Securities Exchange Commission Historical Society
Interview with Harold Williams
Conducted by Daniel Goelzer and Amy Goodman
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AG: This is an oral interview with Harold Williams, former Chairman of the SEC, with Dan Goelzer and Amy Goodman on January 19, 2006. Harold, if you could talk a little bit about your background before you came to the SEC?

HW: The relevant background, in a sense, began when I was ten years old and my father was an accountant. I started working on accounting matters, just using the adding machine at that age, and worked with him doing tax returns and all kinds of basic accounting matters, all the way through high school. Indeed, I worked my way through Harvard Law School doing accounting, particularly during tax season.

My law practice began with a small firm in Los Angeles doing corporate and tax work, with a specialty in criminal tax fraud cases. My law practice was interrupted by the Korean War; I came back to the firm and then joined what in effect was Norton Simon's organization in 1956. I started off as Associate Tax Counsel and went from there to Tax Counsel to VP Finance to Executive Vice President to President and Chairman of the Board over a period of fifteen years.

I was involved very closely in the financial statements of the company and all kinds of disclosure issues. I was invited down to the Commission at one time because we had inadvertently created a holding company. I sort of climbed the mountain in private industry and in 1968 I started looking for something else to do. I decided I didn't want to run another company, after I had made tomato sauce - it's not much of a promotion to make dog food, which I was invited to do by another New York Stock Exchange company. I decided I really wanted to do something else. It was two years later that I was invited to become Dean of the Graduate School of Management at UCLA.

I was with the company, which originally was called Hunt's Foods—it became Hunt's Foods and Industries and then Norton Simon, Incorporated. I should state that the company was acquisitive; we made a number of acquisitions which usually began with the purchase of a block of stock. After insisting on Board representation, I was the one who went in there.

This was my first exposure to corporate boards, other than our own, and dissatisfaction with the quality and the parochialism of corporate boards. Of course, over the years, including when I was at UCLA, I was on a number of boards. And then to get back to the company—we were one of the first companies that dealt with the accounting issue of pooling versus purchase; I think we were the first pool at that time and so I go back quite a ways and worked closely with the auditors.

So I had an in-depth experience of working on accounting issues, and had a lot of perspective on corporate boards. I also had the opportunity to manage an investment portfolio at the company, so I dealt with stock offerings. I was President of an investment company, which was part of the overall organization. One of my close friends and essentially one of my mentors was Gus Levy at Goldman Sachs and he sort of adopted me. In fact, probably three days out of five, I'd get a phone call early in the morning from Gus saying, "What's new, kid?" And it became quite a relationship—meant a lot to me.

At UCLA, I talked a lot about the social responsibility of business, the roles of boards of directors, and management. When Phillips Petroleum ran into problems and was sued by the Center for Law and Public Interest, and agreed to the presence of some new directors, I was one of three who went in. Perhaps through some of that background and exposure, I got a call from the Commission one day— from Stanley Sporkin—and he asked me if I would go on the board of Lockheed, which I declined to do because I just had too much on my plate.

DG: And what year would that have been?

HW: That would have been around 1975—'76, about a year or two before I came on.

AG: Didn't you also serve on the Commission's Advisory Committee on Disclosure?

HW: I had run into Al Sommer at some meeting shortly before he was formally named to the Committee; we chatted and he invited me to come on the Committee, which I enjoyed. It gave me another kind of preparation for the Chairmanship because we did talk extensively about the integration of '33 and '34 Acts and the problems related thereto. It also exposed me to a number of the staff of the Commission, Mickey Beach particularly and I think Dick Rowe got involved to some extent at that time.

I guess that led then next—as a logical progression - to a call one day from, I can't remember his first name, his last name was Bowles. He was from Connecticut, and somehow was involved with the search for a Chair of the Commission. I never was clear just exactly where he fit but obviously he did. We had a chat and he came out and visited me and we had another chat, and then I went to New York and met with some people on Wall Street, and attended a meeting hosted by Mil Batten, who was the Chairman of the New York Stock Exchange. I had a lengthy phone call with a staffer who was working at the White House—and also Rod Hills, who I had known for years before he became Chairman and who, I think, put in a good word for me - and the next thing I knew I was meeting with President Carter.

DG: This would have been just shortly after President Carter was elected?

HW: Right, he was already in office.

DG: Had you been involved in the campaign or in politics? Was that an aspect of it?

HW: My first campaign was for Harry Truman. I was not of age, but I was concerned enough about that election that I actually walked through the Bronx talking to housewives in Yiddish about why they should vote for Harry Truman. The first campaign that I had nothing to do with was Jimmy Carter's. I didn't work for him, I didn't support him; nothing negative about it but I just didn't feel the kinship. Of course, that changed. I think he's been a wonderful ex-President.

AG: Do you recall what he asked you about during your interview?

HW: Actually, it was fairly lengthy. We chatted generally. I don't remember the content of it. I did talk about needing more resources, and his answer, in effect, was you've got to do the best you can with what you've got. It was pretty straightforward; the only commitment he asked of me is that I serve the full five years as Chairman, which I agreed to do.

DG: You should have asked him for a commitment to serve with you.

HW: That's right, but it's fortuitous because if he had been re-elected I would not have been available for the Getty, which was obviously an exciting part of my life. But actually, this was a slam-dunk on the commitment. The typical Chairman up until that time served a little over two years. I would have been totally uninterested in a two-year term because the SEC was not a stepping-stone for me. It wasn't recess and unless I could be there long enough to possibly have some impact I would have not been interested in doing it.

But this was a change of direction in my life and not the first time nor the last time, but it was an interesting challenge for me. I cared about the issues, given a lot of my background. It was an incredible agency I would have been proud to be identified with and it was just a very interesting opportunity.

AG: Do you recall what your confirmation hearings were like?

HW: It was a love-fest. Proxmire was fine; I don't even remember specifically what he asked me. I think if it had been challenging, I could remember it. I had met with him privately before and it was totally un-contentious.

DG: A number of other people served on the Commission when you were there. Phil Loomis, John Evans, Irv Pollack, Roberta Karmel, Steve Friedman, Barbara Thomas—I think that covers them.

HW: That's it.

DG: What was your relationship like with the other Commissioners?

HW: I thought it was good with all of them. I guess I was closer to some than others. I think I felt closer to Irv and probably to Steve than I did some of the others. I liked them all, but Roberta could be a little difficult at times. I remember when I gave my first SEC talk here at the Securities Institute that was very critical of boards of directors, she labeled it as polemic, which I didn't appreciate.

I had a good relationship with John Evans and there were issues we really disagreed on. We had some basic disagreements on Market Reg issues and Rule 390. I didn't want to move as rapidly or in the direction that both Irv and John would have preferred. But I think we were very collegial; we worked together and I think it was one of our strengths. It made it a very enjoyable experience obviously, though I don't know what made for that congeniality as compared to the recent Commission. I found it just a very congenial working relationship.

DG: Were you consulted by the White House at all in terms of the people that were appointed to the Commission or reappointed after you were there?

HW: Part of my understanding with the President was that I would have input. When we had the first vacancy, the one that Roberta filled, the White House made it clear they wanted a woman, and I surfaced several. And the same thing with Steve, I just recommended Steve and they went along with it. So I had a good working relationship with the White House on succession.

What was interesting though is the relationship with the White House—and this is probably an over-simplification—but there seemed to be a fundamental difference between the attitude of Democratic Presidents and Republican Presidents in terms of relationship between the Chair of the Commission and the White House. Once I was appointed and confirmed, I had very limited contact with the White House.

AG: That was one of the things that surprised me in working in your office. At one point I was invited over to the White House because they wanted all the women in the Administration to show up for something, but other than that I don't recall much of any contact between our office and the Administration.

HW: I heard this story from Mil Batten. Mil went to the White House at one point and complained about me and what I was doing. And the President told him to talk to me because I was an independent agency. The one call I got was from Jim Schlesinger one day because Kashoggi was coming in—he wanted to come into the United States on some energy matters and we were after him. And Jim asked me if we would stand back

and my inclination was not to but I thought I wouldn't take it upon myself. We had an emergency meeting of the Commission and the conclusion was no; we won't stand back.

There were two times that I did talk to the White House staff—one time when the Tax Reform Act came up. I don't remember what year that was; it was early on—'79 or somewhere around there and the Senate witness list came out. Blumenthal was the leadoff witness in the opposition to the tax change. I was the leadoff witness in supporting the tax change. Stu Eisenstadt invited me to lunch at the White House and he spent the whole lunch telling me why the Administration was opposed to the Act. We got to dessert and I looked at Stu and I said, "Do you have any interest in knowing why I am in favor of it?" It was a beautiful example of the insularity that happens in the White House. It wasn't peculiar to the Carter Administration; I had some exposure to both the Nixon and Johnson administrations and it was true there as well.

The other time was similar; I think the issue was when the Senior Executive Service was being created. I had some concerns about the effect of it. Again I met with the staff and they started off telling my why I didn't have a problem. And I listened to them and I said, "Look, tell me you don't give a shit about my problem, but don't tell me I don't have a problem." That was the extent of my exposure to the White House.

I met periodically with Mike Blumenthal who I had known before.

DG: Because he was the Treasury Secretary?

HW: Yes. I did have some dealings with Bob Mundheim who was General Counsel at Treasury who again I had known for years, and Bob Carswell, as well, on the Hunt silver scandal.

DG: Hunt's effort to corner the market?

HW: Hunt's, yes. We had worked together on it along with Paul Volcker at the Fed. And actually through that episode Paul and I became quite good friends, which we still are, so I would meet with him occasionally and we'd talk about things but it was more just general conversation about things—nothing in particular.

AG: Let's turn to the SEC. You wrote Annual Report Transmittal letters which were terrific in terms of historical interest in giving an overview of what was going on at the Commission during your years. You consistently praised the quality and dedication of the SEC staff. What was your relationship with the staff members, both the people who had been there for a long time and the people that you brought in?

HW: I think it was similar to the relationship with the Commissioners. My view is that it was a very healthy, positive relationship. Now again there were some issues we didn't agree

on. Perhaps the most dramatic was Market Reg. Lee Pickard and I just didn't get along in terms of philosophy, and Andy Klein wasn't always happy with where I wanted to go. But I think it was respectful right across the board. Stanley [Sporkin] was always a bit of a concern. I admired him and had a very affectionate regard for him and he did wonderful work for the agency and for the securities industry.

There were times when I did get a little concerned about pushing the boundaries. I'm not going to go through details but he and I had one showdown in the privacy of my office one day. We had turned him down at the Commission on something and when we were through with that, he slammed his papers down on the desk and said, "This is a miscarriage of justice." So I invited him into my office and we had a friendly discussion.

AG: How would you say your relationship with the staff differed in terms of other organizations? You've come into various other organizations in your career and acquired staff. How would the situation at the Commission compare to those experiences?

HW: When I was at the University, and I had been there for not very long, when I realized that with tenure the only person I could fire there was me. So you learn to function in ways that are collegial and you function by getting people onboard by persuasion, by talking things through with their disagreements and I think that's certainly a good standard. That's been my management style basically ever since, even at the Getty, where I could have fired anybody. I'm not autocratic in my management style and I think that goes a long way towards building a rapport. At least that's my perception; you've got to ask the staff.

DG: One thing that you did that is memorable to me and I think was different than most of your predecessors and your successors is you had retreats from time to time. I remember we'd meet at your house occasionally and I remember Stanley donning a swimming suit and swimming in your lap pool.

HW: Yes.

DG: I also remember going to Grossinger's Resort in New York. I think that was right at the time when Carter was defeated for reelection.

HW: That's right.

DG: And is that something you had done in other organizations?

HW: It's something I did at the company and at the University. It just an opportunity to pull back from the day to day and try to think more broadly about where we are and where we need to go and also for collegiality. On a day-to-day basis, you tend not to be terribly collegial in the office. Everybody has got their own thing to do. There had to be overlap

between many of the activities, and the collegiality at the top level could be reflected down through the organization. So it's something that I had done extensively before and since.

AG: One of the things that you mentioned was talking to the President about the need for more resources at the SEC. In the Sarbanes-Oxley Act Congress finally gave the SEC probably more than it's ever gotten at once before. Thinking back, if you had more resources available to you at the Commission, how might you have used them?

HW: It's hard for me to put myself back into it to that extent, but one thing that I felt at the Commission, by contrast to almost anyplace else I had been, is the absence of what I call discretionary funds, the funds that one could use to explore or to try things. What I can't separate is what I would have done more of, versus had I been there longer, versus if my successor had pursued the same course. They are all sort of parts of the same thing. Think of the accounting profession as an example; with more resources, I think that we would have been more aggressive in following up on their own self-regulatory efforts.

I had met with them and pushed them and urged them but I concluded that it would benefit from more oversight. I regret that my successor didn't pursue it because I think they could have headed off some of the problems that surfaced in Sarbanes-Oxley. I think if I had more resources I would have pushed harder on that.

I think I probably would have done more in the economics area; I pushed it some but then I sort of pulled back on it because we didn't have at that point the kind of economic approaches that would have enabled us to quantify some of the things that were part of executive compensation. I think we certainly could have used more resources in Investment Management.

When we went to Congress, I remember saying at one session, I'd given them the budget as recommended by OMB, "I want to tell you some of the things we're not going to do that we're charged by law to do." They just didn't want to hear about them but I think it's the responsibility of an agency to do that.

DG: Did you feel that there was a resistance to bringing economic analysis into the Commissoin decision-making?

HW: Yes.

DG: The Agency is pretty heavily lawyer(ed).

HW: I think there was a lack of appreciation for the value of it and I'm not sure we had the greatest guy for the position. I tried desperately to get a professor at Harvard to come

down for a couple years but he wouldn't do it. I think the talent we had was okay but it didn't do the missionary work that would have helped a lot.

AG: Let's turn to what's perhaps your favorite topic and my favorite topic and maybe Dan's—corporate governance. You devoted a lot of your speeches and public statements to corporate governance issues and the need for more independent directors; you touched on it a little but maybe you could talk a bit more about your interest in that subject and why you felt it was important at the Commission to make those kinds of statements.

HW: One thing I did that may be unusual for a Chairman, because I had given a lot of speeches before I came to the Commission, I recognized the value of the bully pulpit, which I'm not sure Chairmen generally have appreciated. I am a great believer in the capitalist system and the importance of the private sector and how it functions, the responsibility with which it functions and the concern that, if it doesn't function responsibly, the answer will be government regulation. While I'm not anti-regulation per se by a long shot, I think you can't effectively regulate conduct, but efforts are made to do it and I think it can hamper and even destroy the vitality of capitalism in the private sector.

Basically my theme was, you will recall, that to over-simplify, if you don't get on the ball, the government will clean it up for you. I think Sarbanes-Oxley is a good piece of legislation. One of the few relationships I maintained with Congress after I left the Commission was with Paul Sarbanes, who I saw many times in L.A. and Washington. Paul called me and asked me about Sarbanes-Oxley, so I had a bit of input to it.

Sarbanes-Oxley would never have happened if the accounting profession had established a strong self-regulatory program. If I had tried or the Commission had tried to overrule the accounting profession on their own modest self-regulatory efforts when I was there, it would have been viewed as the heavy-handed government. And when it came to Sarbanes-Oxley they had done it to them.

To get back to your question, when I was at the Commission, Arthur Andersen already had more than half of their revenues from consulting and that consulting side was more profitable than the audit side. And this was to me a warning of things to come; that's why we put in the proxy statement requirement to disclose the non-audit fees.

AG: Right, ASR-250.

HW: Right, which John Shad took out.

AG: That was his first act as Chairman.

HW: It was a fundamental belief of mine that if the private sector was to function, somebody has to hold management accountable. The whole structure of the discipline of the private

sector had changed; it didn't have owners running the business or holding management accountable. Boards of Directors had become mini-societies and nobody wants to be the skunk at the picnic.

So they really weren't doing their job; they were much too collegial and friendly and appointed by the CEO. In fact, I still cringe when they talk about the "management slate" of directors at a Board meeting. Conceptually, it's a total misnomer. So that's really what was pushing me on Boards of Directors and Audit Committees and Compensation Committees and Nominating Committees and so forth. I also pushed to separate the CEO from being the Chairman of the Board.

DG: Do you think it had an impact, or do you think it's more of a situation where the kinds of warnings you were giving and the use you were making of the bully pulpit wasn't heeded by the business community?

HW: I'd like to think it had some impact but I couldn't prove it. Over the years, there has been an evolution towards more and more outside Directors, some more independent than others, so I'd like to think that maybe I boosted the process a bit. Now in terms of any dramatic change, no I don't think I did. But when I left the Commission, none of the boards I had been on before I went to the Commission invited me back.

AG: Were you concerned about the Commission's lack of perceived authority in the governance area? You put forth several disclosure rules getting more information about boards and board Committees, but did you feel frustrated by the Commission's lack of authority in this area?

HW: I think it could have done more with disclosure. We could have pushed that envelope further, or certainly my successor could have, but the thing is the Commission didn't keep that ball rolling at all. The new Chairman has his own ideas about what's important and what his philosophy is but I would have liked to see that pushed further.

There was one thing that did happen; Senator Metzenbaum introduced something that he called a Shareholders Rights Act and I went in and testified against it and after the session Howard said to me, "How could you testify against that? This is all you're talking about." I said, "Yeah, it's all I'm talking about, but I don't favor legislating it."

AG: There was some legislation that was enacted during your tenure?

DG: The Foreign Corrupt Practices Act was enacted fairly soon after you arrived.

HW: Right.

DG: Were you involved in urging Congress to enact the FCPA and how did the existence of it affect your agenda?

HW: I don't think I had any effect on it. I did speak and testify in favor of it but the ball was pretty well rolling by the time I got there, so I don't think I had any significant impact, if any, on the legislation. Obviously in terms of resources and in terms of the focus of enforcement. it was a major factor. We spent a lot of time and I think it led to a couple of things. One was a question of the extent to which we would push the envelope and in a sense test the boundaries or make law through enforcement. And I got uncomfortable with that area and that's when we established a Policy Group or whatever it was called—within the General Counsel's…

DG: The Counseling Group.

HW: I wanted a sense of independence of enforcement of how does this proposed action fit and what does it really do? And the other was the talk I gave just before I left the Commission, which articulated at least what I saw as the reach of the Act. I joined Skadden Arps after I left the Getty in 1998 and the first matter I got involved with there was about the FCPA and what did they pull out—my speech. I was amazed. And interestingly we have a matter now going with a firm in the Midwest and we had their partners out earlier this week and one of them said, "Just use your speech," because they had a matter before the Commission on the FCPA. That's my longevity.

DG: I had mentioned to Herb Wander yesterday we were going to be having this interview. Herb is chairing the Small Business Advisory Committee that the Commission set up recently and one of the things they're most concerned about it is how internal control under Section 404 of Sarbanes-Oxley should be interpreted. And when I said I was going to be seeing you, Herb said, "Oh he's my hero; I just read his speech on interpretation of the FCPA and I think there's a lot in there that you know we're going to be using today."

AG: In fact at the last session that Dan just spoke on, one of the points that people made was that people talk about 404 as if it was brand new but the part of 404 dealing with the maintenance of internal controls goes back to the Foreign Corrupt Practices Act.

HW: That's right.

DG: With that lead-in we should ask you what your perspective is about the controversy in that area today on Section 404.

HW: It's beneficial. I don't know that it's worth the cost if you look at it that way other than to say that I think a lot of the cost is ok.

AG: By companies or by the auditors?

HW: Both. I think the auditors may be going overboard to protect themselves. Further, I think there's a lot of deferred maintenance. The cost should come down as people get more comfortable with it, as a lot of deferred maintenance is out of the way. But I think 404 is great. I think it's essential.

AG: Let's turn to the corporate disclosure area. You mentioned that you were on the Advisory Committee on Corporate Disclosure. How did that impact your views of what the Commission should do in the disclosure area?

HW: Well it had a major impact. Candidly, the perspective I got from that Advisory Committee was one I didn't have at all before. I hadn't focused on what was in the '33 Act or '34 Act or the relationship of the two, but the Advisory Committee oriented me to a lot of the issues and encouraged me to support a push in that area. Now again, I don't remember precisely what we did. But I still think of the admonition that Justice Douglas had given when he left the SEC when he said, "The one thing I didn't accomplish was the integration of the '33 and '34 Acts." So I thought, we might as well be the ones that claim we did it.

AG: Do you recall any impediments to the integration? I remember you saying that it was too bad we couldn't do something about the liability provisions and I think it's very interesting because the Commission just having done Securities Act Reform, much of the discussion today about whether people will or will not use some of the freedom that the SEC has given relates back to liability concerns.

HW: That's right.

DG: If you look through the Annual Report transmittal letters that Amy mentioned earlier, integration is one of the central themes that's featured in those letters as a Commission accomplishment during the years that you were Chairman, but perhaps it wasn't really a policy issue any longer.

HW: A matter of implementation—it didn't take much of my time or attention at that point other than when the rule changes were proposed.

AG: But there was clear direction to the staff to go do this?

HW: Yes.

AG: Were there concerns during your time at the Commission about the impact of the Commission's rules on small business?

HW: I don't recall.

DG: That's also a theme that comes through from the letters.

HW: I know that we talked about that but I don't recall that specifically.

DG: We've already touched on the relations with the Enforcement Division and Stan Sporkin; does anything else stand out in your memory in terms of the Commission's enforcement work during those years??

HW: No; not that I can think of—not off hand.

AG: Let's turn back to the accounting profession. You talked a little bit about self-regulation. Do you recall in the accounting area, as opposed to the regulation of the profession area, some of the issues that the Commission had to deal with, such as oil and gas accounting?

HW: Wel,l in oil and gas, we did something that the Commission doesn't do very often. We in fact took it away from the profession and established our own rules. The professionals weren't very happy about it as a matter of principle. Also, I was very concerned about the impact of inflation on corporate earnings and balance sheets. I remember we got some supplemental disclosure in that area.

AG: Do you recall what your relationship was like with the FASB during this period?

HW: I met with the leadership fairly often. I don't recall anything specific other than oil and gas, where as I said we pre-empted the matter.

DG: You made some comments earlier to suggest that the relationship between the Commission and the accounting profession was difficult in those years. It seems to me that from a certain perspective the establishment of the Public Oversight Board and the peer review process was really a major triumph at that time. It ultimately did not work out, but it took the profession certainly a step beyond where it was when you came into office.

HW: That's very true but it was a defensive step and it was kind of a minimal step. They had so many qualifications on it, they couldn't look at certain audits for example, and I thought it was doomed to fail. But for me to sit there and say this is going to fail, we're going to tell you how to do it, we're going to pre-empt it, I just didn't believe it was the appropriate role for the Commission at that point. Maybe I was wrong; maybe I should have done it. But as I said earlier I think we would have been viewed as the heavy hand of government and—getting back to your question again of resources - I don't know if we would have had the capability to pursue it.

AG: You had a fairly small Office of the Chief Accountant as I recall during that time.

HW: A lot of talent but a very small office. I hear today that there are fifty accountants in the Office of the Chief Accountant.

AG: How many at the PCAOB?

DG: About 425 people, around half are accountants. I suppose similar resources would have had to have been devoted to the POB if it was going to have the same direct responsibilities.

HW: Sure.

DG: The peer review system lasted about twenty-five years.

HW: It shouldn't have lasted that long.

AG: Were you surprised that it lasted as long as it did before there was major action?

HW: My successors didn't pursue it and it just sort of lingered there and the accountants were on their own and nobody was bothering them and they waited for the big disaster to happen. But I'm surprised that it took so long for it to happen. What's interesting too in terms of Sarbanes-Oxley, you probably know this anyway but after Enron, the sense on the Hill was Sarbanes-Oxley was dead. Then came WorldCom. If you hadn't had two disasters back to back we might not have Sarbanes-Oxley.

AG: The SEC was already, I think, post-Enron on its way to trying to deal with regulation of the accounting profession.

HW: How far would the SEC's authority take it in that area or would we have had to be in for some kind of legislation? I did tell the professionals that I met with that if they developed a self-regulatory program that I really had confidence in, I was prepared to go to Congress and see if I could get some limitations on liability.

AG: They wouldn't take you up on it?

HW: They might have worried that I couldn't deliver. Maybe I couldn't; I don't know.

DG: You mentioned already ASR-250, which required the disclosure regarding non-audit services that the auditor was providing. Do you think if that requirement had survived it would have headed off difficulties?

HW: It's hard to say. It's similar to this whole new approach to compensation. Will it have an effect on the level of compensation? The whole principle of the Commission of disclosure is hoping that disclosure would over time cause concerns to be addressed.

AG: Were you concerned on an individual company-by-company basis as opposed to the accounting firm as a whole getting more of its revenues from consulting versus auditing?

HW: I was concerned about both. I was concerned that an individual company audit might be compromised. I was concerned in the overall that the profession itself—directly and indirectly - would move to pushing non-audit services because they were getting more of their revenue. When I left the Commission, it was clear there were audit loss leaders all over the place.

AG: The audits were?

HW: Audits were being used as a loss leader to get consulting work. And I think that would have surfaced over time with the disclosure environment.

AG: And today do you see a shift in that focus?

HW: Oh yes, very much so.

DG: Issues surrounding the structure of the securities market were very controversial during your tenure. The implementation of the national market system under the 1975 Amendments and then the rise of the options markets seemed to be the two big issues in those days. Had you come to the Commission with any particular interest in the structure of the trading markets?

HW: No, not particularly; but I just sort of accepted the markets as they were. I was pretty familiar with the markets but I hadn't thought about structure at all.

DG: You were much leerier than some were about removing the off-board trading rules. What led to your concerns in that regard?

HW: Maybe at the macro level or the philosophical level, I worried about fragmentation. I worried that at that time we were more infatuated with the potential of electronics than the reality of what it could do. I worried that we didn't have an effective surveillance mechanism of our own and I just didn't have confidence that the markets would function as well, let alone better, if we pushed towards a national market system at that time. I just felt it was premature—at least premature if not wrong entirely. That's where I was coming from.

AG: I recall during that period that one of the things you did was put a lot of pressure on the New York Stock Exchange and other exchanges to be able to handle larger volumes.

HW: Yes.

AG: I remember them being outraged by the volumes that you talked about, which today are infinitesimal. Where did that desire on your part come from in terms of pushing them to handle the larger trading volumes?

HW: It was independent of the national market system. When I was managing a portfolio in the late '50s—early '60s, a 12,000,000-share day was pretty good. When I called Mil Batten and John Phelan down for a face to face meeting, I said, "You guys have to be prepared to handle 100,000,000-share days on a regular basis." That was a big sized demand on them. It turned up to be even a bigger issue than I anticipated, but I worried that they would destroy themselves.

AG: It happened in Tokyo yesterday. Did you see this morning's paper? The Tokyo markets had to close because they couldn't handle the volume.

HW: That would really exacerbate the whole issue of the national market system. It would destroy the system that existed if they couldn't handle it efficiently and effectively and handle the volume that they were faced with. They were running behind the curve and they had to get ahead of it. It was our responsibility to push them.

AG: One of the other things you did in the Market Reg area was to bring about a moratorium on options trading. Can you talk a little bit about that?

HW: I don't remember in detail; I remember doing it and I remember being very concerned because the options were completely out of control, and I remember too the conflict with CFTC. I appeared before the Agriculture Committee to advocate against the CFTC having responsibility for regulation and oversight of options trading.

The vote of the members present was in our favor until the Chairman pulled out the votes of the members that weren't there and we lost. I was very concerned about the growth of that market—I could appreciate the value—again as sort of a pricing mechanism and a hedging mechanism, but it seemed to be getting way out of control and we weren't prepared to deal with it.

AG: I guess then the answer is you were willing as Chairman to step in and say wait a minute, let's stop things for a minute and take a look at what's going on?

HW: Yes.

AG: Do you think there were other areas where maybe the Commission should have done that in more recent years?

HW: I have got to think about it.

DG: Why don't we touch on Investment Management? There was a study begun earlier in your tenure of Investment Management regulation and then that led to transfer more responsibility to investment company boards and away from the Commission staff having to approve every exemption.

HW: It was not what I thought a lot about before I came to the Commission. I think part of the issue stemmed from the fact that the Commission just didn't have enough resources. They were using their resources inefficiently, and so part of the effort of the codification was to get them out of doing things that were really not optimum. A part of it too was that, during my time at the Commission, there was a push towards more self-regulation.

I had some meetings with ICI , and I urged them to switch from being a trade association to being a self-regulatory body. And they thought about it and turned it down. I think they would have been a lot better off if they had been willing to do so.

But that's a piece of what I was pushing towards. I thought Investment Management was not using its limited resources very effectively.

DG: I suppose that's one area where their saying "no" has stuck. Still today, there's no self-regulation in investment management.

HW: That's right. And now they are beginning to pay the price.

AG: The next question, and this is really not an issue anymore, but at the time it was very hot—was the Federal Securities Code that Louis Loss had been working on for a very long time. Dan, you'll probably recall spending a lot of time on that. Do you have a personal perspective or any recollection of that project?

HW: I don't remember it in any real detail at this point. I think I was more in favor of it than the staff was. I think there were some areas that we could have built on, but there wasn't a move at the Commission to collaborate or to try to be a participant in the development of it. I thought that was unfortunate—of course I felt badly for Louis, too.

AG: I recall one of the things that it did was try to reconcile the liability provisions of the '33 and '34 Acts as we talked about it a little earlier.

HW: Yes.

DG: We talked a little about Congress and we've touched on Senator Sarbanes and Senator Proxmire. Are there any other personalities in Congress that you remember dealing with?

AG: Congressman Dingell and Senator Williams are two that I recall—how about you?

HW: Yes.

DG: Was it John Moss?

AG: Metcalf?

HW: Metcalf, yes.

AG: He mostly was very interested in the accounting profession as I recall.

HW: The only one that I thought gave me a hard time was Moss, obviously because he was devoted to the national market system. He wasn't very happy about the fact that we weren't pushing it the way he would have liked. Other than that—no.

DG: You didn't particularly face problems having to fend off political pressure?

HW: No.

DG: From the White House or Congress or other sources?

HW: I had an episode that was an important personal experience in my life. I have a clear recollection and I've referred to it a number of times in describing who I am. I had been at the Commission probably for a month and I got a call from a Congressman from Pennsylvania who complained about how a constituent of his was being mistreated by the Commission. I don't remember whether it was Enforcement or another division and I listened.

I took some notes on this and I said, "Well"—I said, "I'll look into it Congressman." And he said, "And you'll call me back and tell me what you did about it?" I said, "No; I won't." He said, "What do you mean? I'd like to hear from you." I said, "I'm sorry; we're an independent agency and when we have a complaint I'm bound to pursue it but I will not report back to you what I have found." He yelled at me and hung up and I don't know how many times in my life this happened but I know I sat there and I said to myself out loud, "Harold, if you ever had any question about who you are you're going to find out in this job."

Apart from the episodes that I've mentioned I didn't feel any pressure. I was testifying before Congress one day and I don't remember what the issue was but there was a

Congressman at the far end on the left-hand side, a red-headed young fellow who took me on and he really took me over the coals. I don't know what the issue was, but he became a good friend; it was Cavanaugh from Nebraska. You might have been there at the time. I just don't remember what the issue was.

We still exchange Christmas cards, but other than that, my relationship with Congress was fine. They respected the agency as did the White House.

AG: How about your relationship with the press?

HW: The Fourth Estate - well of course you know that was Judy Miller's first…

AG: We all had a good recollection of when that…

DG: I don't suppose you stayed in touch with her?

HW: No, it's interesting. I was not terribly comfortable with her when she was covering the Commission. I don't remember why but I remember distinctively I wasn't. Then there was a reporter from the *Post* who was a regular, John—I don't remember his last name. My relationship with the press was good; but I remember this *Post* reporter interviewed me. I had been there several years and he said something about unhappiness at the Commission or something. And my response was something about well this is not happiness-ville; we're here to do a job. And as he closed his briefcase he said to me, "You know, if you were a typical Chairman, your staff would be planning your going away party instead of complaining about you." And a couple days later I was shaving and my wife walked in with a troubled look on her face and on page one of the *Washington Post—Unhappiness at the SEC*.

DG: I remember that.

HW: I don't remember what the issue was but there was a right-hand column in the *Wall Street Journal* about me and the Commission. Somehow I gotten wind to the fact that they had gone to lengths to find out what I had paid for a house in Georgetown. And that was going to be in the article. I called them and said, "Look, I respect you and you write what you want and all but there are some things that I think are rather personal and sensitive that I don't think are germane to what you're writing and I'd appreciate it if you would leave it out."

Well he didn't leave it out. Those are the only two incidents where I can think of—but other than that I thought the press was basically fair and I think the relationships were pretty good. I wasn't seeking press. It was not my style to look for coverage but to try to be open and responsive.

AG: Did you have any concerns of the staff talking to the press? I know some other Chairmen have.

HW: I had concerns about that. I'm sure they were talking to the press; there were leaks coming out of the Commission. But there's not much one can do about that.

DG: We have probably touched on all of the substantive areas we wanted to, but it's the nature of these oral histories to try and capture anecdotes. Are there any events that you remember from those days that we haven't talked about or any people that were particularly influential or interesting?

HW: We were in a Commission meeting and it was the second week I had been there and I don't remember what the case was or what the memo was but one of the Commissioners asked a question and—I don't know how it came up—I said, well the answer is in the footnote on page so and so. And the next thing I knew that was all over the Commission.

AG: It meant something to the staff that they knew that you were actually reading the memos.

DG: Including the footnotes.

AG: Right, which didn't always occur.

HW: It's the kind of thing that establishes the reputation for you at the Commission; it's not something that I had intended but it just happened and it was a very positive development.

AG: In that vein, do you think your background as a lawyer helped establish your rapport with the staff?

HW: I would think so. In terms of personalities, of course one personality that was around was Sandy Lewis.

DG: That's right. And I had forgotten about Sandy. What was your background with him and how did he come to be involved and advise on market structure at the Commission?

HW: I didn't have any background with Sandy. I had known his father, Sy Lewis, at Bear Stearns. It was shortly after I came to the Commission. I don't remember where I was giving a talk and he came up to me and started talking to me about the markets and his concerns about where we were going.

And then I think I talked to Rod Hills about it. And let me back up—because it fits with Sandy. Almost wherever I've been I've always tried to have someone or several people whose role it was to kind of be an independent critic.

AG: In fact there's been some suggestions that one Director on every Board should be designated for a period of six months or a year as the…?

HW: As the pain in the ass. Well he did a lot of that, and Ralph did too. As did you. Sandy could do a lot of that for me in an area that I knew was going to be controversial and important. He had a lot of background and experience in the markets and at least I wanted to hear what he had to say.

DG: My recollection is that the Market Reg staff was less than totally happy about that.

HW: Oh, that's right.

DG: Which perhaps was a good thing?

HW: Yes, so other than that in terms of personalities.

AG: There was turnover in some of the leadership of the divisions in terms of bringing in people from the outside.

HW: Yes.

AG: Did you feel that was important at the Commission?

HW: It's a double-edged sword in a sense. I respect continuity and I think we're losing a lot of that. The continuity of people like an Irv Pollack who had a history that we wanted to draw on was useful and then on the downside things could become too insular and so I was interested in finding a balance and trying to do some ventilating. I tried—and Ed Greene came in and Mike Connell and Bob Pozen. I don't remember anybody else.

AG: Jack Shinkle?

HW: Marty Lybecker.

AG: Right.

HW: I think there's got to be a balance. In fact what worries me now is we don't have the degree of continuity that I think would be a plus at the Commission.

AG: Do you think it's positive for one or more of the Commissioners to have come up from the staff?

HW: I do provided they can separate themselves because they're no longer a staff member. Yet, I think it's a real plus.

DG: We began with the election of Jimmy Carter. I guess we have to begin to end with the election of Ronald Reagan. Had you known your successor, John Shad, before?

HW: No.

DG: Did you meet with him and give him advice?

HW: I met him when he first came onboard, but it was just a social meeting. I had two conversations with him after that. The first one related to who should be his General Counsel and I had a recommendation for it which he listened to.

DG: Really? Thank you.

HW: The second one was sort of a, "How am I doing" and I said, "John you've taken the cop off the beat." That's the last I heard from John.

AG: After you left the Commission you ended up at the Getty Foundation. How did that come about?

HW: Christmas of 1980, I was sitting at home and Ronald Reagan had been elected and I knew I wouldn't be his pleasure.

AG: Had you known him in California at all?

HW: I knew of him but I had never met him. But I knew his staff coming in; in fact when I was a teaching assistant in accounting at UCLA, Bob Haldeman was in the class. I ended up teaching the course because the professor took sick. And I knew what it would be—the Chairman served the pleasure of the President and Mr. Reagan had a different pleasure. But I felt I would rather set my own timing than wait for him to tell me that, because I could have stayed on as a Commissioner but I had no interest in doing so.

So I wrote him a letter saying I would leave effective February 28th and then—now what do I do? I called some friends of mine who had led the kind of varied life that I had led up to that time and it was people like John Gardner and Franklin Murphy, and neither of them had any idea, but they thought they might come up with something.

Franklin was based in Los Angeles and he got a call from the Getty Trust. Mr. Getty had died. The trustees were retainers of his so they weren't very outstanding people to put it simply and Mr. Getty's estate was about to close. And they didn't know what to do. So they were calling people. They called Franklin and some others and said, "Do you have

any idea about who might be the right person?" And Franklin said, "Well I've got the perfect person for you," and that's how it came to be.

And the interesting thing about it is I went out and visited with them and then February 28th was some kind of an SEC event—I don't remember what it was. I gave a talk that night. Perhaps SEC Speaks.

AG: It could have been; it's usually the end of February or the beginning of March.

HW: There was an event that day—it was my last day at the Commission. I got home and I didn't have a job to go to. I thought well this is going to be interesting. The first time in my life I've been out of a job with no place to go—when the phone rang and it was the Chair of the Getty and they offered me the position. It was a whole new challenge for me, an interesting one; almost a clean slate to create something that really intrigued me—plus it was in Los Angeles and my kids were there and it was going home.

AG: You really, in a sense, switched careers again.

HW: Yes.

AG: Do you have much contact then after you left and went to Getty with the people you had worked with or come to know through your Chairmanship at the SEC?

HW: Very limited.

DG: You were sort of the capstone of securities regulation and then left that world completely?

HW: Yes.

DG: For something totally different?

HW: Yes.

DG: Have subsequent Chairman of the SEC called you for advice or talked to you about the Commission?

HW: Arthur Levitt did a few times; he was the only one who did. Chris Cox just brought all the former Chairmen back and I participated in that. I don't know whether there will be any further contact with Cox. That's a pattern whether it's private sector or non-profit. There's a tendency for people coming into leadership positions not to talk to their predecessors. I don't know what that's about. I had conversations with Rod Hills; we

disagreed on a lot of things but it was a valuable perspective to have and I respected Rod's mind but I'm not surprised that I was not contacted.

AG: How about you switch back in a sense somewhat to—leaving Getty and going to Skadden after all these years and coming back in a sense to securities regulation. How did you find that?

HW: I had no intention to go back to the practice of law but again, I had announced to the staff and the public at Getty that once we opened the Getty Center I was going to leave. I had been there seventeen years and I had accomplished everything I came to do. I'm a creator; I don't like to manage as an end in itself and I couldn't see myself staying on. The day after it hit the press, I got a call from the senior people at Skadden,; they came to visit me. I knew the people at the LA office of Skadden because I had been on a number of independent committees on boards and when I had an influence on it I invited them in because I liked the way they practiced law and their competence.

What I like about that firm particularly is my impression is they're not dragon slayers. They don't magnify the problem you've got so they can come in and slay it. They are pretty straight describing—what's your problem; what can we do about it, which I respect a lot and after thinking about it I said it could be interesting. I could be a resource. I said I'm not going to be a rainmaker. I'm not going to go out and drum up business. If that's what you want forget it.

I said either one of us could cut it off at a day's notice. I get called on for advice or opinion; I do some coaching of younger lawyers and associates, and, as a result of my management experience, I spend a fair amount of my time on management types of issues. So it's been fun; but it's part-time and in the meantime we've moved our home up into the Santa Ynez Valley and so that's kind of fun, too.

AG: Any last words of advice for the current Commission?

HW: Not off hand; I like what Cox and the Commission has done on compensation. I think it's overdue. As I told the Chairman with both Sarbanes and Oxley leaving the Hill I hope that the Commission will resist any effort to water down Sarbanes-Oxley. I think it still has enough momentum that that's not likely to happen but it's something to guard against. Not off hand; I'll think about that.

AG: Thank you.

DG: Thank you very much.