim Needham announced to the world that while he was in favor of negotiated rates, now was not the time to do so, when the industry was in a depressed condition. And he got a standing ovation, and so forth. I remember Dick Rustin, whom I knew as a reporter at the *Wall Street Journal,* said that he threw down the gauntlet—it was the iron fist in the silk glove, or something like that. The confrontation came about as a result of Jim Needham and that speech.

Bill Casey was the SEC chairman. Casey's the one that got Jim Needham named Chairman of the New York Stock Exchange indirectly. Well, he was involved. Don Regan was the moving force at that time. Don Regan was the chairman of Merrill Lynch. And there was a board meeting in San Francisco around that time, where Don Regan got the board to vote to abolish fixed commission rates. Then we had another meeting the following week, and they reversed themselves. Needham was the chairman.

KD: What happened in between?

DC: The firms rallied and so forth. They got to the other members of the board, I suppose.

KD: Members like Merrill Lynch would have been in favor of unfixing commission rates why?

DC: During fixed commission rates, the exchange had a Cost and Revenues Committee. And I sat in on all those meetings. And that's where they fixed the rates. And usually Merrill Lynch would come in and publicly say that they were opposed to a rate increase; and then at the meeting, privately say they wanted a rate increase. And in those days also—this is before the '75 Act Amendments—the New York Stock Exchange could change their rules with impunity. One of the things that Keith Funston and Duke Chapman had worked out with the SEC staff was that there was a letter agreement whereby if the Exchange was going to change commission rates, they would give the SEC thirty days notice before they did so. But they didn't have to. The law didn't require that. It was just an agreement. And at the end of the thirty days, you could do whatever you wanted. And we did that with all the rules. We got incorporated, for example, on midnight of the thirtieth day—before the SEC could do anything about it. The firms themselves wanted to keep fixed rates, obviously. And so they would publicly come out in favor of negotiated rates, but privately they were urging us to fight.

KD: And you said things got pretty heated with the SEC at that point.

DC: Yes. It was emotional on both sides. The firms were emotional about it because a lot of these firms saw that they would be forced out of business—which they were. And nobody knew what the new negotiated rates would lead to. Gus Levy, for example, at Goldman Sachs, announced one day that—you know Goldman Sachs was going to charge two cents a trade, or some figure like that; and that lasted for like five minutes. There was no bottom. We found that out. But the other issue during this time was the anti-trust cases, as well, the Department of Justice was involved, and so forth. They had a whole investigation underway.

KD: Tell me a little bit about that. How did that start?

DC: Well that started because of—that's because of fixed rates, primarily—and also the exclusion on membership. Institutions could not become members. An institution is not a partnership. I was the staff guy on the Public Ownership Committee, which was headed by Pat Rockefeller, of Dominick & Dominick, at the time. And they had had a committee for several years, looking into whether they would allow firms to be publicly owned. And they never did anything. I was not involved at that point in time. And then when Dan Lufkin, of Donaldson, Lufkin, Jenrette, became a NYSE director—again this is the thirty-four-person board. And he stands up at the first board meeting and announces Donaldson Lufkin's going public, and walks out of the meeting. Right? So then I was asked, "Would you do the staff work with Pat Rockefeller on the Public Ownership Committee?" I looked at what they had done, and they'd never made a decision as to whether they favored public ownership or not. So I did a whole list of questions. I remember we got to twenty questions, and asked them question after question. By answering the questions, they developed the policies that were then implemented and adopted, and allowed public ownership. Took like six months to do it.

KD: Was this around the time of the big transition when the thirty-four went down to twenty-two, and Bob Haack left?

DC: No, that came later. The public ownership was before that. There was criticism in the Special Study that some members of the board had been on the board for twenty-some years, and it was dominated by the specialists and the floor traders—all of which was true. There was no denying that. And they controlled the board, and controlled the institution—which was true. And something needed to be done, and the question was who could do it? And there were discussions—Bunny Lasker was then chairman, Ralph Denunzio was vice-chairman—and discussions about what to do. And I think I was the one that suggested: Why not ask Bill Martin, who had just left the Fed, to do a study on institutional ownership? He had changed the place back in the '40s. And he agreed to do it. But it was on the narrow question of institutional ownership. And then as he got into it, he broadened the question, and he thought that the board should be reorganized; and he then proposed this reorganization of the board.

That's how it came about, through a sort of a back door way. I mean he was such a distinguished person, and a marvelous personality. And he came up with this, and nobody really objected to it. And it was that you'd have ten public directors, ten industry directors, and a full-time chairman and CEO. And he said he'd patterned this after the Federal Reserve boards—which I assume is true; I don't know whether they're organized that way. But that's what he came up with. And they bought it. It was a non-event, in terms of the board supported it. Ralph Denunzio was then chairman, and he implemented it. He presided at the board. And then there was a question of who would be the full-time CEO. And they talked to a lot of people. They offered it to some members of the board, who turned it down. This was the old board, it was still the old board; the new board didn't come in until like August—and they were running out of time. And there was a meeting held, which I was invited to, and one of the prominent members of the board—with Ralph Denunzio objecting strenuously—said that he had lined up the votes to offer the job to Jim Needham.

KD: William McChesney Martin's study. I didn't know that he recommended the restructuring.

DC: Yes.

KD: But the big issue that—the one that made the papers, I think, had to do with the institutional membership, and the effects of Rule 390—

DC: Right.

KD: Which is something you haven't mentioned at all.

DC: I lived with Rule 390 for a long time. In fact, it was originally rule 394. Duke Chapman and I changed the number. We got so tired of talking about Rule 394.

KD: Now I know they you're to blame for that because it's really confusing to have had the number change.

DC: It just disappeared one day. There were changes made where you couldn't do transactions off the floor. And that's when we re-numbered it.

KD: We were talking about the importance of the Special Study. And the SEC had also done the Institutional Investors Study.

DC: Right.

KD: I think it was probably before the Market Study.

DC: That's right.

KD: Was that in any way designed to address the SEC's study?

DC: The Institutional Investors Study came about in a different way. The Special Study was primarily lawyers; there were a few economists involved, but it was a lawyers' study. And a lot of SEC staff were involved in that, people that ultimately moved from the Special Study onto the SEC staff. And there was a lot of SEC staff input to it. The Institutional Study was all economists, for the most part. They had some lawyers there, but the head of the study was an economist, and so forth. And they were looking at the impact of institutions on the market—that was the primary thing. The economists started out with the theory that the institutions had this herd instinct, and they all would do the same thing at the same time; and therefore, they had a profound influence on the market. So they did all these studies, and that wasn't the fact. It was one of these things where you start with the assumption that this is what it is, but it turns out that's not. Now what do you do about it? So, it kind of drifted as a result of that.

KD: What did 390 have to do with the institutional investor question? Because they're linked somehow.

DC: It was linked in that 390 was challenged by the Department of Justice, as well as the restrictions on membership, as well as fixed commission rates. I mean those were the big issues. The Department of Justice viewed 390 as an anti-competitive type of a restriction, in that you couldn't take a transaction off the Exchange except—but of course, the big exception: you could take it to another exchange. But at that time you had the Third Market, Don Weeden, and Alan Weeden, and a lot of other people who were complaining about the Exchange. There was this banking firm here in New York—I can't think of the name of the firm off-hand, but they were very close to Congressman Celler, who was head of the anti-trust subcommittee in the House; and he was a great protagonist of the Exchange over Rule 390, which didn't allow the member firms to go to these non-Exchange member firms, like the firms that traded in bank securities. Bank securities had not been listed on the New York Stock Exchange. That's a whole other thing. I was involved in that. There were no bank stocks listed on the New York Stock Exchange. And I was involved in, led, the series of discussions with the then Comptroller of the Currency, Jim Saxon, to change the Comptroller of the Currency Rules to allow banks to be listed, you know.

KD: Were you successful in that?

DC: Yes. We were successful.

KD: So why did you want to do that?

DC: You wanted the banks to be listed. Banks were traded over-the-counter by these banking—I can't think of the name—Filer Schmidt, was it?—there were firms that made markets in bank stocks. And bank stocks were not traded on the New York, or any other stock exchange. And there were restrictions imposed by the Comptroller of the Currency and by the Fed—but primarily by the Comptroller of the Currency—which did not allow them to list. And we worked with some people from—primarily from Citibank, to change this, as well as with the Comptroller. Then 390 became a big focus then, because not only were bank stocks now being listed, but Merrill Lynch, for example, could not trade a bank stock with these non-member firms that specialized in trading bank stocks. So they got very irritated—justifiably so.

KD: I understand that this was also wrapped up in the idea of give-backs.

DC: Well that's the commission rates, where you had the four-way tickets.

KD: These are all bundled up.

DC: Yes. Well, they were all bundled up from the anti-trust standpoint. But Bill Jackson and Ike Shapiro, and others successfully defended all those anti-trust suits on the basis that there was this—these California grape cases, whereby if the regulatory authority has the authority to do something, that's a per se exemption from the anti-trust laws, and the SEC had authority over the stock exchanges. They were successful in that argument, time and time again. So the Department of Justice people were justifiably frustrated in trying to attack what obviously were restraints of trade, there was no question about; it's a just a question whether it was exempt from the anti-trust laws, which it was.

KD: Rule 390 also gets into this whole issue of market structure, and what the market's going to look like. And one of the things Martin said was that we're going to have fragmentation, and people are going to take their trades out of Wall Street, and the system as we know it can fall apart.

DC: Well again, during this period, you had Weeden and Company, which was a Third Market firm, which was not a member of the New York Stock Exchange and didn't want to be a member of the New York Stock Exchange. They traded NYSE listed stocks off the New York Stock Exchange, and did very well at that. And the problem that they had though, is that the 390 did not allow the member firms to deal with them directly, they had to do it indirectly somehow. And that was where the rub came in on 390 for it. And then the institutions also were not bound by the fixed commission rate schedule. So some institutions would like to have traded with these firms, and did trade with these firms, at a lower rate than the fixed commission rate. So you got that bound into it. So they all were bound together. And then at the same time, you had the regional exchanges out there. What happened to the regionals was that they no longer were trading local stocks. Take, for example, the Midwest Stock Exchange in Chicago: at one point their primary market was in local listed companies, like the local utilities, and so forth. Well as the New York Stock Exchange grew those companies listed in New York, and therefore, the volume moved to New York. And then these firms, under the multiple trading cases back in the 1930s—these exchanges could trade stocks listed in New York if they filed an application to do so with the SEC. So it turned out they were direct competitors to the NYSE, and they no longer were local markets. I mean the name regional was a misnomer, because they were competitive markets, as they are today.

KD: So they're really national markets.

DC: That's why we call it a National Stock Exchange, of which I'm the chairman. Right? Got it.

KD: I want to fill in the space between that and the National Stock Exchange.

DC: But I might say: throughout all of this, both personally and professionally I've always had good relationships with the SEC commissioners and staff. Most of the commissioners were personal friends with my wife and family. I remember my wife and our daughter Sally would go to Hamer Budge's apartment in Washington, and swam in the pool together, and so forth. Al Sommer was a great friend, and his wife, Starr, Ray Garrett—Manny Cohen, and so forth. There was not an antagonistic relationship. There were honest disagreements on how to proceed. And what we were trying to do is to create an institution that was for the betterment of the country. I'm from the Midwest; I had no particular affection for New York, as such. I used to say I was doing missionary work here, but it's now been forty years. But the New York Stock Exchange has a great contribution to make to the economy and the wealth of this country. And that's what we were trying to do. And there were problems there. And you're trying to get away from the focus on a for the benefit of the private club type of mentality. And I think we changed that. Because when I came there, it clearly was a private club. There's no question about that. It was an unincorporated association, just like golf clubs were, and so forth. And it was dominated by a small group of people, and so forth. And that has changed over the years.

KD: The '75 Amendments, that whole process: we came to the thing they call the national market system.

DC: Right.

KD: I think the legislation said that the SEC should take a look and try to come up with the outline of the national market system.

DC: Well it set out—which it still does—a series of objectives that are to be met, some of which are inconsistent with others.

KD: What was the New York Stock Exchange position when this message was put out?

DC: We worked very closely with the Senate and House staffs, and the SEC staff, and supported that legislation. As I mentioned before, a lot of the member firms, and a lot of the specialist firms, ultimately were opposed to it, and didn't want the President to sign it. We supported it to the end, and throughout.

KD: So you'd find yourself opposing your member firms.

DC: Yes. But there was no way that they were going to prevail, because we had worked so closely with the House and Senate staffs and they were very accommodating, and they're very understanding, and it was both sides of the aisle. There was a lot of support. The Republican congressman, William Broyhill of North Carolina, was terrific; he was the ranking minority member of the Moss subcommittee. John Moss's staff were great people to work with. It was not a partisan effort on any side. But a lot of these firms had a lot of influence with different members of the committees. But the problem areas were all worked out.

KD: There must have been a sense, from what you're describing, that this thing is going to go, and you probably need to be on board, in some respect.

DC: Just like the immigration legislation now—once you get into it, in Washington, it builds its own momentum. And it's very hard to stop that momentum. And therefore, either you get aboard, or you're discarded. You're irrelevant to the discussion. What we did is we remained relevant to the discussion. We participated the whole time. If there's something that we didn't like, we would suggest a change, and try and work it out. And that's what was done.

KD: Let's talk about some of the things that the Exchange did after that, to stay relevant to the discussion, as far as implementing new technology, new systems. ITS, for example—

DC: Yes.

KD: It seems as if that was the big attempt by the Exchange to cope with the electronic reality.

DC: That's right. That's correct.

KD: Was it something that you had a role in?

DC: Yes. ITS - the Intermarket Trading System - was, again, developed while the legislation was being developed. And one thing that everyone agreed to is that there should be a linking of the markets. As I said, the regionals have gone from regional exchanges to national exchanges. And they were trading the same things in Chicago and San Francisco as they were trading in New York and in Boston. And therefore, there should be obviously a linkage to the market. One of the early things was the consolidated tape. The New York Stock Exchange owned the tape. And one of the things that came out of the paperwork crisis, I might mention, was SIAC—Securities Industry Automation Corporation. SIAC produced the tape. And therefore, rather than have separate tapes—that is dissemination of prices and quotes—have one. And the regionals thought, with some justification, that if that happened, business would be diverted from New York to the regionals. And the same way with the quotation system, that this was the end of the New York Stock Exchange.

KD: But the Exchange is doing this.

DC: The Exchange did it. The Exchange agreed. It was very controversial within the Exchange. But I mean the Exchange did it. Floyd Brandow and Rich Bernard and their associates at Milbank, Tweed, did most of the drafting of these things. They were terrific at being professionals—objective lawyers. And the regionals—it was a great thing for the regionals, because what it led to in the case of ITS, what it gave to regionals is regionals got access to the NYSE market. Prior to ITS, the saying was, you had to come in the front door. In other words, if a specialist in Chicagoon the Midwest Stock Exchange, had a transaction in AT&T, and the other side was in New York, and he wasn't a member of the New York Stock Exchange, he had to give that order to a member of the New York Stock Exchange, who came in the front door and executed that order. ITS let that firm get access to that order in New York without being a member. And therefore, you did have a linkage of the markets. So if there was a better price in Chicago than there was in New York, that order could be executed in Chicago. And so they had a better opportunity to compete. The bottom line was that ultimately New York lost very little business. Internally, there were huge estimates as to the amount of the business lost, all of which proved to be wrong.

KD: As you said, ITS linked the markets to themselves. Why not link the brokers so that if a broker wants to execute, you go right to the computer and you put in your order?

DC: Well that's where 390 came in. You could do that if you were a member. 390 required you to bring the order to the floor of an exchange. Merrill Lynch couldn't go direct to Kidder, Peabody, or it couldn't go direct to Weeden and Company; it had to come to the Exchange. And then once it did that, then that order could go wherever, through ITS. That's what ITS changed. So it provided access to the various markets, as well as linking the markets. The New York specialist, who was not a member of the Midwest Stock Exchange, he could go out there and reach to that order as well. So the assumption was, with the consolidated tape, consolidated quote, and ITS, the New York Stock Exchange is in big trouble. Ended up, they got ninety percent of the market.

KD: That's often the case. When it looks like things are going to be terrible with some new technology or system, the people who were screaming the loudest often turn out to benefit the most.

DC: New York did a lot of other things that—what they call today, we didn't call it that then—which built the "brand." The advisory committees were a big help to that. I mean we got people—like Al Sommer became chairman of the Legal Advisory Committee after he left the Commission. The top institutional money managers were on the Institutional Advisory Committee. I mean these people had input. They weren't on the board. But on the board, we had the head of TIAA-CREF—Bill Greenough was on the board. He was a big critic of the place. He's now on the board. He's got as much to say as anybody else, and he said it. And we listened to him. So all these other things happened. And the other thing that we did was to try and create the image—here's a private company that until we incorporated was—as I said before, was a private association. But even after we incorporated as a not-for-profit corporation, it was owned by the thirteen hundred and sixty-six members. But we tried to build the image, which was the fact that this institution is bigger than that. And so one way of doing that was we had a series of conferences, one of which was at Harvard, on productivity. In those days, Ezra Vogel had written a book, *Japan is Number One;* and we got to know Ezra—and primarily through Ezra and the dean at the Harvard Fine Arts College—we organized this conference on productivity with Harvard. So here you've got the New York Stock Exchange talking about productivity. And to that conference, we would attract people like Jack Welch—the top corporate leaders in the country. And they were worried about productivity in this country at the time. The top labor leaders were there.

KD: We're talking about the 1980s here?

DC: Yes. And that was a conscious effort. We then organized a conference at Oxford, with the Templeton School of Business at Oxford, on different things. Then we organized the conference in Beijing, with the People's Bank of China, on organizing capital markets in China.

KD: Did you develop a lot of international experience while you were still with the stock exchange?

DC: Yes. That's where I got to where I am today. After Jim Needham, which is a whole other story—you know Jim Needham was fired by the board summarily. Mil Batten had just retired as the chairman of J.C. Penney and Company, where he had spent his whole career—he was the head of the Business Council, probably the most respected CEO in America, at the time—very nice, marvelous man, in every way. And he was on the board, as one of those ten public directors that came in after the Martin reorganization. One of the things he did when he retired from J.C. Penney is a study of the allocation of stock system, and the quality of markets, and so forth. So he did a report which led to the creation of the Quality of Markets Committee and an Allocation Committee, so that allocations were made objectively, with input from the listed companies—which hadn't happened before—that there was a measure of the quality of the market that was being provided by the Exchange through the specialists and the brokers, which had never been done before. He had just concluded that study, and there was a lot of unhappiness on the board with Jim Needham, for a lot of reasons, and so forth. Mil Batten was asked would he take the job, and he said yes. And then when he came in, one of the things that he appreciated—Mil Batten was from West Virginia—Reedy, West Virginia. You can take the boy out of Reedy, but you can't take the Reedy out of the boy type thing. He went to school at Ohio State—he called it "Ohi-a" State. He went to a reunion at Ohio State—here he's chairman of the Business Council, chairman of J.C. Penney and Company, and they asked him at the alumni meeting: What do you do? And he said, "I'm a rag merchant." Modest guy. He was terrific. Well coming from the outside like I did, he saw that this institution was really important to this country. And he was involved in creating ITS, by the way. He came in at the time after the legislation had passed—or was about to pass, and he saw that this institution was important for America. And he had relationships with all these CEOs, you know he talked to them. We had created a listed company advisory committee that Raleigh Warner, the chairman of Mobil Oil was the chairman; Jim Robinson, the chairman of American Express succeeded him. And these top CEOs would spend their time trying to help the New York Stock Exchange, because they began—through Mil Batten, they appreciated that this institution was important to them, and to their way of life. And that's what kept the business there.

KD: It has succeeded in—to use the word you used earlier—branding itself, making the New York Stock Exchange a commodity of sorts.

DC: Well I proposed to Bob Haack one time—and he gave me this look like you've got to be crazy, Calvin—that we run commercials on TV, which they'd never done. Right? And that the commercials be—remember when Chevrolet had 'apple pie, America and Chevrolet'? And I said we should have 'apple pie, America, Chevrolet and the New York Stock Exchange'. He said, "Get out of here!" But that's what they ended up doing though. You know because it is true. It is bigger than the group of people that control it. And these people were big enough to see that, the specialists on the floor—those people—Walter Frank—and there are a lot of others of them—they recognized this, and rather than resist it, they supported it. And it was against their immediate interest, but in their long-term interest. There are a lot of things that they could have done that they didn't do. But there are a lot of things that they did—that they needed to do, and it succeeded.

KD: We were going to talk about internationalization, and moving out.

DC: Well yes. What happened: during the process when Mil Batten came in, among other things, I became Executive Vice-President of the Exchange. And one of the things I'd recommended to Mil, and he agreed—we created an Office of the Chairman, which is the chairman, the vice-chairman—the head of Merrill Lynch for a while was the vice-chairman; the head of Reynolds and Company—they were top people in the industry. Roger Burke was the head of Merrill Lynch at that time. Don Regan was the vice-chairman. And so you had the chairman, the vice-chairman, and then—there were two—Bob Hall was an executive vice-president. When he left, Don Kittel and I became executive vice-presidents. Then Don Kittel left, and I was the only executive vice-president there for a while. And then we created the Management Committee, which was the top managers, with ourselves, and so forth. And one of the areas that reported to me was what was the listing area. Mil Batten, having come from J.C. Penney where they had umpteen thousand products, was always uncomfortable with the fact that the New York Stock Exchange had one product: listed stocks. One of the things he wanted to do was to create a futures market and an options market, which he did proceed to do and diversify. When I first got involved with the listing area—they kept a tabulation of the eligible companies, and they tried to maintain liaison, or try and contact these companies. I say 'try'—I mean there's some interesting stories about that, what they call trying. But there wasn't a real marketing effort as such. And that was expanded. In fact, Mil made it into the marketing department, rather than a listing department. The difference was, the listing people were regulators. They had all these regulations that they had developed, many of which pre-dated the SEC—like the takeover area—that's what they administered—all these listing standards—all that type of thing. And they would maintain liaison with these companies who had entered into a contract with the Exchange. It's a contractual relationship, and that's why the list. The list comes from the contract. And then, in turn for assuming these obligations and paying this money to the New York Stock Exchange in fees, the company got this market for their stock. And a semi-regulatory function was just as important, more so than marketing. Well anyhow, he changed that to marketing. And in looking at the eligible number of companies one day, I realized that there were more non-U.S. companies that were eligible for listing than there were U.S. companies. And they were companies all over the world that there weren't listed here. There were a few—and one of the things we did is we created an International Advisory Committee—an interesting story. The first non-U.S. company to list on the New York Stock Exchange was KLM Airlines. And the chairman of KLM Airlines, that I got to know through friends in Amsterdam, was a fellow by the name of Sergio Orlandini, who was Italian. A Dutch airline—Italian—right? And he was married to a nice woman from

Connecticut. So he was terrific. And I met Sergio with a friend in his home outside of Amsterdam, and he's the chairman of the first foreign company. And so we approached Sergio to become chairman of the listed International Advisory Committee. And then he said, "Who's on the committee?" And we said, "That's where we need you, Sergio, to get all these people. We want people on the committee that are not listed, for the most part." So we got the chairman of UBS, Bob Studer. We got the chairman of BMW, and so forth and so on. It became a fantastic—and which still exists today, by the way. And what became apparent is that the New York Stock Exchange should be looking primarily to list these non-U.S. companies, as well as the U.S. companies. The U.S. companies would kind of naturally flow in, and that's why they didn't have any marketing. They would list first on the AMEX, and then they would graduate to a New York listing. That was the domestic route. It was over-the-counter, AMEX, and then New York. And so you had this steady flow coming in that way. But the international companies, there was nothing coming. And that's where the growth was.

KD: Over-the-counter would be becoming more attractive at this point too. NASDAQ was growing up, and the companies were choosing to stay with NASDAQ, weren't they?

DC: That's right. Well, but that affected the AMEX more than it affected us, because the progression was through NASD through AMEX to New York. And the AMEX, unfortunately, lost that.

KD: Well, anything else we should cover before we talk about your retirement from the Exchange? We've gotten ourselves into the 1980s here.

DC: We're up to the 1980s? Again, I want to emphasize again that the thing—that my memories of the SEC staff have always been fond ones. I don't have a bad memory, where there was some incident or something. I mean we were always willing and able to work with those people. And it was a changing population there, the people coming and going. They were always extremely competent people—still are today. That was the saving grace to this; it was not a confrontational relationship.

KD: Did you see the Commission change over time though, from '64 when you were first engaged with them, to '87?

DC: Well, in terms of people it changed; but in terms of attitude, it didn't change much. When Richard Breeden came in, that was a big change. He'd come out of the White House—you may remember—and so forth. There was pressure in Congress to require companies to have audit committees, and he prevailed upon the chairman of the Exchange for the New York Stock Exchange to institute audit committees, rather than having it be mandated by the SEC. I mean that's one of the issues of the day. But it showed the working relationship. It was always a good relationship. When Dave Ruder was there in '87, which is—my timing was perfect—I left at the end of January '87. But Dave was then chairman of the SEC at that time, and what happened in '87—fortunately, I was not there.

KD: Yes. I wanted to ask you about this. I talked to Robert Birnbaum, who was there. It was a very memorable day for him.

DC: Well they didn't handle things very well.

KD: So why did you decide to retire from the Exchange?

DC: Well what happened to me is that—backing up a moment—back when I first came there, and Keith Funston was still there, Keith Funston found out about this International Federation of Stock Exchanges, which was the European Exchanges, headquartered in Paris. In French it was Federation Internationale Bourse des Valeurs. That's FIBV. About the time that I arrived there, he somehow got the New York Stock Exchange a membership in that organization. It was the first non-European exchange to have a member. And they had their first annual meeting in September. I remember it was in Geneva. And Duke Chapman was the representative that went with Keith Funston to that meeting. And then Duke left the Exchange shortly thereafter, and I inherited that relationship. So I then went to all of the subsequent meetings of the FIBV. And as that organization grew, and had a big role to play in it. And so I got to know all these people. I knew all the top people at every exchange around the world, on a personal basis. My wife and I, in 1974 for example, we went to a meeting in South Africa of the International Federation. We went all over the world, and met all these people. I got to know the heads of the Tokyo Stock Exchange on a very personal basis, and their families—very interesting stories and people; talked about the war and the kamikaze pilots. I mean it was fantastic! And they became friends. And from time to time they would call on me, or the Exchange, to be of assistance, which we would try to do. One time, for example, I went to Kuwait. And then I went Abu Dhabi, and so forth.

I would only go for a few a days to try and help those people out. And that was very interesting. Among the people I got involved with were the Swiss. The fellow that headed the Association of Swiss Stock Exchanges, and also was chairman of the Geneva Stock Exchange, he wanted to organize a derivatives market in Switzerland—that is an options and a futures market. And at that time there were about six stock exchanges in Switzerland, all which were very competitive. And so I arranged for meetings for him in New York, and so forth and so on. And he ended up—rather than doing this in Geneva, where he would have liked to have done it, he organized what was called SOFEX—the Swiss Options and Financial Futures Exchange, which today is EUREX. And I got to know him very well, both on a personal basis—George Urban is his name—terrific guy. And when I left the Exchange, he asked me to become his advisor. So I became the advisor for ten years or more. And the same thing happened with Kuala Lumpur, and other exchanges around the world—Sao Paolo. I mean there are stories on all of them, which continue to today. And I've been advisor to more than eighteen exchange chairmen around the world, in the last twenty—now it's twenty-one years—and still am.

KD: What's the common thread in all of those relationships?

DC: Well what I've done in all the relationships, with one or two exceptions, which didn't work out—so all of the relationships I have, with one or two exceptions, were with the chairman, and/or the CEO. In all of those—and this is true today, because I just spent two days in meetings with Chicago with the chairman of the Cairo Stock Exchange, where I've been the advisor for ten years now—I'm on my fourth chairman there—all of these people—Cairo's a good example—the same thing was true in Geneva twenty years ago. The chairman had to serve his constituency, whether it's the members, or the government, or both; he had to deal with the government, and he had to deal with the staff. And he had to deal with technical matters as well as—call them political constituent matters. And therefore, he's isolated to a large degree. Because he can't go to one constituency and say, what do you want me to do?—because it conflicts with another constituency, or what the government, or what the staff wants to do. So he's an arbiter. Call him a politician, in the best sense of the word. And therefore, he's always looking: What should I do? And I call myself—and that's what I've done for twenty-one years now—I'm an advisor to these people. I'm not a consultant; I'm an advisor. And I give them my advice. Most times they don't do it. They take the advice, but they don't do it. They want to do it, if it's time for them to do it. I can give you a hundred examples of that.

Well take Cairo, for example. Several years ago my second chairman, who was a fantastic guy—all these people, by the way, are fantastic people. I mean to get to that position in life, they're extraordinary people. One of them, for example, the chairman of the Hong Kong Stock Exchange, Edgar Cheng—he was a cancer specialist at Sloan-Kettering for fifteen years before he became chairman. He's a medical doctor. His family: one of the top families in Hong Kong. His wife was the fourth daughter of Y.K. Pao, who was the richest man in Hong Kong, and so forth. I mean that type—marvelous people. But he knew little about stock exchanges. I was his advisor, and we did a lot of—I'd say, "Edgar, you ought to do this, you ought to do that," and so forth. Cairo, the same way. The chairman at Cairo that hired me, Sharif Raafat. Sharif Raafat's father was a national hero. He was a constitutional court judge that was the only judge that ruled that Nasser was illegally elected, and therefore he was imprisoned for a year, and exiled. The family moved to Canada. That type of background. Sharif is a genius. I met with Sharif—it will be ten years ago in September—and he wanted to do all these things. And I said, "Sharif, there's not even an electric typewriter in the stock exchange building. There are derelicts living in the basement. So we can do four things. You got to have a staff. You have to have a new trading system. The other thing: you don't have any authority. You've got to get some authority. You've got to get a law that gives you some authority." One of the things I'd recommended to many of them: that they create an options market, and so forth. And ultimately, they all did it. Back to Cairo—the reason we were in Chicago two weeks ago with the chairman is they're now talking about—the government is now supporting them—which they are part of the government, they're owned by the government, the exchange there wants to organize a futures and options market, and a commodities exchange. And they eventually will do it. But we're talking about—I took the chairman, two removed, there to Chicago three years ago to talk about that. And then we're there two weeks ago to talk about it.

KD: Everything takes time.

DC: That's right.

KD: Well thanks for taking some time with me. I appreciate it.