Securities and Exchange Commission Historical Society
Interview with G. Bradford Cook
Conducted on May 8, 2007, by Kenneth Durr

KD: This is an interview with G. Bradford Cook, May 8th, 2007, in Bethesda, Maryland by Kenneth Durr. I want to start out with a little bit about your background. You went to undergrad at Stanford, is that right?

GBC: Right.

KD: And you were from the Midwest?

GBC: I was born in Lincoln, Nebraska.

KD: How did you end up in Stanford from Lincoln?

GBC: I went to grade school and to junior high school in Lincoln. Then I was sent away, not at my request but at my father's request, to Phillips Exeter Academy, in Exeter, New Hampshire. I went away in ninth grade, and then graduated in 1955.

KD: By the time you got to Stanford, did you know that you wanted to go to law school?

GBC: My father insisted that I come back to Nebraska and go to the University of Nebraska after I graduated from Exeter. But I'd never been on the West Coast before. Having spent four years on the East Coast, I thought it'd be a great opportunity to go west. I convinced him to let me go to Stanford. I then applied to Stanford Law School and was accepted, after I graduated, but decided to turn it down and go home to Lincoln and go to the University of Nebraska Law School. The reason I did that was because I thought I might get active in politics, and it would be easier in Nebraska to be in politics than in California. So I went to the University of Nebraska Law School. It's a three-year school, and at the end of my second year, I decided I wanted to practice corporate law. I went to Chicago and joined a law firm by the name of Winston Strawn.

KD: Tell me about the firm. It's got a good reputation.

GBC: It's interesting how I got the interview there. I'd gone through Martindale-Hubbell, which lists all the attorneys, and I'd picked out two or three firms just on name and size. I was on the way to Chicago with my father and some of his friends, and one of his friends was a very prominent businessman from Chicago. He asked me why I was on the trip and I said I was going in to look for interviews. He said, "What firms are you looking at?" I mentioned Winston Strawn as one of them. He then said, "I know the senior partner there very well, and I'll call him and tell him that I know you, and your background." So I got into the senior partner's office, and I was conducting the interview, and we were talking mainly about fishing and hunting.

KD: Who was the senior partner?

GBC: Charlie Calderini. On my resume I wrote that I had been a seasonal park ranger in the Olympic National Park, between my junior and senior years in college. Mr. Calderini asked, "Did they have Olympic elk out in Olympic National Park?" I said, "Yes, they did." That led into a hunting discussion and a fishing discussion. Then the phone rang in his office and it was the gentleman from Chicago who was supposed to have called him before the interview. He said, "Oh yes, Brad's here, sitting in my office." So here, I thought the wheels had been greased, and they hadn't; I'd just gotten into his office on my own initiative.

KD: Did things stick on fishing and hunting, even after that phone call?

GBC: We didn't go over grades much. I think I sold him on personality. Nebraska Law School did not have a national reputation for excellence, although it's a good law school. It was very small in those days. So they hired me. He wanted me—this is during the summer when the interview was conducted—to start the next day, and be a summer student there. I said I couldn't do that because I had another job in Lincoln for the summer.

KD: When is this?

GBC: This would be 1961.

KD: So you came in, in the fall then?

GBC: No, I came actually in June, after I graduated from Nebraska, and took the Nebraska bar exam. The policy of Winston Strawn was that they would give you all the time you need to study for the bar during the summer, but if you flunk the bar, you're out. I said to Mr. Calderini when he explained that policy to me, "Well, what if you have a bad day?" He said, "We don't have bad days at Winston Strawn." So I studied for the bar during the summer with a few of my contemporaries, passed the bar, and started actively working full-time in the fall of 1962.

KD: Did you get into securities law pretty quickly?

GBC: I did. I'd call it more banking law, because of private placements of debt. I kind of morphed into securities law, public offerings, mergers and acquisitions, and that sort of law—green goods law, as we called it.

KD: Did you have much interface with the SEC?

GBC: Not a great deal. I mean, you have filings. I had one or two meetings in Washington with the staff during the '60s, but not a lot of interface.

KD: This would have been the Cary SEC at this point, I guess.

GBC: I'm trying to think when Manny Cohen came in. That was before Casey.

KD: Yes, Cohen probably came in '64, '65?

GBC: I think that's about right.

KD: I wonder if you had a sense of the Commission; whether it seemed to you to be active at this point, or something that corporate and securities attorneys didn't worry unduly about.

GBC: I'd say we were intimidated by the Commission. I don't think I held it in awe, or was afraid of the Commission. But we were certainly respectful of their views.

KD: I understand that Bill Casey got you into the SEC.

GBC: I was active in Republican politics in Chicago. A very dear friend of my father's, by the name of Peter Flanagan, who'd been with Dillon Reed—had been in the Nixon administration—we met one time at our summer home in Minnesota, and he said, "Brad, we're trying to recruit young lawyers to come down to Washington in the Nixon administration." He said that one position in particular that was available was general counsel of the Federal Communications Commission. I said, "Peter, I don't know anything about radios other than to turn them on and listen to them." He said, "Well, this will be a great opportunity to come from Chicago, and then go back to Chicago and start a Federal Communications Commission practice." I said, "I'm really not interested in that. The only thing I'd be interested in would be the Securities and Exchange Commission." In the meantime, I was invited to come down and interview for the general counsel of HEW. That came through a relationship with Peat Marwick, the accounting firm. I interviewed with Bob Finch from California, who was the head of HEW, a close Nixon ally, but I looked at the HEW, and it was just too big an organization, and again, it wasn't my specialty. I kept tabs on the SEC. When Phil Loomis, who was General Counsel, became a Commissioner, that opened up the position in the General Counsel's Office. I called Peter Flanagan and said, "Peter, now this is something I might be interested in." He said, "Well, come down; I'll set up an interview with the personnel department, and then if it proceeds beyond that, you can meet Bill Casey." So that's how that evolved.

KD: So you were keeping an eye on the SEC, then.

GBC: As an opportunity for—

KD: Were these other opportunities—the SEC, HEW—were these back in '68?

GBC: About the same timeframe, yes.

KD: Because you got into the SEC in '71.

GBC: Right.

KD: So you came in and did the interview. Did you meet Casey first?

GBC: Casey took me to lunch. He asked how many billable hours I'd banked per year, and I gave him the number. I can't recall what it was now. I was then a partner at Winston Strawn, and like most young lawyers—I mean you worked long, long hours. I guess he was impressed by that. It was not an in-depth interview. I think he took a liking to me, so he said, "Well, would you be interested in the General Counsel's position?" I kind of said to him, "Well, maybe; but maybe a Commissioner's position." I was pretty bold. He said, "No, you want to be General Counsel, because that's the second best job in the Commission." I said, "How do you mean that?" He said, "Well, as a Commissioner—other than as Chairman—you don't have a large staff; whereas as General Counsel, you have a large staff of lawyers. And I'll make sure everything goes through your office and that you're involved in not only the legal aspects, but in policy issues." I said, "Okay." He said, "Well, go home and think about it." I went back to Chicago; and when I got back, I called him, and I said, "I'd be happy to do it." This was the middle of the summer of '71. He said, "Well, I want you to start right away." I said, "I can't." I had other obligations. So my official start date was September 1st of '71.

KD: Did Casey tell you a little bit about what he wanted to do with the SEC at this point?

GBC: Not really. Of course, that evolved very quickly when I got there. I was not familiar with all the issues that were on the stove, boiling. I really was almost self-taught. I had to read the memos quickly. I had the General Counsel's Office send me the briefs they were filing on certain issues.

KD: So you did some studying before you—

GBC: —actually officially started. Right. I was mainly self-taught, and picked up. I remember vividly, showing up for work in early September, and Casey called me up to his office. He said, "We have a Congressional hearing, and I want you to be there." I said, "Well, what's the issue of the hearing?" I'd never been at a Congressional hearing in my life. He said, "The issue's going to come up on who has primary jurisdiction, or exclusive jurisdiction, over commission rates. And does the SEC have it, or does the anti-trust department have it, or—whatever?" I mean I was dumbfounded. I didn't know what he was talking about. So I went down to my staff, and I talked to one of the Associate General Counsels, and he said, "Well, a guy named Richard Seltzer has kind of been working on that." So I called him into my office, and I said, "Explain to me the differences here."

And he did, quickly. So I said, "Well, come on. We're going over to this Congressional hearing with the Chairman." We got into the hearing, and Bill Casey was hard to understand, because it was like he had marbles in his mouth. He had a very strong New York accent. I think it was Pete Williams, from New Jersey, who was conducting the hearing in the Senate. They asked the Chairman a question on jurisdiction over commission rates, and Bill said, "Well, my General Counsel will respond to that." I didn't have hayseed in my ears, but—

KD: This was the same day that you came in?

GBC: Almost the same day—or second day. Yes, pretty early. I said, "Our position is that we have primary jurisdiction, maybe exclusive jurisdiction." And that was all I said. And nobody questioned it. Nobody probed me any deeper than that. And so here I was, a kid from Lincoln, Nebraska, off and running—not having a chance to sit down, and—before Congress.

KD: And this was one of the big issues, if not the big issue.

GBC: It was a huge issue, because the industry was suffering. It was losing money.

KD: Why?

GBC: Trading was down; stock prices were down. Commission rates were eroding. Even though they were still fixed at certain levels, there were different ways that institutional trading could take advantage, and negotiate rates off the exchanges. And for the large institutions—the market was starting to institutionalize away from the individual investor—there were ways to negotiate rates, even though the New York Stock Exchange had a fixed rate.

KD: So the institutions would go off the New York Stock Exchange?

GBC: They'd go on to the other exchanges. They were seeking exchange membership in those days, in order to recapture commissions. The Philadelphia Exchange welcomed them. New York Stock Exchange refused to have institutions. And we passed a rule—actually Harvey Pitt devised Rule 19(b)2 - where we said that if you are a member of a stock exchange, you have to be doing a public business. So that slowed down the drive for institutional

membership. But as the fixed rates were eventually eliminated, then institutions did not want to become members, unless they were actually doing a public business.

KD: Of the other stock exchanges—of the regionals?

GBC: Well, of any of the exchanges. The incentive to do that disappeared. Because again, Rule 19(b)2 said if you want to become a member of an exchange you have to be doing a public business.

KD: How did you define public business?

GBC: The concept is that you had to be dealing with the public, rather than just dealing for yourself.

KD: So the institutional investor would be dealing for the public. Is that right?

GBC: Well, it would not only be doing its own business, but it had to be holding itself out as being open to the public.

KD: A dealer or a broker, or somebody like that, could be doing public business.

GBC: Yes.

KD: And this first hearing: the interesting thing there is, you weren't even talking about whether to fix or unfix, commission rates, but about jurisdiction.

GBC: What our position was at the SEC was that we had, at a minimum, primary jurisdiction. In other words, we had the right to set rates. We'd always set rates. The New York Stock Exchange would come in for rate increases over the period going back to the forties, I think, or fifties. And what was happening was that the SEC was becoming kind of a utility commission. It would take studies from the New York Stock Exchange to justify rate increases, and then it would approve them or roll them back. And the time process it took to go through this procedure was up to a year. So by the time the rates were approved, a different set of circumstances were in existence in the market. The brokers, the securities industry had gone through a wrenching experience in the back office problems in the late

sixties, and they were just coming out of that. A lot of firms went into bankruptcy, and that's why the SIPC Act was passed, in '70 or '71. We had made a determination to go to negotiate rates at certain breakpoints, started out at five hundred and it went down to three hundred, then it went down to a hundred. Then Congress passed a bill in the mid-seventies to eliminate fixed rates entirely.

KD: What did you see happening as you lowered that rate down?

GBC: Our legal position was that we were the unique body because we regulated the securities markets, and that we were in a better position to judge the effect of lower rates on the brokerage industry than anyone else. There was a case out in Milwaukee in the federal courts—I can't recall the name of the case—where there was a challenge to the fixed rate for anti-trust purposes. The Justice Department was siding with the private litigant to say that there were anti-trust violations on the fixed rates. Our position was that we had exclusive jurisdiction, so the courts had no say in the matter, or we had primary jurisdiction, which meant we had the first crack at it. The Justice Department fought us tooth and nail on that. So within the same administration, we were at loggerheads.

KD: Why did the SEC take that position? It seems like the effect would be the same, or the result would be the same.

GBC: I coined the term that Chairman Casey then used, called 'prudent gradualism.' We had told the industry that we were going to negotiated rates over a period of time, but we wanted to do it in increments and then see what happened each time we lowered it. Because the industry was saying—especially the small broker/dealers, the regional broker/dealers—that without a fixed rate and a cushion, so to speak, they couldn't give research to their clients. And that the industry, being in perilous condition to start with, at that time, in going to negotiated rates they'd lose all the institutional business to the big, wealthier brokerage houses. The small brokerage house, serving the individual customer, would probably go out of business because they couldn't charge enough fees. Of course, I think what happened in practice was that the fees increased for the smaller individual investor, and were negotiated—they always were kind of negotiated—for the big investor. So the fixed rate really was a fixed rate for the smaller trades anyway, because the big guys could do it other ways—could get it back.

KD: But they couldn't do it through the New York Stock Exchange.

GBC: Well, they could. What they'd do is they'd give service. They'd pay the fixed rate, maybe, if the trade was on the New York Stock Exchange, but then they'd recapture it by getting services from the broker. So he paid the full amount, the commission, but then you'd turn around. One device was the broker would provide research, or *Wall Street Journal* subscriptions, or office desks, and that sort of thing, for the institutions. At the Commission, we had a policy statement that fixed rates were going to be eliminated. But we wanted to do it on our schedule, and with monitoring each break as we went down to make sure that the industry could absorb it.

KD: I know during Bill Casey's time, you got to three hundred thousand.

GBC: Right. And we were supposed to go to one hundred, but we postponed it till April '74.

KD: I thought that you'd gone to one hundred during your Chairmanship.

GBC: No.

KD: So you were still at three hundred at that point.

GBC: I think so.

KD: And was the industry saying, 'This is hurting, but go ahead'? What was your sense?

GBC: No. They were saying the former: it was hurting, and don't go down any lower. But again, it was the collective position of the Commission that we didn't want to become a public utility commission. Because we'd get these mammoth studies from the New York Stock Exchange justifying rate increases, and the industry was so diverse that it was difficult to have any meaningful study, to justify this on economics. And again, as I said earlier, for the big boys there was no fixed rate. First of all, because the breakpoint was going down, and trades by the institutions were going up, and because the market was becoming more institutionalized. So the fixed rate really was a fixed rate for the small broker.

KD: My understanding, though, was that a lot of the pressure to unfix rates was brought by the rise of institutional investing.

GBC: That's true, yes.

KD: But if the big institutional investors were getting their cuts anyway—or getting negotiated rates anyway, why would there be that pressure?

GBC: They'd rather, I think, have the unfixed rates, so to speak, through cash, and be able to negotiate rates down lower, rather than all these convoluted indirect ways of getting their rate down.

KD: So they'd figured out how to work the system.

GBC: Right.

KD: They wouldn't have minded paying for services, rather than paying for all kinds of extra—

GBC: Yes, they'd rather get it directly, by lowering their commission cost.

KD: Would the rise of institutional investors be the main cause for the agitation that was going on at this point for unfixing commission rates? Were there other things involved—like the back office situation, for example?

GBC: The back office situation was an argument to keep rates fixed, to keep the profit margin. That was when the small brokerage houses were screaming not to unfix rates, because of that. That was one example. But the institutions were threatening to join the exchanges. The New York Stock Exchange wouldn't permit—I'm not sure exactly why; I guess it was in the rules—institutional membership. Philadelphia was actually courting the institutions, trying to build up its volume. And that's when we came up with Rule 19b-2.

KD: And the effect of 19b-2, then, was—

GBC: You couldn't join the exchange just to recapture rates—brokerage commissions.

KD: Where was Harvey Pitt at this point?

GBC: I think Harvey was General Counsel of the Division of Market Regulation. He was in the division before I took it over. And I know he was my General Counsel in that division, at that time.

KD: It would seem that given that this is one of the big issues—another one that we can talk about is the centralized market—it seems that market regulation was where things were at, at this point.

GBC: It was interesting, because I came in September of '71, as the General Counsel; and then in the summer of '72—and I had nothing to do with this—Bill Casey separated enforcement from regulation. He was a great believer in regulating rather than enforcing, if you could do it that way. In other words, lay out the rules, rather than let the law develop case by case. He called me into his office and said, "Well, I've reorganized enforcement, and separated out the Division of Market Regulation. And I'm now looking for a director." I said, "Well, I can't help you. I mean I don't have any—" I was really without much knowledge in that area. He said, "Well I've picked a new director." I said, "Who?" He said, "You." I said, "Me?" I said, "I don't know anything about all these issues that are going on." He said, "No, you'll be the best." I said, "What about General Counsel?" He said, "You can keep that too, if you want," although that was never really formally recognized.

So I just called in the associate directors, and said, "What are the big issues?" And I got some briefing up to date; but then I called Gus Levy at Goldman Sachs, who I knew well. My father had done a lot of business with Gus over the years. I said, "Gus, we've just formed this new division. I don't know what the big issues are, especially from the industry's point of view. Could you arrange a dinner and get together the leading Wall Street guys? And I'll come up and I'll just be a listening board." He said, "Sure." So we had dinner in New York; and it was a who's who of the New York Stock Exchange: Bill Donaldson—

KD: Was he director at the time?

GBC: I don't think so. Gus Levy from Goldman Sachs, Sy Lewis from Bear Stearns. Anyway, it was quite a collection of guys. They hammered me for about two hours after dinner, and my defense was: I just took this division over. I don't know anything about it.

KD: What did they hammer you about?

GBC: I don't really recollect the issues—fixed rates, and institutional membership, some esoteric rules, 10(b)6. That's about all I can recall. But it was interesting. I came back and put together a kind of a private memorandum for my own use on their points and discussed it with the staff. I can't recall; that's thirty-five years ago. I can't remember the specific issues.

KD: Did the staff come back and say, 'Yes, but—'

GBC: Well, yes. We would analyze each—yes, there was always a reason for doing it, and a reason for not doing it, but I don't recall the specifics of it.

KD: What was the reception like at the Commission from the staff, when it came to this reorganization? It would seem that that was a pretty significant step.

GBC: I was not involved with the decision-making process to separate enforcement from market regulation. I'm sure that there was some disagreement by the staff, because no one likes change. Although actually—I don't know specifically by head count—but I think that by having two divisions, there's more upward mobility than having one division. So I suspect that, depending on where you ended up, on which side of the ledger, it should have been good for the morale of the staff, because there's more opportunities to advance upward.

KD: Right. Irv Pollack, for example, advanced upward to take over Enforcement?

GBC: I think he was the head of Trading and Markets before that. But Bill Casey was a great believer, again, in regulation, versus—

KD: I'd always understood that the split was done in order to strengthen enforcement. And it sounds like you're telling me something different.

GBC: I think just the opposite. I think it was done to strengthen Market Regulation and to give regulation an equal chair at the Commission table.

KD: Did it work out that way, in practice?

GBC: I think so, yes. I don't recall ever knocking heads with Enforcement and I don't ever recall them knocking heads with us. The staff always tried to develop a uniform position before it went to the Commission table. We didn't want to seem to be bickering among ourselves, and trying to set a policy, or carry out some type of action. So we always tried to iron out our differences at the staff level so we would go up with a uniform approach to the Commission. I'm sure there were some, but I can't recall one instance where we had a strong disagreement among ourselves. There may have been a strong disagreement among ourselves at the staff level, but that was ironed out before we got to the Commission level.

KD: Okay. Tell me a little bit about the Commission. I would think, as General Counsel, you would have been closely involved with some of the commissioners.

GBC: Bill Casey ran the SEC as a one-man shop. He was a very strong, dynamic—overbearing sometimes—leader. And that's not to say that some of the commissioners didn't have good institutional input. But it was Bill Casey's show. So any controversial issue I would discuss with Bill, rather than going to individual commissioners. I may have gone to individual commissioners, but it was a rare situation.

KD: How did the staff see Casey?

GBC: When I was there, I think they enjoyed him. Again, he was a strong guy, and he had a clear agenda. I was not there when he developed his agenda, because he was there, I think, about six months before I got there.

KD: Tell me about that agenda? How would you define it?

GBC: More emphasis on regulation than on enforcement. There's always the situation where the Enforcement Division is being blamed for being overbearing, expanding the law, not laying out in advance—letting the law build case by case, rather than by some regulatory fashion. Bill's theory was: we give you the rules; we lay out the regulation. If you violate it, then

we're going to hammer you. But we're going to tell you in advance what we expect of you. And I kind of carried that on when we talked in terms of the insider-trading situation, where we were going to lay out a white paper—which I don't think was ever done. I think it kind of died of its own. Because some of these issues are hard to define and don't lend themselves to regulation. There was: how do you define fraud? If you defined it fifty ways, somebody's going to come up with a fifty-one way; and then does that one fifty-one—that last one of the fifty gives you a free pass? So you can say, 'Well, I followed every fifty rule. I just was clever enough to come up with fifty-one. So, you know, you should regulate me first, and tell me that fifty-one is bad. But I get a pass for coming up with this new way to commit fraud.' So the General Counsel's Office and the Enforcement Division were kind of—say, you'd have to build the law case by case, because we can never think of all the ways that brilliant minds—maniacal, brilliant minds—can come up to work around the written rules, so to speak. And Bill was a strong believer in advisory committees from outside the Commission, to get industry involved.

KD: Did he have those for things like unfixing commission rates?

GBC: There was not actually one on the central market system. There was one on real estate, which I formed. There was one on compliance for broker/dealers, which I formed. There was one on enforcement on the Wells—Jack Wells, who was a lawyer in New York—where you get a Wells letter, giving you the right to argue with the staff before it went to the Commission level. And there was one on disclosure. There were a couple others, I can't recall what they were, though. He also brought in his own kind of kitchen cabinet of young lawyers from New York—or mainly from the east—to guide him through the issues. There was John Liftin, Lee Pickard, and there were a couple others—I can't remember their names now. I think that was an attempt to kind of work around the staff and try to get new ideas. I never got at loggerheads with them, but I think the Enforcement people did occasionally—thought they were meddling.

KD: Well, he seems to have done an awful lot of things. He was only there less than two years.

GBC: Right. Twenty months, I think.

KD: Was it a surprise when he decided to resign?

GBC: No. He and I had a conversation actually—this is after the second election of Nixon—and I said, "Bill, what's your intention?" Because usually anybody who would come in as a new Chairman would want their own General Counsel, would want to change some of the positions. And so my fortune was tied to his plans. And he said, "I think I'll move on." He wanted always to be head of the CIA—once a spook, always a spook—because he was in the OSS during the war. I said, "Oh." Then I went down to my office, and I started thinking—I always thought about that—and I also thought about it a little later—I said, 'Well, what am I going to do? I'm kind of in limbo here.' So that's when I devised the plan to maybe move up to Chairman. I went back up to Bill's office a day or two later, and I said, "What do you think about this idea?" And he said, "Well, I really can't comment on it, but I wouldn't dissuade you from trying to become Chairman." I didn't ask for his support, because I thought that would be an unfair question. So that's how the seed was planted for my ascendancy to the Chairmanship.

KD: Why did you want to be Chairman?

GBC: First of all, it's an honor; it's a great—I'm trying to think of the right term—feather in your cap, so to speak. But I wanted to continue the agendas that we had, and I had some ideas for additional issues.

KD: What were those?

GBC: Directors' responsibility was an issue for me, because in private practice—and these issues were starting to come up—more objective disclosures, rules.

KD: It sounds like you were about thirty or forty years ahead of the time there with some of those.

GBC: It was interesting, because in 2004, I was on a panel discussion with the SEC, and I had prepared a white paper, going over the issues that we were facing then, like the central market system, which I said in speeches in March of '73 that we wanted to have fully-implemented in two years. Well, the national market system is still evolving; and here it's been thirty-six, or thirty-five years. So we didn't quite meet our deadline in two years.

KD: I saw those headlines, and I was struck by them. It sounds easy at that point to say, 'We'll do it in two years.' But it's just been this constant struggle to figure out what to do with—

GBC: Well, yes. There's so many technical aspects, which I've kind of lost track of. But I think our two-year window was really optimistic, back in the early '70s, or '73. I don't think we had the technical ability to do it, from a computerization point of view.

KD: And it was clear that's what it would take, right? Computerization.

GBC: Oh yes, yes. Plus the New York Stock Exchange fought it.

KD: Right. I understand that there were hearings involved in the idea of the central market system. It was definitely a big issue. Do you recall the Congressional hearings?

GBC: I think the hearings took place after I left, because I don't recall any big hearings going on.

KD: Was Casey pushing the centralized market idea?

GBC: Yes.

KD: What was his rationale?

GBC: That the markets were fragmented. There were upstairs markets, downstairs markets, this stock exchange, that stock exchange. There was uniformity within the Commission that brokers should have the responsibility of finding for its customer the best price, the best execution, no matter where that was. And there should be competition among the various marketplaces. The New York Stock Exchange did not agree with that. I can recall having—that was one of the meetings—one of the issues that came up in New York with the industry; and I always said, 'The New York Stock Exchange is so powerful compared to the other exchanges, that if they can't develop the best price for the security because of their liquidity, and because of their strength—the fast resources they have—then something's wrong with our whole system.' In other words, my theory was if there is competition among the exchanges—the marketplaces—the New York Stock Exchange has an opportunity to really dominate, rather than to be threatened by this. They didn't see it that way.

KD: But doesn't competition mean a fragmented market?

GBC: Well, there's always a fragmented market because you've got the Pacific; you've got the Philadelphia; I think Salt Lake City was still then in existence; the Cincinnati Exchange; I think the Midwest Exchange in Chicago. Our position was that the customer, if he placed an order, was entitled to get the best price. And the best price may not be on the New York Stock Exchange. If it happened to be the best price, then the trade should be done there. But if it's not the best price, it should be done in Philadelphia, or wherever. And in order to have an active market, you have to have deep pockets as a specialist, in order to absorb losses, in order to make an orderly market. The New York Stock Exchange had that. They had the strongest specialist industry. So our theory was that a broker has an obligation to find the best price for the investor. Now, there's been a series of articles recently in the *Wall Street Journal* criticizing the national market system, because sometimes, especially for an institution, price is not the only criteria they're looking for. They're looking for speed sometimes, sometimes secrecy. That was another aspect of it—the central market system—that all trades had to be reported.

KD: So the idea was that it would be great if the specialists on the New York Stock Exchange could direct trades elsewhere, not just New York.

GBC: Or the broker would have to take it—the upstairs broker—that he'd put it through the specialist, and he's checked the specialist, to say, 'We know what's the price.' But if he had to go to Pacific Coast Stock Exchange, or Midwest, or wherever that stock was listed—he had to go to the best market for the customer, is the theory.

KD: So I imagine you had lots of discussions about rule 492—that was the one that kept people from going off the New York Stock Exchange?

GBC: I think it's 392—my memory's not too strong on those rules. Yes, because they had a rule that said you couldn't take it off the exchange, unless you were a member of another exchange. I think if you were a member of both exchanges, then you could take it off and go to whatever exchange you wanted.

KD: You made some good headlines with the two-year announcement. But how far that did that actually move during your time—both working for Bill Casey, and while you were Chairman?

GBC: Well, the white paper that John Liftin, I think, was the author of, or the primary author, had just been released in mid-March of '73. And I left in May of '73; so other than giving impetus through a few speeches, I was then not involved in the subsequent implementation.

KD: What was the white paper?

GBC: It played out the mechanics. It laid out the theory of the central market system and how it would be implemented.

KD: Was the idea, then, that this needed to be explored further, and shaped a little?

GBC: Well, it was interesting because when I gave the speech in New York, we had a lot of criticism from the New York Stock Exchange. We kind of switched tactics a little bit after that. In subsequent speeches, we said, 'We're open to comments. This is the goal; this is where we're headed; we want to do this in two years, but we're open to talk.' So we had an olive branch in one hand, and a hammer in the other—which is the way a lot of things work in life.

KD: I noticed that there was a document called *The Future Structure Statement,* that was put out under Casey. Does that ring a bell at all? Having to do with the centralized market.

GBC: I wonder if that's the white paper.

KD: Something tells me that there was something under Casey, and then the white paper came out under your watch.

GBC: There were hearings, I think, that Bill had been conducting before I got there, I believe. And again, we're talking thirty-five years ago. He always encouraged, as I did, public interplay with the Commission, to get the industry's point of view.

KD: Well, your plan to become Chairman worked. How did you find out about that?

GBC: You never know what the machinations are at the White House. When I decided to consider making an effort to become Chairman, I spoke to Gus Levy in New York, and a guy named "Bunny" Lasker, who I'd known before I got to Washington, but got to know better because they were both former governors of the New York Stock Exchange. I said, "Would you be supportive at the White House level?" They both agreed they would. Now, you never know for sure if they're just blowing smoke; but I don't think they were. They kind of carried on the quest. I never had a meeting with anybody at the White House. I had a conversation with somebody from the White House one time—cryptically over the phone, in February, where first I'd been told that I was going to be designated as the Chairman. And then I got a call—and I can't remember who it was from—in early February, saying that it had been put on hold. So I called up Gus Levy and Bunny Lasker, and I said, "Things have been put on hold." And they said, "We'll find out why." They came back and said that they were looking at some other individuals who were in the race, whose names I didn't know. And then I think it was a staff member of the SEC—I can't remember his name—came up to me and said, "You're going to be the new Chairman." And I said, "How do you know?" He said, "Well, I know." There was no meeting with the President; there was no meeting with any of his staff members; it just kind of evolved. But again, you never know what the machinations are. You hear all kinds of rumors: people are for you; people are against you. They think you're too young—dah-dah-de-dah.

KD: I'm sure you heard a lot of that sort of thing.

GBC: Yes.

KD: This must have been a pretty highly-placed staff member who got the word from the White House.

GBC: He was.

KD: You don't remember who that was?

GBC: Ted Beroux. Ted's still around. He was in the accountant's office, or maybe he was a special assistant to Bill Casey; I can't remember which.

KD: So Casey had to hang in there while they put this thing on hold for a little while. Is that right?

GBC: I don't know exactly when he did officially leave.

KD: Well, you got in there—

GBC: As Chairman.

KD: As Chairman. You'd been pretty close anyway; you'd been General Counsel; you'd seen a lot. But was there something that you'd missed, and then you came in as Chairman, and said, 'Oh, so this is the way it is.' Was there anything new?

GBC: No, we had a pretty full pipeline of projects. We had the central market system, we had the fixed rates, we had institutional membership; we had disclosure issues. Enforcement cases were proceeding, equity funding was the big case—the Vesco case, of course, was huge. National Student Marketing was huge from the point of view that we sued lawyers. We'd sued lawyers before, but not from prominent law firms. This was, I think, when I was still General Counsel. We took a lot of flak for that, because White and Case was one of the firms, and the other firm was from Chicago—Schiff Hardin, I think it was—which was a good law firm. We took a lot of grief for that, a lot of criticism from the bar.

KD: This idea that lawyers had to have—

GBC: Well, we took the position—and again, this is thirty-five years ago, that the lawyers were not merely just papering the transaction; they were guiding the transaction, and they were culpable in not stopping the transaction when they should have done it. Historically, the Commission sued lawyers, but not from big, prominent law firms. I don't know if we named the law firm or just named the lawyer in charge of the situation. But we also named Peat Marwick; and then we had a criminal reference on the individuals. And they were convicted.

KD: Was that National Student Marketing?

GBC: Yes. The developer of Avenel, here in Bethesda, was one of the Peat Marwick accountants who went to jail. His name escapes me right now.

KD: My understanding was that this whole accountants and lawyers thing was fairly new.

GBC: Well, we didn't think it was new. I mean, we had precedent. We had cases collected, especially on the accounting side. But again, it was new with big law firms; and there was a lot of hair pulling at the staff level, whether they should be named or not named, or whatever.

KD: Who wanted to name them?

GBC: I think I was leading the charge on that. The idea was planted in staff memos. But I concurred in whatever decision was made, and I was the point person on that.

KD: This is as General Counsel?

GBC: Yes.

KD: Why did you want to do that?

GBC: Well, I thought they were culpable.

KD: As individuals.

GBC: Yes.

KD: How about equity funding? You said that took a lot—

GBC: Equity funding came just at the end of my tenure. It came, I think, in April or May of '73. I remember I was down in Dallas to give a speech, and I got a call from Stan Sporkin or Irv Pollack; and then talked to the federal judge. And again, my memory is foggy. It was a big case because it involved a lot of false insurance policies that had never been sold, or they'd been booked, but didn't exist. It had been a great institutional stock favorite, by the

institutions. And it's kind of like the Enron and the WorldCom issue—how can this happen? How can you get away with such a mammoth, massive fraud?

KD: Everybody's looking the other way.

GBC: Yes.

KD: Was it the same as with National Student Marketing, where you had accounting firms, and—

GBC: I don't recall the aftermath, because it took place after I left.

KD: Okay. But you were talking to them, and people from enforcement, as they were moving these things through.

GBC: Oh, yes.

KD: And you mentioned Stan Sporkin.

GBC: Yes.

KD: He was in Enforcement at this point?

GBC: He was the assistant director under Irv.

KD: Did you have a sense, at that time, what a kind of dynamic individual you had?

GBC: Stan is a good friend, and I have a great deal of admiration for him. The trade always depicted him as kind of a wild man, but he is the most controlled individual that there is. He's not wild at all. And of course, his subsequent career—where he's now in private practice, and he's gone to a judgeship, and he was General Counsel at the CIA. I like Stan a lot. We used to play tennis together quite a bit.

KD: I think just the fact that he was so influential from his division, later in the '70s.

GBC: Yes.

KD: It's kind of unprecedented—probably remains that way.

GBC: He would have been probably a good Chairman, I think; or a good commissioner. Although actually, in his position, I'd rather be head of Enforcement than be a commissioner—for the same reason I'd rather be General Counsel than just a commissioner.

KD: Other issues—the big ones are clearly the centralized market, and the commission rates. And it sounds like the centralized market didn't go too far while you were in there.

GBC: We'd just given it birth in April of '73.

KD: As far as commission rates are concerned, you're doing this—

GBC: Incrementally. Prudent gradualism, which—again, I came up with the term; I don't know—I mean it just dawned on me. And Bill Casey latched onto it because it had a catchy ring to it.

KD: It's really hard to argue with prudence.

GBC: Yes, and gradualism.

KD: But it looked to me as if you were getting challenged on that, toward the end of your time on the Commission, when Congress is holding hearings, and saying, 'The SEC needs to stop postponing things.' At the same time you've got the anti-trust division of the Justice Department—.

GBC: On our backs.

KD: Do you remember that situation?

GBC: I remember having a meeting with Kleindienst, who was then Attorney General—which was set up by somebody at the White House, because I think I called somebody at the

White House. Maybe it was Bill Casey that was still around—I don't know if I was Chairman, or in what time frame this took place—but I went over to meet with Kleindienst in his office at the Justice Department. The Attorney General's office is a huge, mammoth office. It's like something at Versailles. And I walked in, shook hands, introduced myself to him, and said, "You know, we've got a problem here." And there was an assistant—I think it was Assistant AG, a guy named Baker—who was on our back the most; and I said, "You know, we're proceeding here. This is our jurisdiction. We have the expertise. You have a difficult situation: the broker community of the stock market's down, just coming off the back office issues. Let us handle this, on the rate commission." And he paid lip service to us, kind of nodded his head. And then he said, "Have you seen my cane?" I said, "No." And he had this thing, it looked like a stick; and I said, "What is this?" He says, "It's a whale's penis. It was given to me by Alaskan Indians." That was the end of the conversation. And when I got back to the office, somebody said, "Well how did it go?" I said, "Well he showed me his whale penis. So I guess that's how it went."

KD: Not much of an accomplishment, I guess.

GBC: No.

KD: What was driving Justice to do this?

GBC: I think it was their anti-trust division, and Baker was, I think, the head of that. And they were just on a tear to eliminate fixed rates. They also, I think, got involved in institutional membership. They thought that institutions should become a member of an exchange if the exchange would have them. They were just pushing for total openness in that area. Of course, we wanted to keep jurisdiction, and we probably thought that, realistically, exclusive jurisdiction was not going to work. But we were successful, I think, in establishing that we had primary jurisdiction.

KD: What was your position on institutional membership?

GBC: Our position was really 19(b)2—the rule that you could become a member of an exchange as an institution, but you couldn't join just for the sake of recapturing commissions.

KD: There's something else I have in my notes: earnings projections.

GBC: FD—fair disclosure. It's been two or three years since their release was issued, since that rule was put in. I looked back at a speech I gave on equality in information to the public, and it's almost as if they copied, word-for-word, in the final release on rule FD, from that speech. And that was that research, or inside information, material facts, should be available to the public the same time it's available to anyone else.

KD: Where did the impetus to that announcement come from? Was it some of the insider-trading cases that you were handling?

GBC: Well, there was that. We were developing a white paper on insider trading: what it consisted of, and what our position was. As I said earlier, I don't think that it was ever issued. I think it got bogged down. Also, we had hearings on earnings projections—if you have a projection, it should be given to everybody at the same time. It didn't require you to make a projection, but if you made one, you couldn't just disclose it to an institution without making it generally available to the public.

KD: Were these SEC hearings?

GBC: Yes.

KD: Okay. So would you have folks from the industry come in?

GBC: Yes, and lawyers. We were also trying to develop a safe harbor if you made a projection. And then the question is: do you have to correct it?

KD: Right. What was the reception from the industry?

GBC: On the projection issue, I think it was all over the map. The lawyers wanted a safe harbor; and I think the compromise was, we said you don't have to make projections, but if you do make a projection, then the issue was, do you have to correct it or modify it. And I can't recall what our position was on that. I know from a business point of view, what our theory was, or what our position was; and our position was that if you make an incorrect projection, that you should correct it, just from a business point of view—to let your stockholders know—and of course, if you had a projection that was incorrect, you couldn't trade

internally on the stock without making it public. So you were frozen, you know, in just dealing in the stock.

KD: This didn't make it into actual rules, did it?

GBC: I think it did. I think there was a rule issued on projections.

KD: Okay. I can certainly look that up. Because again, it's an issue that came up again much later.

GBC: Oh yes, FD. I mean it's a reincarnation.

KD: Right. Anything we haven't touched on—either when you were working for Bill Casey, or when you were Chairman—notable incidents or issues that you were dealing with?

GBC: No, I think we've covered everything.

KD: Now, the decision for you to resign. You were under no obligation to do so. It was purely your decision.

GBC: It was purely my decision. It involved the Vesco case. The history there was that I was called up to Bill Casey's office, and he said, "We have this case involving Robert Vesco, International Controls, that's in the Enforcement Division; and it's been kicking around, doesn't seem to be coming to any fruition. I'd like to have you get in charge, and bring it to either action or no action." And now, with the benefit of hindsight, I can think of all the questions I should have asked: Why me? And how does this reflect upon Stan Sporkin, or the Enforcement Division? I mean, you're actually taking a case away, so to speak. I didn't ask—at the time it didn't even dawn on me, I don't think. Plus I was being a good soldier; and when Bill Casey told you to do something, you did it. You didn't argue if you wanted to stay there at 500 North Capitol; you didn't argue.

KD: So it would seem that Enforcement was trying to make their case, but they weren't doing it.

GBC: Well, these mammoth cases take a lot of time. They're all building blocks. You take the statement of one defendant; it leads you to another defendant, which leads you to another

defendant, or to a witness, or whatever. There's no reason to be in a hurry. You're building it block-by-block. And this was a mammoth fraud, and there were all kinds of offshore bank accounts, and it was very hard to trace everything. So I have my first meeting with Robert Vesco, in my office. I think the staff was there—I'm pretty sure. And after the meeting, I went up to Bill Casey's office; I said, "Bill, I've just met Robert Vesco." He said, "What do you think?" And I said, "The guy is a slimeball." I said, "This guy is a crook. He is despicable, and this case is going to go all the way." And Bill said, "Fine." So I had a couple more meetings with Vesco, and we were getting nowhere. It was just a dance. Vesco called Stan Sporkin "the best of the worst"—he referred to Stan that way, in meetings.

KD: The best of the worst?

GBC: The best of the worst. He just made your skin crawl. He was a bright guy, Vesco, and probably if he'd done it the honest way, he could have done it—I mean just taking maybe a year longer.

KD: What was the deal that you were trying to get him to—

GBC: Well, he was trying to bring OIS—Overseas Investment Services—onshore here, in order to expand its marketing. It was a mutual fund company. And we said, 'Yes, if you give us all the disclosures: Who owns the stock? Who does this? Who does that?' Because it was in a Panamanian corporation—there was all kinds of secrecy. It was just a dance. What happened was: I had testified before the Grand Jury, involving conversations I had with Maurice Stans. And before I went on this trip, where I met Stans, I'd been told in my conversation with Bill Casey—that first conversation I had after meeting Vesco for the first time—I said, "Bill, one of my staff members in the general counsel's office says that in 1968, Vesco had made a contribution to the Republican Party." And I said, "This case is going all the way. And this guy is a guy you don't want to do business with. So I'm not in a position to do it, but you are—to tell anybody where you have to tell them: don't take any money from this guy, because it's going to be an embarrassment." Now I don't know if he ever told anybody or not; he never confirmed, or not confirmed, that to me.

KD: You were talking about the administration.

GBC: Yes, the Nixon White House. I had met Stans a couple times before—I had known, you know, this possible contribution had been given in '68; and also, we had taken the statement of a couple of people that alluded to cash coming in, in a suitcase, and so forth. And so, when I met Stans—who was the head of the finance committee to re-elect the president—I said, "Mr. Stans, we have this case going. And we think that some cash has come into the country, and we're trying to trace it. Now, did it go to the Republican Party?" And he said, "No, we didn't take money from Robert Vesco." He lied to me. So I came back from this hunting trip, and I told Stan Sporkin this, that I had this conversation. And he said, "Maybe we should take Stans' statement, to see where this money—if he did get it." I said, "Stanley, you do what you have to do. I mean that's up to you." But in my first Grand Jury testimony, they asked me if I'd had a conversation with Maurice Stans; I said, "Yes." "What did you talk about?" I said, "Well, the weather," which was true; but I'd left out this other conversation. But I was starting to be criticized by the press, for me personally taking focus off of the case—and this was the biggest case we'd brought. And so as the pressure built up—they kept asking me, asking me—you know, "Did you or did you not talk to Stans?" Dah-dah-dah-de-dah. And I went before the second Grand Jury and said, yes, I had talked to Stans. And we had talked about the money; what he'd said to me. And I also had a couple conversations with Stans after that. And each time I did have a conversation, I always told Stan Sporkin. But again, I was kind of locked into my first Grand Jury testimony where I had not been totally candid—although if you correct it in the same Grand Jury, it's not perjurious. But again, all the pressure started—Brad Cook, Brad Cook, Brad Cook, instead of Vesco, Vesco, Vesco.

KD: And it moved pretty fast.

GBC: It moved real fast. So I said: Well, for the benefit of the agency—the focus is being misplaced here; so I should go, and let the chips fall where they fall. Now, with the benefit of hindsight: should I have resigned? I've asked myself that a thousand times. And I think that if I had to do it over again, with the same circumstances and facts, I would say: No, I would gut it out. I would not have resigned.

KD: Was that ever a chance?

GBC: Not to resign?

KD: Yes. At that time, were you pretty clear on the fact that you needed to do that?

GBC: Yes, I was at the time.

KD: It wasn't a toss of the dice, or anything.

GBC: No, no. It had been building for two or three weeks. Everywhere I went, the reporters wouldn't give the agency any credit for the case. They'd always say, what's your involvement here? And I just thought the focus was being misplaced. The one thing I think that people who work at the SEC uniformly, universally, find is that it's probably the best agency in government. It's a place that rages with talent and dedication. And if anything, I felt that I owed it to the agency to make a mea culpa, so to speak; and move on. And it hurt. Because there's been a lot of misinformation put out. I was reading and preparing for today's conversation; I was looking at the historical files of the SEC, where Meyer Eisenberg said I was indicted. I was never indicted. And in fact, I have a letter—it was given to me by Leon Jaworski, who was the special Watergate prosecutor. I'd testified in secret before Proxmire's committee, before him actually—and he referred my testimony to the special Watergate prosecutor. They came back with a letter addressed to Proxmire, saying that as matter of policy, law and facts, Mr. Cook should not be indicted for anything.

KD: Do you have a copy of that letter?

GBC: Probably do somewhere. Somewhere. But the other thing is that the press had me down in Miami at the Republican convention, meeting with Vesco's lawyer. I was never in Miami. I was under the Hatch Act; I couldn't go down. I couldn't be involved in politics anyway. But—you know—wild stories.

KD: Since you did make the decision to step down, your time as Chairman was fairly short. Even as General Counsel, we're talking about a couple, three years.

GBC: It was from September of '71 to May 18th, I think, or 17th of '73.

KD: Although it's a short time, it seems like a lot happened during that period.

GBC: Well, Bill was a dynamic guy and had an agenda that he wanted to get done. He pushed hard and was a prodigious worker, and a very bright guy, and a good leader.

KD: Other than the obvious: the organizational reshuffling, do you feel like the Commission itself changed during that time period?

GBC: No. There were changes in personnel. I'm sure some of the commissioners, who are all deceased now—I mean Phil Loomis is dead; I think John Evans is dead; Hugh Owens, I think, is dead; Syd Herlong, I believe, is dead; and when Jim Needham left, John Evans came on when I was Chairman, because I swore him in—I don't want to besmirch their independence or their abilities, because they were all good guys and good men, and honest, and hard working, and so forth. But under Bill Casey, it was a one-man show. And I was more inclusive, but I also took that page from Bill's book, and I was trying to set the same agenda. What happens in any kind of government situation is that things just percolate and percolate, and percolate, and take forever to come up. And one of the benefits of the SEC is that you can always change it. If you make a mistake, if it's not quite right, you can always quickly change it. That was Bill's philosophy, let's get this done. It's not a perfect world, and won't be perfect, but at least it'll be better than it is now; and we can tinker with it down the road, because we're the agency that has the experience and the expertise.

KD: The idea was that you were willing to give things a try.

GBC: Yes. Manny Cohen was more enforcement-oriented and had been with the agency, I think, for years. I wouldn't say Bill's agenda was a Republican agenda, or a political agenda; it was just: let's get it done; these things have been going around, around, around; let's move on them.

KD: And a regulatory agenda, right?

GBC: Yes, rather than enforcement.

KD: Is there anything else that we haven't talked about?

GBC: Lots of things: Nebraska football team.

KD: Well, we can do that later.

GBC: Okay.

KD: I'd like to thank you very much.

GBC: Well, thank you, Ken.

[End of Interview]