Securities and Exchange Commission Historical Society
Oral History Project
Interview with Roderick Hills
Conducted on December 20, 2002, by Ralph Ferrara

RF: This is Ralph Ferrara, and I'm delighted today to be at the offices of Hills and Stern at 1200 Nineteenth Street, Northwest, in Washington, D.C., with Roderick Hills, who served as Chairman of the Securities and Exchange Commission from 1975 to 1977, and we're in Mr. Hills' office today to meet with him in connection with a project underway by the Securities and Exchange Commission Historical Society to develop oral histories of the SEC, Rod, that can be preserved and entertain and enlighten the SEC family for years to come. Thank you very much for inviting us to your office today to spend some time with you.

RH: Delighted to be here.

RF: Rod, what I think the Historical Society would be most interested in is your recollections about the high points of your tenure as Chairman of the SEC. I'm pleased to say that at the time I served on your staff in the Office of the Chairman, so I think I have some of my own recollections that I'd like to prod you over, but before doing that, I think it would be interesting to all who listen to this tape or read a transcript of it to learn about your prior history with the Ford administration before joining the SEC, and then how it came to pass that you became the Commission's Chairman in 1975.

RH: I came to Washington by accident, having been asked originally by Elliott Richardson to be Assistant Secretary of Defense for International Security Affairs, a job in which I was interested. But before I could get myself together, he quit to become Attorney General, because of the indictment of the former Attorney General, and found my wife on my resume and hired my wife to be Assistant Attorney General, and we wandered back to Washington out of that.

During the last months of the Nixon administration, a number of things happened. For one thing, Ray Garrett was asked to be Chairman of the SEC. Ray actually was a close friend of mine. He, for five years, had been on the board of the American Bar Foundation Research Committee, along with Lloyd Cutler, Oscar Riebhausen, Ed Levy—I've forgotten, I think I said Lloyd Cutler—and so for four or five years, he'd been studying the evolution of law firms. Ray Garrett turned the job down.

His wife was ill. He didn't want to take the job, and Peter—I'll think of the last name in a second—from the White House, asked me if I would like to have my name submitted as chairman of the SEC. This was back in 1974. I said, no, I didn't really think that was...

RF: Was that Pete Peterson?

RH: No, he was at Dillon, Reed, and he's a—Peter Flannagan. And I said I didn't think that was the right thing for me to do right then in life. Particularly with my wife in the Justice Department, I thought SEC and Justice didn't make a lot of sense, so I went out to Chicago and talked to Ray Garrett. Ray's concern was that because of his wife's illness, he may not be able to serve out a full term. Anyway, as a result of that, both he and Al Sommer came to the Commission. And the implication, to which the Nixon White House acceded, was that if Ray had to leave in a hurry, Al would replace him as chairman.

So, anyway, time went by, and then they created this Commodity Futures Trading Commission, and I was asked if I'd be interested in that job, and I wasn't at all interested in the job. I gave them some suggestions, and my suggestion was to hire a friend of mine from California, Bill Bagley, with whom I had been a Young Republican many years ago in a moderate wing of my party. So I was involved, sort of, in those early days. I almost became Undersecretary of Labor with John Dunlap, with whom I taught at Harvard, but the day or so after I kind of agreed to do that, my wife became Secretary of HUD [Housing and Urban Development], and that didn't work anymore. So I was really kind of wandering around loose when my wife's swearing-in ceremony came with HUD.

RF: Now, HUD being Housing and Urban Development Department?

RH: Right. And as life happens, the vice president of the United States, Mr. Rockefeller, came up to me during my wife's swearing-in ceremony in the Red Room—I mean, the pre-ceremony; my four little kids, my wife, the President of the United States. The Vice President came up and said his lawyer, his good friend and lawyer, Oscar Riebhausen, had spoken to him about my interest in regulatory reform about which I'd done some bit of teaching at Harvard back in the late sixties, and that he and the President would like me to reconsider the job of Counsel to the President, which is a job which I had sort of shrugged aside—not shrugged aside, but I wasn't terribly excited about it. He said if I were willing to take that job that they would cause me to be kind of in charge of regulatory reform, because Oscar thought that was something I like to do.

And in the excitement of my wife's inauguration as Secretary of HUD, with the kids up on the stage and everything, I all of a sudden became Counsel to the President, the idea being regulatory reform. In that process, we did a lot of things. We brought, for example, all the regulatory agencies to the East Room of the White House, where the President of the United States explained to each of the agencies, including the SEC—I remember I was sitting right across the table from Ray Garrett at the time—with the heads of all these agencies, and we all got caught up in the furor of it, and I think we did some good things during that period of time.

Unfortunately, the whole period was overshown by the fact that the Church committee—Senator Church was investigating the CIA, and so I was nominally most associated with the investigation of whether the CIA had assassinated a whole bunch of foreign leaders.

Ralph, you reminded me of the time that we dealt with the Arab boycott of Jewish investment banking firms on Wall Street.

RF: That was the first time I came into contact with you, as the SEC's representative to the Arab League Boycott Task Force that you headed out of the White House.

RH: And that was a good time. Bill Simon, you may remember, was Secretary of the Treasury. He was as furious as was the President, and as was I, about the fact that major investment banks, like Goldman Sachs and others, were being boycotted. And the President of the United States wanted to make sure that the world understood that we would not tolerate that. In any event, Ray Garrett did leave because of his wife's illness, and I was given the assignment of finding a new chairman. There were several wonderful candidates, Al Sommer being number one. Ken Bialkin was another one. For various political reasons, and really not Republican reasons—conflicts in the Democratic Party, conflicts with Democrats and Republicans—I failed to get anybody approved.

It happened that I went out to California with the President and with Alan Greenspan on a trip, and when I came back, a lot of people felt that I should take the job. It happened during the time that my wife was being bandied about as being either a candidate for the Supreme Court or maybe even a vice presidential candidate, so I thought I should get the dickens out of the White House, and since I was stuck in Washington for a while, frankly, I took the job largely because Alan

Greenspan felt that it was the time for regulatory reform. You'll recall that on May 1st of 1975.

The White House deregulated commission rates, and while Ray Garrett at the Commission deserves all the credit for that, the fact is that President Ford and Alan Greenspan were strong supporters of that, and I'd had occasion during that period to talk to Wall Street about the fact that this was something the President of the United States really thought was important. So I got to the SEC with the notion that we would pursue a regulatory reform agenda; we would make sure that commission rates stayed unfixed; that we would broaden the experiment with options trading; and that we would try to bring economic analysis to the SEC. And I met you, Ralph, and we formed a relationship that I cherish to this day.

So I came to the SEC really with the interest of dealing with the economic regulation of the securities industry, and it was kind of an outgrowth of the fact that I taught a course in political economics with John Dunlap at Harvard in 1969.

RF: Now, Rod, when you arrived, you inherited a staff that Ray Garrett had built of senior advisors, but there were some who turned out to be nearly epic figures in that group, including Stanley Sporkin, who was your enforcement director. Perhaps you could tell us a bit about how you developed your relationship with Stanley.

RH: Well, Stan is a special person, isn't he? He is just terrific. I'm not sure. I think it's probably time for Stanley and I to have a lunch to reflect upon those days, because they were in some respects chaotic. Having come to the SEC to deal with economic deregulation, I found myself, as I had in the White House, confronted with a form of corruption. In the White House, we found the corruption of some aspects of the CIA, and all of a sudden in the SEC, I found myself dealing with the so-called Lockheed-type foreign corrupt practice cases. You recall them, the—what was the term we used? Questionable payments. That was the term we used.

In any event, we had a foreign payments scandal, and all of a sudden we were there. And Stanley, with his wonderful integrity and wonderful style, was pushing these cases. I think he was kind of suspicious of this Republican from California, and I hope that he thinks, as I do, that we were a great team, along with you, Ralph, and the other staff people, in dealing with more than 400 American companies that were compelled to disclose that they'd made inappropriate payments to foreign officials. And there was a wide variety. I mean, there were some cases where tens of millions of dollars were paid to government officials for business, and then there were some things that were now called euphemistically "grease payments," things

that all of us would do to protect the integrity of corporate property, shareholders' property. But we lived for a long time with this.

RF: Perhaps a bit later in this interview, we'll return to the Foreign Corrupt Practices Act that you had a role in developing, but I'd like to stick with the staff issue for a minute, because as I recall it, Sandy Burton was still the chief accountant to the SEC at that time, another great figure, and perhaps you could tell us a bit about your recollections of Sandy Burton.

RH: Sandy convinced me very early that the SEC needed a strong, forceful chief accountant. Unfortunately, Sandy and I had disagreement upon the issue that Sandy was most interested in. That was his desire to bring the cost of inflation to earnings per share. I'd just come from running a strange conglomerate, Republic Corporation, formerly Republic Pictures, and I was quite convinced that you could not reduce the profits of inflation to earnings per share. So while we had a terrific relationship, I think, personally, for that period that we were together, we really had this disagreement upon how to deal with that one accounting issue.

RF: You also had on your staff, as I recall it, the current Chairman of the SEC, Harvey Pitt, who, I believe, at the time served as your General Counsel, and we certainly would be remiss if we didn't talk about those days and Harvey's role as General Counsel of the agency.

RH: Well, Harvey was—and is, of course—a very competent lawyer, dedicated to the work, quite intense about the work. I think that the overall team was terrific. I think that you, Ralph, the other people on our staff...

RF: Bob Kraft.

RH: Bob Kraft and David Boyd. Certainly Richard Zecker, we brought in as the first chief economist the SEC ever had.

RF: You should take some pride in that. It is the first chief economist.

RH: Susan Peters, who was his deputy.

RF: And she went on to be a member of the Federal Reserve Board?

RH: This was an important time. You may recall we brought in Fisher Black and Myron Scholes to talk with the staff, and I remember watching the discussions between Market Regulation and Enforcement with people like Fisher Black and

Myron Scholes, and maybe you remember that we brought in George Stigler one Friday afternoon. At the time I was thinking that most of the people thought I was absolutely nuts in bringing it in, but I do believe that, over that period of time, many of the staff recognized that there were other disciplines besides the law to deal with market regulation.

The curious thing is that I had a big fight with Jim Linn, who was head of OMB, about hiring a chief economist. Linn didn't think that was a great idea. I forget how we did it. Over the years I've grown fond of saying I traded in three lawyers and two automatic typewriters to get a chief economist. [Ferrara laughs.] But I did have to negotiate the budget, and we did have some surplus in some areas. So Dick Zecker was the first chief economist, and Susan Peters was his deputy, and I think that was—when you put all that together, I'm pleased with that period.

RF: Did you find that it was a tumultuous time to mingle together, perhaps for the first time in the Commission's history, the thinking of free-market economists and the thinking of regulatory and enforcement lawyers?

RH: Oh, I think so. I suspect that I still suffer from people from that era that thought that that was an unnatural alliance, and that, as many times, the bridging was a little tense at the time, but I'm pleased with it. You may recall we really began serious exploration of the options trading in those days, and one of the last things we were able to accomplish was finally the approval of some put options. There were some experiments in call options, so we had this wonderful idea that you could have call options, but the idea of put options was anathema, the idea that somehow you could bet on the stock market going down.

I recall one event, I think it was Fisher Black, at a Commission hearing where one of my really treasured colleagues, Irv Pollack—and, by the way, his office is on this floor, next door—Irv was upset at the notion of put options and the idea that you could bet on this terrible event of the stock going down. I remember Fisher saying quietly, "Well," he said, "if you don't like it, you can pass a rule saying stock can't go down." I remember Irv laughing and kind of reaching over and saying, "Well, I got the point." I think we did move on, importantly. It was an important beginning at that time.

RF: Well, when talking about interactions of the staff, I mean, look, we're talking about history, and there are some parts of history that are going to be easy to talk about and some parts of history that may not be so easy to talk about. I'd like to direct your attention to a subject that may be less easy to discuss, and that is your

recollections of a time at the SEC when these very powerful division directors, some of whom you've described here today, but all of whom were men and women of great stature at the time. It was a time when, perhaps, they shared a view of the SEC collectively, that perhaps wasn't that of the Commission itself, and the tension that may have existed between the commissioners trying to do their job as the heads of the agency, and the staff trying to set forth an agenda that might not be consistent with it. Do you have recollections of that during that era? Or a change in that during that era?

RH: I do, but I would frame the question somewhat differently. While I'd been around the corporate world, and while I'd certainly understood many parts of Wall Street and seen many of the problems, I could not claim to be a student of the Commission, although several prior people—Frank Welle, in particular, was an old friend of mine, a wonderful former commissioner. And one of my former co-clerks, Lenny Leiman, had been an executive assistant to Manny Cohen. So I'd followed the Commission in a certain fashion, but I wasn't steeped in the lore of the Commission.

So I came with the strange notion that the job of the Chairman, especially someone with my background, was simply to challenge people to make sure they would rethink the role of the Commission. It was part of President Ford's tenure. It was very likely to be a short tenure, and so it seemed to me the best thing to do was to challenge those things. Not because I thought they were wrong, but because I thought they deserved challenge.

So I can't discriminate today between the views of my fellow Commissioners as to what they thought. John Evans, who is a fine economist. Irv Pollack was a fine enforcer. Phil Loomis was a fine lawyer. Al Sommer, who had every right to be Chairman, and really should have been the Chairman of the SEC at some time.

So we were all kind of in a milieu of transition. We were going from a time of fixed commissions and a static market to a time of enormous growth of mutual funds and pension funds, and it was all mixed up. It was all mixed up. We felt that market rate—we had a division called Division of Investment Management Regulation, and I tried very hard with that division to kind of loosen it up, and, to my knowledge, the only thing I accomplished was to take the word regulation out of the division title. But people thought about it. People thought about it. So it was a period in which—I think there was good humor. I look back at it and think that there was not a whole lot of bitterness, but it was a time of transition. The stock markets, the options market...

RF: Well, there are some who see your tenure not only as a time of transition, but as a time when the Commission itself seized back the agenda of the agency from its senior staff, and returned more to the model of the earlier Commissions, in its earlier days, when the real experts of the agency and those who set the agenda for the agency, the policy for the agency, were the Commissioners themselves, with the staff as implementing, and I think this era that you call as one of transition was one that perhaps you initiated, and it continued for several Chairmen thereafter.

RH: Well, I think I came at a time that made it possible. I do recall with some affection, there was a lawsuit that you may remember, or a case you may remember, that the Commission enforcement staff wished to bring against most of the houses on Wall Street about—I suppose I would characterize it as a lot of kickbacks with fund managers. It was potentially a huge case. There were some obvious abuses, and the Enforcement Division had a huge case that they wanted to bring. Maybe you'll remember this. I was new to the Commission, and I asked Stanley to bring the case before the Commission; in other words, present the evidence. And Stanley was really quite frustrated at the outset, but you may recall we sat day after day after day with Stanley and staff presenting the case against the various firms. And there were some very good cases against some firms, and some others—I don't recall any division among the Commissioners, but I do recall that we narrowed the case quite dramatically. I remember with some affection that Stanley came to me afterwards and said that was a good exercise, that we had created a certain discipline.

You may recall, as is still the case, that the authority of the SEC's Enforcement Division to threaten a case was probably more important than bringing a case, and I was concerned at the time that it was too easy for a righteous and decent enforcement person to say to somebody, "We're going to recommend this case to the Commission unless you settle," and I was concerned that you could have disparate enforcement activities if you didn't pull them back. So I do think that we created a better relationship between Enforcement and between the Commission. I also think that we made the General Counsel's office more important during that period of time, that we asked the General Counsel's office to play a role, to play a stronger role before we brought a case. I recall you and Harvey having, a lot of times, discussions about whether this case was the right one to be brought or not, and I don't recall—although you may—that there was great dissension. I don't recall that the Enforcement Division was upset sometimes when we didn't bring a case. I recall this with some fondness.

RF: And I also recall the role that you and the Commission played even in the General Counsel's office of helping shape the positions that the agency would take as amicus in important cases in the courts of appeals, and one case I do recall, where you brought special expertise to the agency, was the International Brotherhood of Teamsters case where the Commission was attempting to take a view in that case with respect to the application of the federal security statutes to the topic at suit in the Daniel case, as it was called at the time. I think that your insights in that case were of particular importance in the agency coming to the right conclusion.

RH: Well, of course, the agency and I parted ways on that case, you may recall. I recall that with some sadness. It was near the end. I can't recall whether Ford had just been defeated. I think he was defeated shortly thereafter by President [Jimmy] Carter. But I recall also that the General Counsel and I had quite an important disagreement on that. I thought that it was too late—I thought that the statute itself did not permit it, but I also thought that for too many years the relationship between union co-managed pension funds and the Department of Labor—that it was too late for the SEC to insert itself. You may recall, to my knowledge, it was the only time up until then that one member of the Commission dissented from the decision of the Commission.

RF: I do recall that it was a debate, but a debate done on very principled terms, and it was the first time that we had a Chairman at the SEC who could really bring substantive denominator to a different area of the law where we were trying to show an SEC footprint as amicus, and I recall it being a lively but very principled discussion.

RH: I think it was. I think it was instructive.

RF: Let me move, though, from there, now that we've talked a bit about the staff when you arrived and during your tenure, and shift to another important area for the SEC chair, and that is to maintain relationships with Capitol Hill, and perhaps you could recall for us some of the personae that you had to deal with there. I have in particular mind Senator [William] Proxmire, who was a very active reformer in his own right at that time.

RH: Chairman Proxmire was something. He voted against my confirmation as Chairman, as a member of the Commission. Actually, he voted against my wife's confirmation as Secretary of HUD. But during the period that I was there, I think we became allies. He was an interesting man. He was interested in the spotlight,

his Golden Fleece Awards and all that, but he listened. He certainly listened during the period of the foreign corrupt cases. You may recall, Ralph, that there was a great push in Congress to pass a federal chartering law that Ralph Nader and Mark Green had touted in a book called The Taming of the Corporate Tiger. The idea was to take all major corporations and force them to be chartered by the federal government and be heavily regulated. I thought that was a mistake. Basically I thought that the Commission, the Enforcement Division, Market Regulation, and Corporate Finance, had dealt quite effectively with the foreign corrupt practice cases. We had caused not only the New York Stock Exchange in requiring independent audit committees for the first time, the first time that audit committees were mandated, but, at the staff's suggestion, we required for the first time there be internal controls.

And you may recall we went over to see the executive committee of the American Institute of Certified Public Accountants, and we said to them, "Look, we've got these independent audit committees now, and we're about to require internal controls. We would like you to create a new auditing standard. A new auditing standard would require your people to bring anything of a questionable nature to the attention of people independent of the problem." It was an interesting axis, which really began, in my mind, corporate governance as we know it today.

RF: Well, we're going to get into the corporate governance...

RH: But out of that, Proxmire, who was a great supporter of the "taming of the tigers," the corporate charter, the federal charter of corporations, Prox listened to us and came out on the other side. At the end, he was nice enough to call me before his committee, shortly after everybody had left—I think you were the only person left who would help me pack my books. My last appearance before the Senate Finance Committee was to follow Mike Blumenthal, and Prox was nice enough, before they started, to pay his respects to me and to—he said he had missed the opportunities to apologize to my wife for voting against her, but he wanted to tell us that he appreciated our government service. So, he was an interesting guy.

RF: That's very interesting. You recall correctly the federal chartering proposals of the Nader group, and you said that you thought that they were perhaps a mistake. As you know, in 1934, there was a pact, in a sense, drawn between the federal government and the states, where the SEC, the new agency, would force transparency from public corporations, called "disclosure" in the '34 pact, and the states would retain the authority to set normative standards of conduct for

corporate directors. Federal chartering, as you correctly observed, would have changed that balance.

You thought it was a mistake then. We now have just seen the passage of the Sarbanes-Oxley Act, where the United States Congress has, in essence, federalized normative standards for conduct for corporate directors, and I'm curious whether or not your reservation about the wisdom of federal chartering in the mid-1970s raises similar concerns with respect to the wisdom of setting federal normative standards of conduct for corporate officials under the Sarbanes-Oxley Act today?

RH: Well, I think it's a danger, but, you know, we each live through the prism of our own experiences, and I prefer to look at it as having the Congress of the United States telling the audit committees of the world. Back in 1976, the New York Stock Exchange said that audit committees should be responsible for certain problems, and "By God, we mean it. You should do it." So I see it as federalizing what the New York Stock Exchange tried to do before.

Now, it's a danger because we're getting into minutiae. I mean, right now the SEC has proposed really quite precise rules as to who can be on an audit committee, and, more importantly, they pound this term financial expert into it. If the rules go forward as they have imposed, it will really tell most companies in America they've got to get an accountant, CPA, to be on their board. The idea that where a guy that's been a treasurer, or some man or woman who's been a controller, a very precise kind of a rule-checking concept, that if you have this title, you can be a financial expert, but what you've done and what you've suffered is not relevant. That's the danger of regulation, as distinguished from transparency.

So, yes, there's a great danger, and I'm very hopeful the SEC will pull back from that and put the responsibility on the boards of directors, who will say that the financial expert on their board is so-and-so, because he or she has got the following experiences. If we pull back to regulation, to say that a person with this precise title can be, and this person cannot be, then we will see the worst of what would have been the federal chartering back in those days.

RF: Well, you've given me an interesting transition to our next topic. I am not justified to identify what your greatest achievement was at the SEC. Perhaps you and history will be the judge of that. But certainly from this interviewer's point of view, you are Mr. Corporate Governance and the person who deserves the birthing rights to the SEC's continuing efforts to bring more rigorous governance to public corporations, and I think we would be remiss in this interview not to spend a good

deal of time reestablishing for all who listen to this tape or read this transcript through the years, how the SEC got so dramatically into the business of restructuring the corporate boardrooms and bringing new rigor to what corporate directors in those boardrooms would do. I think it all began with your effort and initiative to create, or to initiate, independent audit committees on the boards of public companies. And perhaps we could start a bit with your views on that topic, and then move into how you came to cajole—if I could use that verb, it may be too weak—Mil Batten to be your ally.

RH: Well, it's a nice story. We started a law firm forty years ago, and we required ourselves to take sabbaticals. I'd been teaching for a year at Harvard, came back, and found myself accidentally the chairman of a Fortune 500 company, Republic, in California, which had just terrible, terrible problems. They'd written off—my God, the accounting problems with them mirror the ones today. Now, it was only $80 million in those days. What that would be in terms of today's economy, I can't tell you, but it was a lot. The entire board had quit. They needed to structure a new board. I was asked by the Bank of America—I was told by the Bank of America I'd been elected a director, and I sat back trying to figure out what the devil you do about a company this size with all these accounting problems.

It happened that some years earlier I'd become the vice chairman of the board of trustees of the Claremont Colleges, and as you may know, Peter Drucker, a man who was famous then and famous now for his stories on corporate America, became an acquaintance of mine. He'd written this great book about General Motors in the thirties, and in that book on General Motors, they had described the General Motors audit committee, which was in many respects the template for independent audit committees. It wasn't entirely what we have today, but the basic thing was General Motors wanted independent directors. They had one.

So I called Leonard Leiman, who I knew had been executive assistant to Manny Cohen, and I said, "Lenny, have you ever heard about audit committees?" He said, "Yeah." And the New York Stock Exchange had mentioned them a couple of times. So I said, "Lenny, I've got to form a new board, and I've got about three days to do it. Would you be willing to come on our board and be chairman of this audit committee?" And he said he would. And so we had an independent audit committee for Republic Corporation in 1971, and it worked fine.

So when I got to the SEC, Stanley Sporkin, to his credit—and I think you played a role in it—had begun these investigations and had begun asking companies to do some of their own investigations, because we didn't have enough staff at the SEC

to investigate all these companies. Some place along the line—and I don't want to take more credit than is due—but some place along the line, we began calling them audit committees. I'll take some credit, but I think that the term came out of what we were doing. And it was then that this idea of the federal chartering came about, and I know I talked to you about it. And I said, "Why don't we—the New York Stock Exchange on two or three occasions has recommended that member companies have audit committees. Why don't I go up and ask them?" So I went up...

RF: Well, wait a minute now. Let me take you a little out of the history. As I recall it, your first instinct was to ask your staff—myself and your General Counsel—if the SEC had the authority to mandate that public companies have audit committees.

RH: Yes, I recall that. I recall that, but I have to confess something. I actually hoped that we didn't have that authority.

RF: It was ambiguous at the time, if you'll recall.

RH: It was ambiguous.

RF: And then, you come up with this wonderful idea.

RH: It was ambiguous, and if you recall, the letter I finally wrote—anyway, I called Mil Batten.

RF: And who was Mil Batten?

RH: Actually, it came out when Jim Needham was still chairman of the New York Stock Exchange, and I had regular contact with Jim. He was not a favorite in those days, but I went to talk to him about this problem, and Jim rather grumpily said if we proposed it to him, he would not necessarily reject it. I think that's a fair characterization. He was not enthusiastic about it. And in the next few weeks, he was no longer chairman, and Mil Batten, who had been the CEO of J. C. Penney, became the New York Stock Exchange chairman. I didn't know Mil, but I knew him by reputation.

RF: He was the first corporate executive, I think, to be chairman of the New York Stock Exchange, was he not?

RH: It depends upon what you think of Mr. Kennedy.

RF: Well said.

RH: In any event, I went up to see Mil, and I chatted with him, as you and I are chatting, and I explained to him this law could be passed, and what did he think? And Mil was just terrific. He was terrific on two things. He was big on options. He thought I should pursue options. He said, "You know, at J. C. Penney, we always hedged cotton," and so options is another form of hedging. And then he said, "I think it's a great idea, and I'm with you." So I said, "Mil, I'd like to write you an open letter, with your permission." I came back, and we talked to members of the Commission, and the members of the Commission agreed with me, and we wrote an open letter, of which I still have a copy, to Mil, suggesting that he might wish to consider it. And in that letter we said, "We do not have the authority to require you to do it." I probably hedged it by saying, "I do not think that we have the authority to require you to do it, but would you consider doing it?"

RF: Well, you may recall that what was ambiguous at the time was whether the Commission had the authority to require public corporations to do it, but I think you were of the view, as I recall it, that we may have had the ability and the authority to require the New York Stock Exchange to have, as a condition of listing, that public corporations have audit committees.

RH: Nonetheless, I think my letter said that I questioned our ability to do that...

RF: All right.

RH: Because it seemed to me it was important that they did it voluntarily, because once we did it, then we would have the responsibility, as you might have said earlier, of federalizing it. In any event, whatever the result was, Mil responded openly. He said he would do it, and then there was a tremendous uproar. My lord, it was an uproar. I mean, the chairman of Johnson & Johnson—I'm trying to find that telegram that he sent all of us saying that he and all these companies would leave the New York Stock Exchange if we required it.

And the board of the New York Stock Exchange was having trouble. Mil Batten called me—you may recall this—saying, "Would you please come up and sit in on one of our board meetings and talk about it?" I called Chairman Proxmire to say that I'd been invited to attend a meeting of the New York Stock Exchange Board of Governors. It would be a private meeting, and I would like him to know that I was planning to do that, and what did he think about it? He asked what the subject was. I told him. He said, you know, "Do it. We'll fight for it."

And it was a wonderful meeting with then—I can't pull the names up—with then chairman of General Motors, Juanita [M.] Kreps, who later became Secretary of—was she Secretary of Commerce in the Carter administration? She was on the board. And we had a wonderful fight at the board, and I was asked to leave. And Mil called the next day or so, and the board had agreed, by majority vote, to go forward. It was an interesting event.

RF: Well, this is really the seedling from which this mighty governance oak has now grown.

RH: But you may remember—well, of course you remember—that at the same time we said we would require internal controls, there was some question as to whether we would do that. And we did. We barged ahead, and we said you must have—we said to the world, "You must have internal controls."

RF: Let me switch—since we've got that topic covered at least a bit, I'd like to switch to the Commission's voluntary disclosure program that led to the Foreign Corrupt Practices Act passage and your role in that, which was, I think, critical.

RH: Well, I wasn't terribly supportive of the Foreign Corrupt Practices Act. I didn't like the idea of criminalizing it. I loved the idea of coercing and mandating disclosure, and that part of the Foreign Corrupt Practices Act that validated our requirement for internal controls was important. But when you think about the—my memory is 412 cases, but whatever the number was—that one company had given $20 million to bribe a prime minister of an important country to sell airplanes. Others had passed forty or fifty thousand dollars to protect corporate property. And the idea that you could say that one was criminal and one was not struck me as difficult. So, yes, I think we were instrumental in pushing it forward, but I have to confess that I was not in favor of the criminalization.

RF: But you were, I think, the champion of the voluntary disclosure program that, as I recall it, was the first time the Commission basically had offered amnesty to any public corporation that had engaged in this kind of misconduct, that is, corrupt payments, that would do an internal investigation and report its results freely to the agency.

RH: It was a limited amnesty, as you recall. It was, "If you'll do the investigation, and if we think it was honest and independent, we will undoubtedly accept your results, and we will deal with it in an appropriate fashion." It did not mean that we couldn't take action against the individual that did it, though we would abstain from trying to punish the company. We would say to the company, "Come in,

show us what you got, and we'll deal with it." It was close to amnesty, but it wasn't entirely amnesty.

RF: I can recall that getting as far as you did was a great challenge, because there were those on the staff—Alan Levenson I remember in particular—who were very much against any level of amnesty, because the Commission had never done that before. And you championed the notion that if you were going to have people voluntarily do this internal housecleaning, which the SEC could never do on its own, there had to be some incentive for them to do it.

RH: Right. That was a combination of you and others on the staff that—that was the wise thing to do. I think Stanley was not opposed to it, as I recall. I don't recall specifically, but I don't recall Stanley and I ever having a major fight on major policy.

RF: I don't think so. As I recall, Alan Levenson had his reservations about it, but I'm not sure that Sporkin did. Well, this brings me to yet another chapter of your tenure, where you brought more openness and transparency to the SEC itself by organizing an American Assembly at the agency on the topic of corporate governance, and perhaps you could tell us all what an American Assembly is and the model that you followed and how we brought interdisciplinary thinking—or you did—to the SEC through that vehicle.

RH: Well, we were about to leave. Mr. Carter had defeated Mr. Ford. It was in the fall of '76, and I was sad because there was so much to be thought about and so much to do. I wanted to kind of pull together what I thought were the critical issues facing the Commission, so I stole from Columbia University its concept of the American Assembly. And, with their permission, and your help, we conducted an American Assembly on the critical issues before the SEC, corporate governance being the single most prominent one. Accounting, as you may recall, was part of it, also.

The American Assembly was started by President Eisenhower back when he was president of Columbia. It was basically the idea that you pick a subject, and you try to get sixty people in the world that are most likely to influence that subject, and pull them together in groups of twenty each, divide them up with—kind of like Noah's ark—three lawyers, three bankers, three insurance people, three whoever. We had a good group. We had a good repertoire, and give each of the groups the same issues to consider, and then try to get a consensus out of the group. We did

that. And corporate governance, as you say, was a major part of that. We did that, as I recall, in January or February of '77.

We had an extraordinary group of people that came down to that. I've been told by the people in American Assembly who have seen the list that in the, I don't know, fifty years of the American Assembly, they've never had a group quite so distinguished to discuss it, and I thought we had a wonderful consensus of people. We had the chairmen of several major banks and—we have the list someplace in our archives.

RF: Well, you know, we've had Chairmen with a much longer tenure. Chairman [Richard C.] Breeden, for example, with his near eight years, and Chairman [Arthur] Levitt with his near eight years, but in your two-year tenure, I don't think that there's anybody who's yet equaled the number of initiatives that have endured as those that you initiated while you were there.

RH: It's like riding the surf. If the surf is up, you ride the board.

RF: As we proceed here, I want to make sure that, in going over my agenda, I've not left out any of the initiatives that you would regard as important during your tenure there, that we should be also talking about.

RH: We did three things I hope you would recall. When I got there I was appalled by the state of the files. We hired a fellow by the name of Peter Shipman to come in and try to computerize the Commission. I had this marvelous notion that if the Commission had been computerized, they would have caught Equity Funding much earlier, because there would have been a disconnect between the profits they were making and the number of insurance policies they were selling. The idea was that we could somehow pull the information together and the enforcement division could automatically see from the data where they should investigate.

So I think we began. I think we began the computerization of SEC in those days. I can't put together what happened after Peter left, and how we got to EDGAR [Electronic Data Gathering, Analysis, and Retrieval], but I don't think there was any concerted effort before I was there to do that. You may recall that we began an affirmative action program, a program to find out where women and the minorities were in the Commission. I can't remember the person we put in charge of that.

And I think we formalized the international operation in those days. You may recall that near the end of our tenure, we had a big trip planned to Europe. It was going to be a grand trip. We were going to deal with things—Richard Breeden, I

know, really, many, many years later, really brought the international aspects to the Commission, but you may recall we had trips planned to all the exchanges in Europe. Then I forget what happened, but at the last minute we canceled the trip. But it was—I have some hopes that we left a couple of ideas there that sprouted.

RF: I, too, am blanking out at the name of your affirmative action director, who was the first in the Commission's history. His first name was Phil, and perhaps his last name will come to me in a moment. Remarkably, I saw him just last week at the Kennedy Center, where he is enjoying the productions and helping to run the Kennedy Center's opera house. But his name may come to me a bit later as well. Were there any other initiatives that we should be talking about that you take some pride in?

RH: I remember we tried to keep track of enforcement. We tried to have a computer log-in, so that the date an enforcement action began—the first time that a company knew that it was under investigation—was logged, so that we would come back to it, and we wouldn't let things lag. I think maybe that stayed on. The other thing I remember, which I remember with great pleasure, is that the administrative judges—administrative cases were lagging sometimes two and three years. I forget what we pulled it down to, but you and I really worked at getting the judges—getting those things on the docket, getting them out, and getting the decisions. I think we got it down to something like six months, whereas they'd been lagging for two or three years. You know, much of respect for government is just having it work efficiently, and I think we did some things in those days.

[End Tape 1, Side A] [Tape 1, Side B—Blank] [Begin Tape 2, Side A]

RF: Okay, Rod, I think what we were—[aside] thank you very much—I think what we were doing was just getting ready for you to tell us a bit about how government efficiency was enhanced and fostered by, in part, a meeting that you had with President Ford.

RH: Well, he called together a group of the regulatory agencies, which had started, by the way, when we had this regulatory reform thing in the White House. During my tenure as counsel to the president, I was chairman of the White House Council on Regulatory Reform. So it was really a reprise of a meeting that we had in the East Room of the White House before I left the White House, and we were able to say a lot of things about what we'd done at the Commission. One of the important things, of course, was the fact that we had improved efficiency. Do you remember the Order of the Turtle?

RF: I do.

RH: During the session at the White House, Paul McAvoy, who was my co-chairman and a member of the Council of Economic Advisors, we kind of helped the president as he talked to heads of all these agencies, and President Ford was really quite excited about the way in which all these agencies had responded to his call for regulatory reform, and the fact that a large bipartisan number of senators and congresspeople had agreed to this effort in regulatory reform—economic reform. As we walked back to the Oval Office, the President was saying how pleased he was with it, and Paul McAvoy had said to him as we went back, he said, "Oh, Mr. President, it was a good meeting, but you got to remember that a regulatory agency should be likened unto a turtle. If you put a small piece of lettuce in front of its nose, it will quiver and move imperceptibly, slightly faster, but when you get all done, the damn thing's still a turtle. It's got a thick hide, and it doesn't move very fast."

So when I came over to the Commission, you may recall that I asked all the other independent agencies if they would like to participate in the Order of the Turtle. We found—I don't know, you found or I found—we found a glass ashtray in the form of a turtle, and the nice thing about this glass ashtray was that, if you understand the habits of a turtle, if you put it on its back, it can't do anything. And, of course, an ashtray is no good unless you put it on its back, the turtle ashtray. So the idea was that we would inscribe these turtles to any agency that achieved the most regulatory reform. And I must say to you, with some sentimentality, that a few months ago I went to the funeral of John Robson, who was the chairman of the CAB [Civil Aeronautics Board]. I hadn't seen his wife in many, many years. He was then the head of the Export-Import Bank. He'd just come on board in the new [George H.] Bush administration. John got the first ashtray, because he had moved the CAB forward, and we gave him this ashtray inscribed to John Robson, who had done more than anybody else to put the turtle on its back. And at the services we were sitting behind his widow, and she turned around and she said, "You know, we still have that ashtray."

So the Order of the Turtle did not last very long, but I must say that President Carter was very good about it. I can't think of the name of the fellow right now that was in his White House staff, but for many months thereafter, he invited me to come over and talk about what we had done in regulatory reform generally. I'll take some credit, but I would say President Ford and Alan Greenspan get a whole lot of credit for understanding that economic deregulation, economic—not deregulation so much as regulatory reform, in the form of economic regulation, was important.

And we did a lot at the SEC, and we the government did a lot in transportation, generally, and in financial services.

RF: As a footnote, I just recall that your affirmative action director was a fellow named Phil Savage, and he was the first in the Commission's history that I recall.

RH: There was a person of Japanese ancestry that did.

RF: I don't recall that. The world will, of course, be interested in kind of a general, let's say, overview of what you've done since you left the SEC, and what you're doing today.

RH: You mean besides getting in trouble? Well, much of my life is spent with the emerging economies, with investments in troubled economies, and troubleshooting in investments. But in these years I've served on something like seventeen boards, fifteen since I left the Commission. I've been chairmen of ten audit committees, and participated, sadly, in the discharge of, I guess, nine chief executive officers, and, for the most part, satisfactorily reformed those boards. Taught a bit. Spent a year on sabbatical, teaching at Yale.

And probably the thing I'm most pleased with is this foundation my wife and I started a year and a half ago called the Fund for the Study of Corruption, or the Study of Governance, depending upon what part of the world you're in. It's a major effort, as I mentioned to you before we began this recording. CSIS has asked that I bring what is now called the Hills Governance Program...

RF: The CSIS is what?

RH: CSIS, the Center for the Strategic International Studies. Sam Nunn is its chairman; John Hamm, the former deputy secretary of defense, is its president. We have research centers that we're supporting in Russia and the Ukraine right now. We're about to put five research centers in Southeast Asia—five cities—in Manila, Kuala Lumpur, Bangkok, Singapore, and Jakarta. And that's an important thing. We're really trying to teach governance and understand the costs of misgovernance. So that's a good part of my life right now.

RF: You know, Rod, again, since we're recording history here, and since you are a contemporary of our still-current chairman, Harvey Pitt, I think it would be unfair to those who read this transcript to not ask you your views on the turmoil that Harvey has faced over the course of the past year as the Commission's Chairman, and your view of the way the world has regarded the agency under his tenure.

RH: Well, I'd have to take a slightly broader slice of history. I don't know how many years I would go back, but for some time the Commission has been understaffed. The Commission has not been able to keep the quality people it needs to keep, and so almost everybody that came after whatever that period was when the Commission became really kind of ragged, if you will, has not been able to, in a conscious way, to decide which of the problems of corporate governance they should deal with, and Harvey came into that environment.

I guess I would give you some platitudes. There's been a lot wrong with accounting for long time. A long time. Way back when Sandy Burton was our Chief Accountant, we knew then that we weren't addressing the intellectual problems of accounting as we should have. I was candidly disappointed that my successors did not give the Chief Accountant's job the dignity and the distinction that it should have had. I thought that we should seek much better people—much broader people, not "better" people.

So the accounting profession suffered through the years. And in that environment, we had the collapse of a bubble. I happened to live through the bubble of 1969. It was a bad bubble then. There was another bubble in the eighties. And at the end of every bubble, you find terrific irregularities in corporate governance. If you look carefully, accounting problems were part of all of it. In the conglomerate craze of the late sixties, you had terrible accounting problems. As I mentioned, at Republic we had problems.

So Harvey came into a period where his predecessor, Chairman Levitt, sensed something really wrong with accounting and was right in highlighting it, but I think it was too narrow a focus. He was focused on the accounting profession, not on the problem. I've always thought that the accounting profession was caught in a system they couldn't change. That doesn't mean they're not to blame. They're not blameless, but they don't get the whole blame. So in comes Harvey, who had been representing the accounting industry and saw nothing but what the accounting profession saw was the pressure. They saw only that they'd been unfairly singled out. So I think Harvey came in focusing on trying to relieve the pressure on the accounting industry and didn't focus enough about the fact that there was a serious accounting problem, not just the accounting industry, and did not react to the broader need, did not see the broader need.

And all of a sudden, he was caught up into all these facts. That the SEC had not, for example, had the capacity for many, many years to look at the financial statements of companies. Now, would they have caught Enron if they'd been

reading the Enron statements year after year after year? I can't say they would. But they might have caught a lot more. They might have seen this problem earlier. Accounting, in simple facts, over the years has become a commodity. The annual report has no added value in the minds of most CEOs. The accountant is someone you hire on the basis of who charges the least money. And in that environment, how do you deal with it? Arthur dealt with it in a public relations fashion quite well, and I think was quite correct to bring attention to it. But he's not focusing on the fact that accountants have become a bunch of rule checkers. They didn't become rule checkers the day Harvey became Chairman, or the day Arthur became the Chairman.

So you had this static condition that had to be changed, and the accounting industry couldn't change it by themselves, still can't. So, sadly, Harvey was unable to deal with it in a public relations fashion. Certainly, he has all the capacity in the world. He certainly has the integrity to deal with it, but I guess you'd have to say he didn't have the personality to deal with it, and that's the sad part of it. But, again, it can't all be blamed on Harvey, and I'm certainly not trying to blame Arthur for anything. I'm simply saying you had a buildup over all those years of a failure in the accounting profession.

When I finished at the SEC in 1977, you may recall Russ Palmer was the head of Touche Ross, and Russ and I have done a lot of things together. That year Russ became the chairman of the Wharton School, and in those years 23 percent of the graduates of the Wharton Graduate School of Business went to the accounting profession. Comparable figures were true of Harvard, Chicago, Stanford, Michigan. Those people with that broad education don't go to the accounting profession anymore. They're not there. We don't have those people out there in this global economy where we need them. So it's that broad issue—those people weren't there when this last bubble burst, and so the accounting problems that everybody's suffering right now, are suffering from a system that is grown creaky. You know, the SEC is near seventy years old. You may have heard me say, anything seventy years old gets a little creaky, and I can prove it.

But the system itself is a problem, and Harvey—I'm not sure anybody could have dealt with it. I feel deeply for Bill Donaldson, and I hope that he can deal with it. But it's a very serious problem, a system that needed fixing, and a Commission that did not have the economics, the support, the financial support to do what needed to be done, and a world economy and a business economy in the United States that did not understand the problem.

RF: Let me ask you, since we're on the topic of current topics, if you would reflect for us a bit on your views on this other maelstrom that surrounds the agency and a certain segment of the regulative community: investment advisors, and the claim that they have been pumping out investment advice to promote the corporate finance practices of their firms, while at the same time harboring deep doubts among themselves about the viability and profitability of the firms that they are recommending to the rest of us to buy.

RH: It's sad that that problem's been there for so long, and now we've grabbed hold of it. It's a problem of transparency, of course. How many hundreds and hundreds of IPOs can come out and be triple in value in twenty-four hours and not have somebody say, "Wasn't the pricing undervalued?" When I was a kid in 1957, I remember coming to a law firm, the firm I worked in originally, and the firm was working on some IPO, and I was told that since I was working on the case, I'd be getting some shares; I'd be allocated some shares. I didn't really know what that meant. A couple days later I understood it meant that I made several hundred dollars on this IPO, because it had come out and doubled, and the broker automatically sold shares. In other words, I was told that I'd been allocated shares. I wasn't asked to put up any money. A couple days later I was told that the shares I had bought had been sold, and I got a check for a couple, three hundred dollars.

I hope Charlie Munger recalls this, because Charlie, as you may know, is a colleague of Warren Buffett now, but later Charlie and I and my wife started a law firm together. I went in to see Charlie, and I didn't understand this thing. He said, "My god, are they still doing that?" We sent the check back. The idea that a young lawyer working on a financial statement for a public issue should be rewarded for having an issue out was just crazy. Now, look how many years we've tolerated that. All these years. The analysts. Well, you can't tell an analyst—you can't create a business by having the investment banking firm subsidize analysts. You've got to pay analysts what they're worth based upon the value of what they do. It's transparency. I mean, I think that the idea of creating more transparency—I think the idea of saying you can't give incentives for an analyst for the investment banking work they create—those are terrific things.

But there is no problem that we discovered this year that we didn't know thirty-five, forty years ago. The community never got to it. Now, why didn't we understand that problem when we were at the SEC? I can't answer the question. We didn't address it.

RF: Now, you are a law professor and a policymaker and a regulator and a businessman, but you are also a lawyer, at core, and the SEC has just announced new proposed rules that might, under some circumstances, require counsel to make a noisy withdrawal, blow the whistle on their clients. That rule is currently being considered by the SEC, and I'm curious what your reflections would be on the SEC's role mandating normative standards of professional conduct for lawyers.

RH: Well, let me give you my thoughts. We've come a wonderfully long way from the day in which a lawyer who was hired by the company would never consider, even going to the board of directors of a company to say something was wrong with the way the company was doing business. I mean, if you go back to when I started practicing law, the idea that—if you're hired by the company, you're hired by management. You don't represent the board. I mean, theoretically, you represent the shareholders, and any good lawyer would quit before he would allow the company to do anything improper. But with the advent of audit committees and all the rest, I think it's fair to say that a significant majority of the better law firms would automatically bring something to the attention of the board of directors that they hadn't brought before.

But I must say to you that, having said that, I would say today that many law firms are deficient. They look to the CEO of the company or the general counsel of the company for their fees, and they would not easily insist that some problem go to the board of directors. That, to me, is the big hurdle. To say, unequivocally, to the lawyers today, as we said to the accountants back in 1976, "If you see something suspicious, you've got to go to the independent audit committee." And to say now to the lawyers, unequivocally, "You cannot suffer something to be incorrect without making sure the board sees it."

The next step is really hard because we do honor the tradition of attorney-client privilege. On the other hand, you've got to recognize that the real clients of the director are not the board. The real clients are the shareholders.

RF: The real clients of the lawyer?

RH: Of the lawyers, are the shareholders. And if the board is obtuse, if he says that this is wrong, and the board doesn't react on it—I don't like the idea of a noisy withdrawal, because that is picking up the phone and calling the agency and saying, "I can't tell you what it is, guys, but there's something wrong over there. Go look." I don't like that. But I don't like the alternative of having the lawyer say, "Okay, I told the board. I'm done with it." I don't have an answer for it. It's a

conundrum. I think each lawyer—I think as a practical answer, each lawyer who faces that kind of problem can figure out a way to deal with it. There is a large shareholder; there is a large fund manager; there's some way in which he can communicate to somebody. There's somebody on that board that will worry more than the other directors about that problem. He can make sure that somebody continues that problem if he leaves. So the noisy withdrawal, to me, is not the solution. To me the greatest thing here is to make sure that the lawyers of this world recognize they do not work for the CEO, they work for at least the board of directors, and through the board of directors, they work for the shareholders.

RF: Well, President Bush has now nominated William Donaldson to be the next chairman of the SEC. His confirmation hearings have yet to be scheduled, but I expect that they will be soon and he will be confirmed. Hopefully, when his agenda quiets down, he will have an opportunity to perhaps review the tapes of these interviews with past Commission officials and commissioners to get some insight about what he's to be doing, and perhaps you might share with us what you would be telling Bill Donaldson about what you think his first act should be at the SEC when confirmed.

RH: You may recall that you and I met with him not so long ago as part of this new American Assembly that we're doing on the future of the accounting profession, Russ Palmer being my co-chairman. Bill's on it, you, graciously, and two other former general counsels, Simon Lorne and Jim Doty have agreed to help us organize this American Assembly. I think it's interesting that Bill is genuinely interested in the future of the accounting profession and approaches it with an open mind. I guess I would say to him that the important thing right now is to help define again the role of the SEC, establish its priorities. I think, in doing that, probably lower its profile so it can get on with its business. It's a hard business. It's not just the accounting profession, it's the investment management business, it's the stockbroking business, it's the global economy business. And kind of roll up his sleeves and get to work. I don't think there are any grand pronouncements to be made.

We've created this Accounting Oversight Board. It's kind of unique. You can tell me if I'm wrong, but I don't know that the Accounting Oversight Board has been given any authority the SEC has not always had. The only difference is they have more money. They've been given control over their budget, subject only to the SEC. You have this unique circumstance where the SEC does not have enough money, but they can authorize the money in this thing called the Accounting Oversight Board. Rationalizing that will be a challenge. I think it's unique that this

is happening, and if you look at it, again, from the focus of history, in 1934 the Commission had to decide what they would do to the '34 Act, and they decided to use a self-regulatory process a lot, and now the Accounting Oversight Board is going to have to make the same decision all over again. And Bill is going to have some influence over that. I wish him well.

I will say again, however, that the capacity of the SEC depends upon the guideposts that are used for corporate finance, for corporate governance, if you will, and that depends upon some reliable standards. I come back almost always to the fact that we have an accounting industry in disarray; we have accounting standards in disarray; we have different ideas about it. I would say that if Bill Donaldson can do one thing at the Commission, he can work with the global community, work with people the likes of Sir David Tweedie of the International Accounting Standards Board, to find a way to develop a universal set of standards and, more importantly, a universal enforcement standard. We have the problem that we have a far better enforcement mechanism in this country than anybody in the rest of the world. So rationalizing the accounting standards and enforcement techniques and doing it in an efficient fashion over the next year or two will be a great challenge.

RF: Well, Rod, on behalf of the Historical Society, I want to thank you for taking the time that you've taken with us today. Clearly, you are the dean emeritus of the former Chairmen of the SEC, certainly one of the most distinguished Chairmen in the Commission's history. Be it far from me to try to summarize what we've done this past hour, but clearly you presided over the Commission at a time of transition, where the Commission regained the agenda of the agency. You were really the founder of the Commission's efforts to reform corporate governance, an effort that goes on today. And you were instrumental in creating the Commission's voluntary disclosure program to root out corporate corruption and give that more transparency, and thereby raise the normative standards of conduct for corporations across the world. You brought computerized record keeping to the SEC, which is really the forerunner of our EDGAR system today. Affirmative action was something that was on your agenda, brought to the SEC, and hopefully the SEC has learned and lived within the policy judgments you made at the time. Regulatory reform, you began your tenure with at the White House and continued with distinction through the SEC.

So, again, we're most appreciative of what you've had to share with us today. I want to particularly note our thanks for your reflections on former Chairman Garrett, who's no longer with us, and your recollections and insights about some of

the aspects of Chairman Garrett's tenure that you've recited here today. It may be the only record of those things that will endure. So thank you very much.

RH: It occurs to me, as you were talking, when I finished my testimony after the Sarbanes committee, one of the staff members came up and said, "You know, you're the oldest living chairman that they want to talk to." [Ferrara laughs.]

RF: All right. Thank you, Rod.

[End of interview]

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