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SEC

CONFERENCE ON MAJOR ISSUES CONFRONTING THE NATION'S FINANCIAL INSTITUTIONS AND MARKETS IN THE 1980's

October 6 — 8, 1982

PROCEEDINGS

CONTENTS

Introduction and Recommendations

On October 6-8, 1982, the Securities and Exchange Commission hosted a Major Issues Conference. Nearly 500 leading officials of the financial, corporate, legal, accounting, and government regulatory communities attended. Five panels, including the heads of other regulatory agencies and chairmen and presidents of leading financial institutions and exchanges, discussed the major issues confronting the nation's financial institutions and markets in the 1980s.

The five distinguished panels discussed the regulation of financial institutions and markets in the 1980s, self-regulation versus government regulation of financial institutions, disclosure and enforcement problems, the structure of the securities markets, and investment management regulation. While the discussions were wide-ranging and panelists expressed varying views, a strong consensus emerged on the following issues:

Financial Regulation Task Force

A task force should be formed to help simplify and improve the regulatory structure of the financial service industries for the benefit of investors and depositors. The financial services industries have converged in the 1980s through mergers and acquisitions and the development of similar products and services. Yet the nation's financial institutions and markets are subject to overlapping, duplicative and excessive regulation by over 100 state and federal agencies. Consistent with the Conference's recommendation, on December 13, 1982, Vice President Bush announced the formation of a Task Group on the Regulation of Financial Services to review the current regulatory scheme and to recommend legislative changes to simplify and rationalize such regulation.

Functional Regulation

Regulation should be determined by functional activities, rather than by industry classifications. The securities, banking, thrift, and insurance industries are regulated by a variety of state and federal agencies according to historical industry categories. As a result, jurisdictional disputes have prevented new financial products from being offered to the public and competitive advantages have arisen based on the identity of the regulator rather than the merits of the product. It would be preferable to move toward a system of regulation by function, under which the same economic product or function would be subject to the same regulatory scheme regardless of the identity of the company selling the product.

Elimination of Overlapping, Conflicting and Duplicative Regulation

Overlapping, conflicting, and duplicative regulation should be eliminated. With over 100 state and federal agencies regulating our financial institutions and markets, it is not surprising that regulatory conflicts, duplications, and overlaps have multiplied. One company may find itself subject to regulation by a variety of agencies and such agencies may all claim jurisdiction over the same product. As more restrictions and layers of regulation are applied to financial products, additional costs inevitably are imposed to the detriment of the public.

Coordination Among Financial Regulatory Agencies

Increased coordination among the various financial regulatory agencies, particularly between the Securities and Exchange Commission and the bank regulators, is necessary. Jurisdictional disputes between regulatory agencies have inhibited the development of new financial products. Differing disclosure philosophies (the Commission's emphasis on investor protection and its related full disclosure philosophy v. the bank regulators' emphasis on depositor protection and the related concern that full disclosure may result in a run on a bank) have led to conflicts between regulatory agencies regarding appropriate disclosures when an institution is failing. A more cooperative, coordinated approach will reduce the barriers to new products and better accommodate the public's needs.

Deposit Insurance Premiums

Premiums on government deposit insurance should be risk-related. As a result of government deposit insurance, banks and savings and loan associations can attract deposits at approximately the rates paid for

United States' borrowings. The depository institutions can use the deposits for riskier loans, however, because the current flat-rate premiums for government deposit insurance fail to differentiate between loan portfolios with varying degrees of risk. Such premiums should be risk-related so that there is a greater market discipline on depository institutions and the premiums more accurately reflect the risk to the United States of insuring the underlying deposits.

Internationalization of Capital Markets

The rapid internationalization of the capital markets is creating problems of global importance that regulatory agencies must anticipate and resolve. As technology has evolved and customer demands have increased, new exchanges have developed throughout the world to allow round-the-clock trading in many securities and new markets have arisen to facilitate capital flows. The growing interdependence of the world's financial centers and the availability of alternative markets requires a regulatory approach in the United States that allows our markets to compete effectively with foreign markets while maintaining high investor protection standards. In addition, negotiations must be undertaken to remove the barriers erected by foreign secrecy and blocking laws, which have been used to shield the identities of securities law violators abroad. The recent Memorandum of Understanding with the Swiss authorities regarding insider trading may serve as a model for such agreements.

Increased Trading Volume

The securities markets, the self-regulatory organizations, and the Securities and Exchange Commission should continue to improve the markets' ability to handle increasing volume. Ten years ago, the markets could not handle 20 million shares a day. Today, the markets have handled 150 million shares a day and sustained high volume. Much of the credit goes to the securities industry and the Commission for having the foresight to modernize trading facilities. Nevertheless, continued modernization and expansion is necessary to deal with even greater volume in the future.

Investment Company SRO

The possibility of creating a self-regulatory organization for investment companies should be actively pursued. In view of the Commission's reduced budget, the dramatic growth of the investment company industry in recent years, and the importance of investor confidence to the industry, consideration of an industry self-regulatory organization ("SRO") should be accelerated. Significant issues that must be addressed include the scope of the SRO's responsibilities (i.e., whether the SRO should only conduct inspections, or whether it should also make substantive rules and set business practice standards), whether the Commission will duplicate SRO inspections, whether the Commission may take enforcement action after remedial efforts suggested by the SRO are implemented, and whether the Commission may and will waive certain registration fees to fund the SRO.

Investment Company Summary Prospectus

A summary prospectus for investment companies should be developed. Investment company prospectuses are so long, complex, and detailed that they obfuscate the most significant disclosures for the average investor. A summary prospectus should be developed that will clearly disclose the fundamental information regarding an investment company that is essential to an investment decision. Investors will benefit from simplification of the prospectus and investment companies will realize substantial cost savings.

Unitary Investment Fund

Development of a unitary investment fund having neither voting shareholders nor a board of directors should be considered. Commentators have suggested that, for certain types of investment companies, such as money market funds, the benefits derived from shareholder voting requirements and the existence of a board of directors may be more than offset by the related expenses. However, other commentators argue that these requirements provide significant protections to the funds' shareholders. As a result, the advantages and disadvantages of unitary investment funds should be carefully examined.

Subsequent Developments

Subsequent to the close of the Major Issues Conference a number of developments have occurred which accomplish many of these recommendations, or move in that direction. For example:

- A task force, chaired by Vice President Bush, was formed to study the regulation of financial services and recommend legislative changes to simplify and rationalize such regulation.

- Legislation proposed by the Department of the Treasury that would promote regulation of financial institutions according to functions performed, rather than their labels, was introduced in both the House and Senate and has been the subject of hearings in both chambers.

- The North American Securities Administrators Association, the SEC and securities industry self-regulatory organizations began a joint effort to promote uniformity and eliminate duplication in regulation of securities issuers and the securities industry.

- The SEC held the first round of meetings with each Federal regulatory agency with which it shares jurisdiction, in order to discuss common concerns and promote better coordination; and

- The SEC proposed for public comment possible rule changes that would permit the establishment of unitary investment funds and would allow mutual funds to use summary prospectuses.

In addition to these specific activities, the views expressed at the Major Issues Conference and the consensus reached on many issues have often been cited in the course of policy formulation.

The following pages will provide a summary of the panel discussions relating to the recommendations listed here, as well as many other significant issues considered during the Conference.

Panel I—Regulation of Financial Institutions and Markets in the 1980's

The first panel discussed the convergence of the securities, banking, insurance, and savings and loan industries and the responsiveness of the present regulatory framework to these changes.

Moderators:	John S.R. Shad, Chairman Securities and Exchange Commission
	J. Charles Partee, Governor Federal Reserve Board
Panelists:	Anthony M. Frank, Chairman 1st Nationwide Savings
	Frank J. Hoenemeyer, Vice Chairman Prudential Insurance Company
	Lewis T. Preston, Chairman Morgan Guaranty Trust Company
	Philip J. Purcell, President Dean Witter Financial Services Group
	William A. Schreyer, President Merrill Lynch & Company
Staff coordinator:	Edward F. Greene, General Counsel Securities and Exchange Commission

Introduction

Chairman Shad provided an overview of the topic. He indicated that current regulation of the nation's financial institutions and markets is based on laws that were passed during the Depression. They were responsive to a different era and different problems than those that face the nation today. These laws were based on regulation by historical industry categories. However, the traditional separations between the securities, banking, and insurance industries have been bridged by corporate mergers and the development of new and innovative financial products such as money market funds, cash management accounts, variable annuities, financial options and futures, and retail repurchase agreements. In this era of financial conglomeration, brokerage firms have been acquired by larger corporations that already purvey multiple financial services. In turn, major securities firms have diversified into the insurance business and other financial service areas.

Significant changes in the composition of our domestic and international securities markets have also occurred. Institutions have become an increasingly dominant force in the domestic market, accounting for 70 percent of the volume of trading in listed securities and half of the over-the-counter volume. The Eurodollar market has become a major source of capital for domestic companies. The lack of uniform international regulatory standards has given foreign corporations advantages over U.S. companies in acquiring U.S. businesses, and has exacerbated problems in such areas as insider trading, margin regulation, and public disclosures. Telecommunications and data processing advances have facilitated an around-the-clock international securities market.

Faced with the convergence of these industries, Chairman Shad noted that regulatory conflicts, duplications, and overlaps have multiplied. Jurisdiction over the securities markets is exercised by over 100 state and federal agencies. In some areas, jursidictional disputes are blocking valuable new financial products; in other areas, competitive advantages are determined by regulatory classifications rather than by the merits of the products. These consequences of our outmoded financial regulatory structure have imposed mounting costs on investors, depositors, policyholders, taxpayers, and the nation.

To remove these impediments to the nation's capital formation process, Chairman Shad suggested regulatory reform with the following objectives:

- reduction of costs;
- reduction of risks;
- improvement of investor, depositor, and policyholder protections; and
- facilitation of new and innovative financial products and services.

Recommendations for regulatory reform could be made by a one-year bipartisan task force such as the Securities and Exchange Commission (the "Commission") has proposed in testimony before Congress. The task force would study:

- the simplification and rationalization of excessive, duplicative, and conflicting regulations within and between agencies;
- the consolidation of related regulatory activities; and
- regulation by function rather than by historical industry classifications.

Panel Discussion

Each panelist discussed the converging financial markets and possible regulatory improvements from his particular perspective as a participant in those markets.

Frank J. Hoenemeyer

Mr. Hoenemeyer strongly supported the Commission's recommendation for a bipartisan task force because of the complexity and importance of the questions at hand and the need to develop a coherent outline for regulatory reform. When regulation is necessary, he indicated that functional regulation is best, since it enhances agency expertise and avoids competition among agencies as to which can be most lenient toward its industry. He also expressed a strong belief in deregulation wherever and to whatever extent feasible.

Mr. Hoenemeyer indicated that the lines that have separated banks, brokerage firms, and insurance companies are fading because all of these businesses respond to people's financial service needs. For example, his company provides American consumers and businesses with individual and group life and health insurance, pension and profit sharing plans, property and casualty insurance and, recently, brokerage services through a subsidiary. While it once could be described as an insurance company, it now is in the financial services business. This is necessary, he believes, because when people buy insurance they are not buying a particular policy; they are buying a degree of financial security, just as when they buy stocks and bonds or mutual funds or open a savings account.

The problems he has encountered with government regulation are:

- there is too much of it, which imposes unnecessary costs and interferes with the market place;
- the focus of regulation is on solving past rather than current problems;
- the response time of regulators is too slow; and
- the overlap of regulatory agencies. Mr. Hoenemeyer stated that possibly the worst example of regulatory overlap involves pension plans, where the Treasury and the Labor Departments, through the Employee Retirement Income Security Act, and sometimes the Commission all have jurisdiction.

With respect to regulation of the insurance industry, Mr. Hoenemeyer stated that primary reliance on state regulation has not led to serious problems and that Federal insurance regulation, if adopted, is not likely to eliminate state regulations. One of the strengths of the present system is that it allows regulatory experimentation through state authorities.

Mr. Hoenemeyer noted that the major problem of dual regulation for the insurance industry relates to variable life insurance. The product consists of a whole life policy where the reserves are invested in stocks, real estate, bonds, money market instruments, and other instruments. It has a guaranteed minimum death benefit but, depending on investment results, the death benefit could be much greater. The state insurance regulators have insisted that the policy meet a number of securities-type requirements and the Commission has also claimed jurisdiction in the area. Functional regulation would suggest a single regulator.

Lewis T. Preston

Mr. Preston advocated that legislation to revise the anticompetitive and inequitable regulatory framework applicable to banking institutions should precede any effort to reorganize the regulatory agencies. He felt that non-bank participants are virtually unrestricted in their business opportunities, while banking institutions are generally precluded from acquiring other types of financial service institutions and offering services like those offered by broker-dealers. Moreover, the banking industry's ability to compete is further hampered by geographic restrictions.

Mr. Preston stated that the Treasury Department proposal to allow bank holding companies to provide diversified financial services through subsidiaries was a sound first step. The subsidiaries would be subject to the same laws and regulations as their competitors. The Treasury proposal also would allow banks, through subsidiaries, to underwrite municipal revenue bonds and to engage in the mutual fund business, activities that he felt were logical extensions of bank powers.

If securities firms are allowed to acquire banks, Mr. Preston believed that bank securities affiliates should be allowed to engage in the full range of securities activities, including corporate underwriting. Today, 50 years after the passage of the Glass-Steagall Act, he saw little justification for maintaining the prohibition on affiliation between banks and securities firms. He felt that bank ownership of full service securities firms would not create risks to the banking system that are different from the business risks banks are already facing, since the potential conflicts resulting from such affiliation would not differ greatly from already existing conflicts within each industry. Moreover, both the risks and the conflicts could be dealt with by disclosure requirements, regulatory supervision, and judicial oversight.

Mr. Preston identified interstate banking as another important issue. Commercial banking and thrift banking are the only segments of the financial services industry subject to geographic restrictions and he advocated that these restrictions be eliminated. While fears have been expressed that revision of the statutory framework, or deregulation, of financial services may lead to an undesirable concentration of power, Mr. Preston predicted that greater diversity among institutions would result; while some would expand to all segments of the financial services industries, others would choose to specialize.

Anthony M. Frank

Mr. Frank discussed the status of the savings and loan industry. He indicated that passage of the Garn-St Germain Depository Institutions Act of 1982 blurred the lines between depository and non-depository institutions by enabling savings and loan associations to:

- offer interest-paying checking accounts;
- exercise trust powers;
- issue debit and credit cards;
- engage in commercial lending and leasing of all types;
- make consumer loans; and
- engage in all types of real estate and mortgage activities.

Another part of the bill deregulates the liability side of the savings and loan industry within 15 months by allowing savings and loans to bid for funds at any rate on any instrument. Mr. Frank emphasized that all of this change must take place within the framework of a $600 billion industry that has a charter to promote thrift and help establish home ownership.

With respect to the existing regulatory framework, Mr. Frank indicated that the industry must account to the Federal Home Loan Bank Board, state savings and loan commissioners, the Internal Revenue Service, the Federal Reserve Board, the Congress, the Securities and Exchange Commission, and the Depository Institutions Deregulation Committee. Differences in regulation between savings and loan associations and mutual savings and loans and between federal and state chartered savings and loans divide the industry.

Mr. Frank noted that the conference may conclude that the Commission should be viewed as the ideal regulator of financial institutions in the environment of the 1980s. While Mr. Frank wholeheartedly endorsed the creation of a task force such as the one proposed by the Commission, as a vehicle for developing a better structure for regulating financial institutions in the environment of the 1980s, he emphasized that there are two respects in which the savings and loan industry must be distinguished from any other that the task force will be studying:

- Savings and loans are insured, have minimum capital requirements, are examined by state and federal examiners, and audited by independent certified public accountants, have a high degree of visibility, and are regulated by competent, well-staffed state and federal regulators.

- Savings and loans will continue to be oriented toward housing. Traditionally they have written more than half of the nation's home mortgages. It is expected that this ratio will not change, since the need for housing remains a national priority. In Mr. Frank's view, the purpose of this industry is not only to make a profit but also to provide housing of the greatest possible quantity at the lowest profitable cost.

Mr. Frank indicated that these characteristics should be taken into account in setting the type and level of control by any new regulator that is proposed by the Commission task force.

Philip J. Purcell

Mr. Purcell expressed skepticism whether the millenium of complete deregulation for the financial services industry will ever be achieved. To date, market conditions have forced deregulation faster than legislative efforts could have. He indicated that competitive market forces will continue to lead, not lag, deregulation.

However, Mr. Purcell stated that the current regulatory structure has performed an important function by protecting the consumer from catastrophic or uncontrolled deregulation by market forces. The intended role of regulation is to protect the consumer. The key to deregulation or re-regulation is not whether it happens, but how it happens. The consumer will be damaged if deregulation occurs in an uneven or unfair fashion. A one-step complete overhaul would, in Mr. Purcell's view, lead to very uneven and unfair results because of the complexity of regulatory relationships. Mr. Purcell suggested that no single body will ever comprehend the entire structure.

Mr. Purcell recommended that deregulation proceed first with each regulatory body getting its own house in order. The principles for a regulatory overhaul that he suggested are:

- First, that each agency rescind those regulations that are no longer relevant to protect insureds, investors, depositors, or customers.
- Second, that the process of deregulation continue through market forces, DIDC and other agencies, while a task force such as the one proposed by the Commission proceeds.
- Third, that there be no "quick fix" by merging similar agencies such as the FHLBB, FSLIC, FDIC, and the Comptroller, into a "super agency." The quick fix approach failed when the

Department of Energy was created and when credit controls and wage and price controls were sought to be imposed.

- Fourth, the task force should ask the broad questions rather than simply attempt to reorganize today's regulations. For example, if Regulation Q disappears and banks are forced to compete by paying higher yields on deposits, what is the proper role for federal insurance on deposits?
- Last, the positive changes for the consumer already wrought by the market should be recognized.

William A. Schreyer

Mr. Schreyer indicated that the pace of change in the financial services landscape has accelerated dramatically in recent years. The changes should benefit the public interest and enhance the opportunities available to businesses providing financial services. However, while the consumer has benefited, Mr. Schreyer contended that the regulatory environment has lagged behind the marketplace. New innovations have caused jurisdictional problems that may impair the Commission's ability to safeguard the interests of investors.

Mr. Schreyer suggested that the growth and change in the financial services industry reflects the market response to the demands of consumers. Investor insistence is bursting the bounds of Wall Street and the financial fiefdoms in the same way as automobiles in different colors outmoded the black-only Model T. Mr. Schreyer believes that customer orientation is the way to go and that customers have been striving for integrated management of their financial affairs because:

- people are becoming more educated, knowledgeable and mobile;
- their resources and their lives are increasingly affected by inflation;
- there is a growing awareness of the high cost of money;
- customers, especially the affluent, have become more interested in integrated planning and management of their financial affairs and are receptive to new services and financial packaging;
- investment opportunities are increasingly global;
- deregulation is making it easier to provide improved and integrated services to all types of customers; and
- there have been vast advances in technology.

Mr. Schreyer stated that market forces are ahead of regulators. He indicated that the response of the federal and state regulators and legislators to market pressures has been a jumble of conflicting regulations. Helpful suggestions, such as the creation of a task force, have been advanced to provide an orderly review of these complex issues. Congressman Wirth of Colorado has also introduced legislation to create a Commission on Capital Markets to conduct a study of U.S. financial institutions.

In Mr. Schreyer's view, such a study would not be a cop out. Rather, many of the regulations are in place for valid reasons and to tamper with them without full examination would be irresponsible. Moreover, revision could create new inequities as old ones are corrected.

Mr. Schreyer also endorsed regulation by function as a possible approach, since a determination to develop a new product should not turn on the identity of the regulator. Mr. Schreyer indicated that regulation along functional lines is equitable to the participants, would clarify a complex regulatory structure, and would lead to a more vigorous and healthy financial services industry.

Mr. Schreyer offered the following three specific recommendations:

- First, that a broad study of the financial industry be undertaken, whether by the SEC, the Congress, or a Presidential Commission; it should be comprehensive and all participants in the industry should be represented;

- Second, present regulation should be measured against the public interest, and the burden of demonstrating that change is in the public interest should fall upon those advocating change; and
- Third, if the regulatory framework should change, all participants should be subject to the same regulation by the appropriate regulator of that function.

The Discussion Period

During the discussion period, the panelists examined in greater detail some of the major issues relating to regulatory reform of the financial services industry.

Governor Partee raised a question about the different sources of credit available to local and national borrowers. Mr. Preston, agreeing with a comment by Commissioner Treadway, noted that national borrowers, who already have access to the central money market, have reaped the benefits from reinvestment of money market fund deposits into certificates of deposit and bankers acceptances. However, small regional banks have not attracted these recirculated deposits. Moreover, Mr. Preston suggested that the managers of existing money market funds are likely to innovate to make it more difficult for the banks to recapture deposits through the new accounts allowed under the Garn-St Germain bill.

Chairman Shad mentioned the Visa Fund proposal which is designed to achieve reinvestment of money fund deposits into the certificates of deposit of participating regional banks through a reciprocal investment policy. However, he noted that there is some question whether this approach would be consistent with the policies of the Investment Company Act, which requires funds to be managed for the purposes of obtaining the highest return, best quality, and lowest risk investments for fund depositors.

The panelists also discussed how a bank could be insulated from the financial consequences of the activities of its nonbank affiliates. Some of the new activities of bank affiliates, such as the proposed underwriting of corporate securities, could subject a bank to conflicts of interest and possible financial difficulties. Mr. Preston indicated that, as the lender of last resort, the Federal Reserve Board might control the amount of bank capital that could be used for financing another subsidiary's business, but he felt that it should not directly regulate the nonbank affiliates. The holding company would be "regulated" through disclosure requirements. As additional safeguards against risks arising from diversification, Chairman Shad mentioned the possibility that banking regulators might adopt the insurance industry approach known as the 5 percent basket, which allows companies to put a percentage of their portfolio into investments that normally would be too speculative. Alternatively, Chairman Shad suggested that banks might adopt a securities industry approach consisting of net capital requirements and a series of early warning trigger points for firms to curtail activities if their financial condition deteriorated.

Mr. Purcell next elaborated on his earlier statement that the present system of deposit insurance is inconsistent with the deregulation of interest rate ceilings and the creation of money market instruments for banks. Mr. Purcell indicated that the insurance element gives banks a competitive advantage over broker-dealers and others. Governor Partee stated, however, that the public expects deposit insurance and the safe and sound operation of financial institutions. In this connection, he noted the differences in the regulatory approaches of the bank regulators and the securities industry regulators. Bank regulators are concerned primarily with the viability of the institution and the protection of depositors, while securities regulators are concerned with full disclosure. Governor Partee concluded that depositories should no longer be viewed as special institutions to be protected from failure. Mr. Purcell explained that he did not advocate eliminating deposit insurance, but that he was concerned that if all deposits were federally insured, all bank accounts would become equivalent to Treasury instruments. Mr. Frank noted that the Garn-St Germain bill directs the bank insurance agencies to examine the idea of having different premiums for the different levels of risk undertaken by insured institutions.

Commissioner Thomas raised the problem of overlapping concerns between the Federal Reserve Board and the Commission, such as bank disclosure of problem loans. Governor Partee noted the movement of the banking institutions toward more complete financial disclosure in the interest of investors. Returning to the Garn-St Germain bill's ideal of deposit insurance differentials, Mr. Greene remarked that investors and depositors might attach significance to any difference in premiums assessed on the basis of risk. But the disclosure of the fact that an agency has judged an institution to be less sound than others could lead to a run on the bank. Mr. Frank responded that premium differentials are not much different from Standard and Poor's and Moody's ratings. Although such differentials might discourage people from making uninsured deposits, he doubted whether there would be a run on the bank. Moreover, noted Mr. Hoenemeyer, the premium differentials will be of greater interest to uninsured and sophisticated depositors who legitimately will demand a higher return to compensate for the higher perceived risk. Mr. Purcell stated his belief that premium differentials would be a positive step for the consumer and that they should probably be disclosed to the public.

Summary

Chairman Shad summarized the major points made by the panel. The consensus was that regulation badly lags the marketplace, that the marketplace is more reliable than regulation, and that the marketplace can gradually adjust competitive supply and demand and the price of money and services. But there was also concern that rapid deregulation would be very disruptive, and that this disruption would benefit consumers at the expense of the industry. It also appears that there is a need for a broad overview to assess the downstream consequences of regulation without stopping the ongoing legislative and regulatory reform processes. Three suggested ways to establish a framework for change are:

- regulation by functional activities rather than historical industry categories;
- consolidation of overlapping and related activities (such as the consolidation of the FDIC, FSLIC and the National Credit Union Administration initially proposed in the Garn Bill); and
- simplification and rationalization of the overlapping and conflicting regulations within and between agencies to eliminate duplicative jurisdictional authority.

Chairman Shad noted that a task force such as that proposed by the Commission was strongly endorsed. Some of the more difficult issues the task force is expected to encounter include:

- differences in regulation between the commercial and investment banking industries;
- interests in protection of local institutions and local sources of credit;
- how to achieve equivalent (or rational) regulation of functionally equivalent products (such as money market funds and deposits);
- whether deregulation will result in a radical change in the asset character of financial institutions, or in major consolidation of financial institutions, causing the disappearance of small businesses;
- whether the U.S. is headed in the direction of universal banking similar to the German model; and
- the effects of inflation upon the demand for liquid investments and the availability of long-term capital.

Panel II—Self-Regulation and Government Regulation of the Financial Services Industry

The second panel discussed the appropriate roles of private sector self-regulatory organizations and government agencies in an era of financial conglomeration, telecommunication, and internationalization of capital markets.

Moderators:	Bevis Longstreth, SEC Commissioner
	Richard B. West, Dean Amos Tuck School of Business
Panelists:	John C. Bogle, Chairman The Vanguard Group
	C. T. Conover Comptroller of the Currency
	Albert B. Lewis New York Superintendent of Insurance
	Gordon S. Macklin, President National Association of Securities Dealers, Inc.
	Richard T. Pratt, Chairman Federal Home Loan Bank Board.
Staff coordinators:	John M. Fedders, Director SEC Enforcement Division
	Douglas Scarff, Director SEC Market Regulation Division

Introduction

Commissioner Longstreth indicated that the panel would discuss the respective roles and merits of self-regulation of financial institutions on the one hand, and direct government regulation on the other. He described self-regulation in the securities industry as a shared, cooperative system of industry and federal regulation. Commissioner Longstreth noted that self-regulatory organizations (SRO's) exist for securities broker-dealers, but that comparable organizations do not exist for the insurance, banking, thrift or investment company industries. He indicated that the panel would begin an analysis of the roles that self-regulation might play in the regulation of the financial institutions of tomorrow.

Commissioner Longstreth identified three principal issues for discussion:

- In the new marketplace, will tight regulation of the banking industry continue to be warranted to assure the safety and soundness of banks?
- Have institutions grown so large and interrelated that they cannot be allowed to fail? What are the costs of that decision?
- Is competition an adequate substitute for regulation?

Panel Discussion

Gordon S. Macklin

Mr. Macklin discussed the broker-dealer industry's experience with self-regulation. He noted that the constant dilemma when you look at an SRO, is how much emphasis is on the 'S' and how much emphasis is on the 'R.' He then outlined the "pros" and "cons" of self-regulation. Mr. Macklin indicated that the alleged cons of self-regulation were:

- disciplinary committees that are too lax or too strict;
- the threat of "more self than regulation" in effecting policies;
- the problem of an industry with a volatile stream of income bearing the costs of self-regulation; and
- the potential for proliferation of SRO's because of the belief that each business is different.

He identified the pros of self-regulation as:

- more efficient operation because an SRO is not subject to the constraints imposed upon a government agency;
- continuity of management;
- an extra emphasis on education and preventative regulation;
- strong incentives and the ability to develop beneficial services to improve regulatory procedures:
- wide diversity of representation;
- industry expertise to focus on complex disciplinary matters;
- expert professional input on rules and procedures;
- participation by people who are literally too valuable to hire; and
- participation by people who are closer to, and thus more readily adaptable to the market.

Mr. Macklin suggested that the regulatory apparatus of the future should be constructed on existing facilities.

John C. Bogle

Mr. Bogle, the only non-regulator on the panel, addressed the need for an SRO in the investment company industry, a topic that was also discussed by Panel V. He advocated the establishment, initially, of a limited-power SRO with inspection responsibilities, and the later development of a broad-power SRO. Mr. Bogle noted that the impetus for an investment company SRO has come from the Commission. Most recently, however, the Investment Company Institute has drafted a plan to establish an SRO with inspection powers, but no enforcement powers. Under the plan, the Commission would maintain broad oversight powers over the SRO. The SRO would be funded by a portion of the registration fees currently paid by investment companies through the Commission to the Treasury.

Mr. Bogle believes that the need for a limited-power SRO is compelling because of dramatic changes in the investment company industry. He noted the substantial growth of the money market fund industry and the interdependency of the funds. Mr. Bogle advocated a comprehensive inspection program as the best hope of deterring problems in the investment company industry, and suggested that the cost of funding such an SRO would be far outweighed by the benefits to the industry. Mr. Bogle further suggested the eventual development of a broad-power SRO, with expanded authority encompassing business standards, economic regulations, and disciplinary power.

Mr. Bogle believes that all competitors should be on an equal regulatory footing and, therefore, that all money market funds, regardless of the sponsor, should be part of the SRO. Mr. Bogle noted that functional regulation would involve a clash between the bank protection policy of the banking laws and the disclosure policy of the securities laws. Nevertheless, he believes that a full disclosure policy is the only viable one in our consumerist, communication-intensive society. Mr. Bogle urged that an investment company SRO be initiated with all deliberate speed.

Albert B. Lewis

Mr. Lewis stated that consumers expect and need the protection of government regulation of the insurance industry. Mr. Lewis believes that insurance products are different from all other financial products because of the uncertainty surrounding when the insurer will be required to meet the policy claims. The primary method of insuring that those claims will be met is to insure financial stability, which he stated can be done only by trained, independent government regulators who can objectively evaluate the fiscal integrity of insurance companies. Of equal importance to Mr. Lewis is the protection of consumers from abusive selling practices and discriminatory or anticompetitive pricing. He believes that government-administered regulations that have been fine-tuned by the government regulator, the legislature, and the industry are necessary to provide adequate regulation.

Mr. Lewis also focused on the role of the government regulator in dealing with diversified financial service conglomerates. He indicated that no regulatory agency can adequately regulate a diversified insurance holding company in its entirety. He concluded by stating that federal regulation is not advisable in the insurance industry because it would not properly evaluate the particular needs and exposures of insurance carriers or consumers.

C. T. Conover

Mr. Conover focused on the impact of disclosing more information about bank supervision and enforcement actions. Mr. Conover indicated that the primary goal of bank regulation has been to preserve the safety and soundness of the banking system by identifying problems through examinations. The results of the examinations have been kept confidential because of a concern that a bank's troubles could be made worse by the public's reaction to disclosure. Mr. Conover compared the disclosures made by banks and securities firms and concluded that securities firms disclose less information about financial condition and more about enforcement actions, whereas banks disclose more about their financial condition, with little or no disclosure about enforcement actions. He indicated that one of the greatest problems with disclosure of bank financial information is that the value of the loan portfolio can only be determined through examination, which acts as a barrier to shifting the focus of bank regulation away from the examination process.

Mr. Conover believes that the banking industry is heading toward deregulation, with a shift of the responsibility for discipline of the industry away from the regulators and to the marketplace. However, for the marketplace to function efficiently and to provide safeguards for the industry, he believes that adequate information on the financial condition of banks must be disclosed. Mr. Conover mentioned recent initiatives to require disclosure of financial information regarding past due loans, the maturity structure of assets and liability, interest rate sensitivities, and bank contingencies. The Comptroller's Office is also considering whether it would be appropriate to disclose the results of enforcement actions. Mr. Conover indicated that such disclosure might provide greater incentives for banks to avoid problems.

In addressing the implications of disclosure, Mr. Conover stated that for the banking industry to enter into new, riskier areas of business, it must be willing to surrender some of the protections of the past. He believes that examinations and nonpublic enforcement actions may be too costly and inadequate to limit risks. He stated that the best way to minimize these risks is the discipline provided by greater public disclosure. While Mr. Conover believes that the transition to disclosure cannot be made overnight, he advocated working towards a world where government supervision—whether at the state or Federal level—is less important, and market discipline is more important in guaranteeing a safe and sound banking system.

Richard T. Pratt

Mr. Pratt directed his remarks primarily to the need for change in the structuring of deposit insurance because of recent deregulatory developments affecting commercial banks and thrift institutions. By way of background, Chairman Pratt described the three main functions of bank and thrift regulatory agencies: to provide charters and ongoing regulatory oversight, to insure deposits, and to lend funds to the regulated institutions. In noting the division of these functions regarding commercial banks among the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation (FDIC), and various state agencies, Mr. Pratt pointed out the efficiency of the unified system of the Federal Home Loan Bank Board (FHLBB) which combines chartering and regulation, lending, and insurance in one agency.

Chairman Pratt described three main purposes of financial institution regulation: to control the money supply in the United States, to allocate credit, and to ensure the safety and soundness of the institution, thereby protecting the government insurance corporations that insure banks and thrift institutions. Mr. Pratt expressed concern about the structure of deposit insurance, noting that the banking industry is going through massive deregulation while leaving the insurance agencies unchanged. He identified two deregulatory initiatives taken by the Depository Institutions Deregulation Committee which combined may place a strain on the government insurance corporations: (1) permitting brokers to solicit deposits on behalf of financial institutions and (2) authorizing an account contemplated by the Garn-St Germain bill that may be totally deregulated with respect to rates and many terms. Mr. Pratt believes that these changes will channel almost all domestic financial flow through commercial banks, thrift institutions and other insured depositories. At the same time, a major discontinuity in the financial markets will occur in that institutions will be buying money at the government rate and investing it on a fairly risky basis. Mr. Pratt believes that this will encourage banks and thrift institutions to engage in more speculative activities to maximize their return and that this could result in substantial demands on the insurance agencies.

Chairman Pratt offered several possible solutions. First, as a major priority, he recommended the establishment of variable, risk-related insurance premiums for financial institutions. Second, he suggested an alternative insurance system that would rely on private insurance backed by federal reinsurance. Third, Chairman Pratt recommended that both the Federal Reserve Board and the FDIC be divested of their bank regulatory authority. He believes that the Federal Reserve Board should devote its efforts to macroeconomic issues and the FDIC should focus exclusively on risk assessment and insurance. Thus, Mr. Pratt would centralize all chartering and regulatory activity in the Comptroller and the FHLBB, or in a new agency formed by the merger of both.

The Discussion Period

Dean West inquired as to how self-regulation could be useful to banks and thrift institutions as they expand into nontraditional operating areas. Chairman Pratt and Comptroller Conover responded that there will be a minimal role for self-regulation until the depository insurance system is revised so that premium rates are risk-related, because the current flat-rate insurance premiums do not provide an incentive for market discipline in the form of self-regulation. Under a revised, risk-related system, Comptroller Conover could envision a viable SRO that would function as a regulator and examiner, with oversight by an insurer that also would function as a charterer.

Commissioner Longstreth asked if the traditional secrecy surrounding the financial condition of banks has hindered the growth of SRO's for depository institutions. Comptroller Conover indicated that it has. Dean West questioned whether the exposure of an institution's difficulties would adversely affect other financial institutions as well. Mr. Macklin noted that, fairness notwithstanding, regulators historically have given special treatment to the larger institutions precisely to minimize this spillover effect.

Dean West then asked Superintendent Lewis whether industries might be motivated to create SRO's as a means of making information available to the public. Superintendent Lewis replied that the answer would vary, depending on the industry. He discussed the experience of the New York Insurance Exchange, noting that self-regulation works there due to the sophistication of the product and the interdependence of the participants. He indicated, however, that other aspects of the insurance industry pose unique regulatory problems that might hinder development of an SRO.

Commissioner Longstreth raised the issue of the role of certified public accountants (CPA's), describing the important self-regulatory function that they perform for issuers registered with the Commission and noting his understanding that CPA's play a much less important role in the insurance regulatory process. Comptroller Conover stated that the functions of bank examiners and external auditors are very similar and that his Office is attempting to shift more responsibility to CPA's. Superintendent Lewis noted that he had

had mixed experiences with CPA's, but that his department tried to integrate the work of CPA's into the work of his own auditors.

Chairman Shad, noting a parallel between state regulation of the insurance and securities industries, asked Superintendent Lewis to what extent state insurance regulation has a negative impact on the nationwide conduct of business by major insurance firms. Superintendent Lewis acknowledged that there were costs imposed on national companies; however, he believes that it is appropriate for a state to exact high and responsible performance standards, rather than to seek the lowest common denominator for compliance.

Conclusion

Dean West offered several concluding remarks. He stated that the panelists unanimously endorsed functional regulation of the nontraditional activities of depository institutions by pertinent regulatory or self-regulatory organizations. He noted, however, that the panelists achieved no consensus on whether self-regulatory organizations worked well and were preferable to direct agency regulation. He also restated Chairman Pratt's view that self-regulation would be viable for depository institutions only when the current deposit insurance structure is changed. In weighing the relative marketplace roles of competition, self-regulation, and direct regulation, Dean West questioned whether self-regulation historically has provided the initiative to react to changing conditions. The situation has improved somewhat in recent times but, in Dean West's view, this improvement is due largely to the forces of competition and direct governmental regulation.

Panel III—Disclosure and Enforcement Problems

The third panel discussed emerging disclosure and enforcement problems as a result of the proliferation of new financial products and services and the changing structure of the financial service industries and securities markets.

Moderators:	Graham O. Harrison, President U.S. Steel and Carnegie Pension Fund
	Barbara S. Thomas, SEC Commissioner
Panelists:	Robert Carswell, former Deputy Secretary of the Treasury
	Donald J. Kirk, Chairman Financial Accounting Standards Board
	Robert V. Roosa, Partner Brown Brothers Harriman & Co.
	Edward C. Schmults, Deputy Attorney General
Staff coordinators:	John M. Fedders, Director SEC Enforcement Division
	Lee B. Spencer, Jr., Director SEC Corporation Finance Division

Introduction

Commissioner Thomas noted that the fundamental policy underlying the Commission's regulatory approach is the importance of disclosure. Although the disclosure system has endured for almost 50 years, fundamental questions have arisen regarding its continued effectiveness as a result of the increasing internationalization of the world's capital markets. While the Commission's disclosure system has always been, and must continue to be based upon protecting investors and maintaining the honesty and integrity of American capital markets, other countries do not always require the same stringent disclosures. As a result, Commissioner Thomas noted, those who violate U.S. securities laws may be able to hide their activity behind foreign bank secrecy laws and blocking statutes. Beyond these immediate concerns, she indicated that the lesser disclosure requirements in other world capital markets raises the more fundamental question of whether the United States financial markets will continue to play a leading world role in capital generation and allocation.

Mr. Harrison addressed disclosure issues from the point of view of users of information. He emphasized the need of institutional investors and other information users for disclosures of the type currently required by the Commission. He noted, however, that informational needs shift with changes in the economy and in the array of new financial instruments. Although much of the information provided in response to Commission requirements is never read by the average investor, Mr. Harrison said financial analysts and others do read it and disseminate the information to the marketplace.

Mr. Harrison then touched on some disclosure issues that are of concern to information users, including the time lag in getting information to users. He stressed the importance to users of timely receipt of financial reporting disclosure documents.

Panel Discussion

Donald J. Kirk

Mr. Kirk discussed the role of the Financial Accounting Standards Board (FASB) and current accounting and disclosure issues, including international accounting standards. He indicated that the FASB is concerned about the costs and benefits of the standards it sets. Most costs initially fall on preparers of financial statements and on their auditors, but the failure to disclose relevant information creates a hidden cost to users of the information in addition to the costs resulting from analysis and interpretation of the information actually provided.

Mr. Kirk noted that financial reporting is based primarily on historical costs rather than current values. Mr. Kirk added that inflation and fluctuating prices pose special challenges, since they raise questions of the relevance of historical cost-based measurements and of the underlying assumption that dollars of different purchasing value can be added together to produce meaningful financial information.

Mr. Kirk suggested that the current troubled economic climate encouraged "creative accounting practices." As a result of high interest rates and depressed business activity, Mr. Kirk indicated that the FASB has been dealing with the adequacy of present practices and reported information about liquidity, financial flexibility, and cash flows. Rapidly changing prices also have spawned new types of financial instruments as hedges against market price changes, but these instruments are not easily accommodated in today's largely historical cost reporting framework.

Mr. Kirk stated that intergovernmental and professional efforts have been underway for the past ten years to promote international harmonization and upgrading of worldwide financial reporting. Nationalism, economic and social differences, differences in reporting objectives, and international politics present substantial barriers. Nevertheless, he indicated that the FASB will continue to work with several national and international groups to minimize differences in the development of new standards.

Robert V. Roosa

Mr. Roosa discussed whether the United States capital markets will continue to serve as the central clearing market for world trading given the higher disclosure requirements imposed here. He indicated that the United States' markets logically will maintain their preeminent position because the U.S. dollar is the major currency in international use.

He stated, moreover, that efficient dollar markets here and throughout the world are critical if world capital is to be allocated for maximum development of productive resources. The United States plays a particularly significant role in serving as the focal point for the flow of world capital to its most efficient use. In this role, Mr. Roosa noted that the United States receives substantial economic benefits for facilitating these capital flows, particularly when both sides of the transaction occur in the United States.

Robert Carswell

Mr. Carswell discussed other aspects of the integration of the international capital markets. While agreeing that differential disclosure requirements have an important impact on the development of a particular country's capital markets, he stated that other important influences include the country's tax laws, foreign exchange regulations, interest rate regulations, comparative transaction costs, and non-disclosure aspects of its securities laws such as the adequacy of capitalization of broker-dealers.

Mr. Carswell noted an anomaly in the international markets in that the underwriting communities in Europe and the United States are significantly different. In the Eurodollar market, banks dominate, or at least play a major role in underwritings. U.S. banks act there as underwriters in the same manner as the European banks. This structure is quite different from the American underwriting community, from which domestic banks are generally excluded.

Mr. Carswell closed with comments on domestic enforcement problems arising from the internationalization of the securities markets. With 24-hour markets, the proliferation of new investment vehicles, and a dozen new exchanges abroad, Mr. Carswell suggested that it is myopic to think that U.S. trading markets can be monitored or regulated intelligently without knowing what is occurring in the foreign markets.

Edward C. Schmults

Deputy Attorney General Schmults discussed law enforcement problems arising from increasing foreign investments in domestic markets. One particular area of concern is foreign secrecy laws, which have been used to hide the identity of persons engaged in insider trading or market manipulation. He then described the Memorandum of Understanding (the Memorandum) agreed to on August 31, 1982, by the Swiss government and representatives of the Securities and Exchange Commission, the Department of Justice, and the Department of State.

The Memorandum supplements the Mutual Assistance between Switzerland and the United States that became operational in 1977. The Treaty may be invoked to obtain evidence of a criminal offense. Mr. Schmults indicated that the Treaty's effectiveness is limited, however, as to certain violations of the United States securities laws, because the offense must be a crime in both Switzerland and the United States, and it must fall within one of the 34 categories enumerated in an Annex to the Treaty. Insider trading is not presently a crime in Switzerland, although it is anticipated that it will be in the near future.

The Memorandum is a provisional arrangement under which the Commission can learn the identity of Swiss bank customers who are reasonably suspected of insider trading violations. Mr. Schmults stated that the Memorandum is important because it allows the Commission to obtain information that is not available under the Treaty for civil proceedings in the United States. It also provides for further discussions regarding expansion of the areas of cooperation to cover all U.S. civil securities law violations.

Summarizing the prospects for future law enforcement activities in the international area, Mr. Schmults quoted from U.S. District Judge Milton Pollack's decision in the recent *St. Joe* insider trading case:

> "It would be a travesty of justice to permit a foreign company to invade American markets, violate American laws, if they were indeed violated, withdraw profits, and resist accountability for itself and its principals for the illegality by claiming their anonymity under foreign law."*

Mr. Schmults then emphasized that the United States is involved in ongoing negotiations with numerous other nations to establish cooperative agreements modeled on the Swiss Treaty and Memorandum of Understanding. Since Swiss standards of law enforcement and cooperation historically have been emulated by other countries, he predicted that the 1980s will see a substantial reduction in barriers to the enforcement of American financial and securities laws for violations committed from foreign soil.

***SEC* v. *Banca Della Svizzera Italiana*, 92 F.R.D. 111, 119 (S.D.N.Y. 1981).

Panel IV—Structure of the Securities Markets

The fourth panel discussed prospects for the National Market System and expected changes in the securities markets and financial products during the 1980's, including changes needed to facilitate capital formation and mobility.

Moderators:	John R. Evans, SEC Commissioner
	John C. Whitehead, Senior Partner Goldman, Sachs & Co.
Panelists:	Walter Auch, Chairman Chicago Board Options Exchange
	Robert H. B. Baldwin, President Morgan Stanley, Inc.
	Robert J. Birnbaum, President American Stock Exchange
	Ralph D. DeNunzio, President Kidder, Peabody & Co.
	Gordon S. Macklin, President National Association of Securities Dealers
	Donald B. Marron, Chairman Paine Webber Incorporated
	John J. Phelan, President New York Stock Exchange
	Charles E. Rickershauser, Jr., Chairman Pacific Stock Exchange
Staff coordinator:	Douglas Scarff, Director SEC Market Regulation Division

Introduction

Commissioner Evans praised the United States securities markets as the best in the world; he commented that the markets can now handle 147 million shares a day even though they could not handle 20 million shares a day ten years ago. Despite these accomplishments, Commissioner Evans emphasized that the securities industry and the Commission must not rest on their laurels, but rather must continue to improve the markets. The panel then proceeded with discussions of (a) the National Market System and (b) new financial products and capital formation.

Panel Discussion—National Market System

John Phelan

Mr. Phelan began by noting the importance of the rising stock markets to the nation's economy and the ability of the industry to handle high volume periods. He said that many people in the industry deserve credit for helping to develop the systems necessary to absorb the high volume. He stated that the SEC and the Commission's staff should be credited for prodding development of these systems and the National Market System over the last four years. He then focused on the issues of fragmentation and quality control.

With respect to fragmentation, Mr. Phelan stated his view that this was the central issue addressed by the 1975 amendments to the securities acts. He indicated that the linkage of markets through the Intermarket Trading System ("ITS"), though not perfect, has reduced fragmentation significantly and that the current order exposure proceedings were furthering this process. Although it is difficult to integrate off-board and on-floor trading, he said, it can be done. He praised Mr. DeNunzio for his efforts in the area and stated that the central purpose of the National Market System was competition based on the best price, which he felt required an order exposure rule. With respect to quality control, he noted that, while there had been slow progress to date, the intermarket exchange of information for surveillance purposes eventually would be accomplished.

Gordon Macklin

Mr. Macklin commented on the startling progress made in the National Market System since the 1970s and, therefore, suggested that the incremental value of each additional future step will be less. With respect to Rule 19c-3 under the Securities Exchange Act of 1934 and the linkage between the ITS and the NASD's Computer Assisted Execution System, Mr. Macklin noted that off-board trading was extremely limited and there was relatively little volume through the linkage.

Mr. Macklin then asked whether there was a better way to increase competitive pressure on the specialist. He commented on an American Stock Exchange study that concluded that Amex specialists were superior to New York Stock Exchange specialists. This could be due, he said, to the competitive pressures on Amex specialists, because issuers of Amex stocks could list on the NYSE instead. He called on the Commission to remove exchange barriers to delisting so that issuers could delist and trade on NASDAQ if they so desired. Mr. Macklin stated that the NASD has been working with the Commission to bring the more prominent NASDAQ securities into the National Market System in a careful manner.

Mr. Macklin concluded by saying that, in reference to order exposure, there should not be a further set of rules addressing problems that have not been found, and that other enhancements, such as limit order protection, should only be in response to customer demands.

Ralph DeNunzio

Mr. DeNunzio stated that the next step in the National Market System is to enhance Rule 19c-3, that this is a controversial area, and that stocks will be traded in this manner in the future. He continued that there is a sense that fragmentation is a problem. He indicated that his committee would report on the specifics of a possible order exposure rule in the next few weeks, but they would not take a position on the need for such a rule. Mr. DeNunzio said the committee's proposed rule would apply to all broker-dealers, would require exposure of orders so that customers might get a better price, would apply to securities subject to Rule 19c-3 and securities traded in the linkage, and would include all trades, including block trades. He indicated that there is some new thinking on the block trade issue. Mr. DeNunzio concluded that such a rule would be beneficial to the markets.

Charles Rickershauser, Jr.

Mr. Rickershauser cautioned that the regional stock exchanges are not alike and that he did not speak for all of them. Such regional stock exchanges generally trade NYSE-listed stocks and, while the regionals capture only limited share volume, they have developed into effective competitors for small orders. As an example, only 70 percent of the 100 share orders are sent to the NYSE. He suggested that this was partly because automatic execution systems of the regional exchanges are efficient and capable of effective competition with the NYSE. He also stated that regionals compete through ITS and by providing integrated clearing services, although there has not been the same pressure from regulators to improve clearing services as there has been to improve trading in listed securities. He noted that the regional exchanges currently are competing for business from the national wirehouses, not just regional broker-dealers. Finally, Mr. Rickershauser stated that the Commission should grant unlisted trading privileges on NASDAQ securities to the exchanges.

Donald Marron

Mr. Marron stated that, due to the stock market's poor results for the last ten years, the industry lost a generation of investors, a particularly difficult loss in a consumer-oriented business. He stated, however, that a new generation of investors that has not had this negative experience is coming to the fore and that this presents excellent growth opportunities for the industry. He continued that speed and reliability of execution are important—customers want to know what they bought and how much they paid. Also important, he believes, is liquidity, which includes market information and the ability to hedge investments, especially in times of high volatility. He stated that customers want and expect new products.

The Discussion Period

Mr. Whitehead asked for comments on how well the market was working. Mr. DeNunzio answered that the high volume was being handled well, and that fixed-income investments and Rule 415 shelf offerings were benefitting. Mr. Marron, Mr. Rickershauser, Mr. Macklin and Mr. Auch agreed that the overall performance of the market in responding to the surge in volume and prices had been excellent.

Commissioner Evans inquired about progress on limit order protection. Mr. Phelan responded that linkage and dealing with high volume have taken priority, and that limit order protection has been shelved because it is complicated and expensive. He continued that the ITS trade-through rules already do 90 percent of the job and that development of an electronic limit order file would help provide greater limit order protection. He concluded that very few blocks are executed outside the quote. Mr. Rickershauser added that regional exchanges must protect limit orders from superior NYSE or other exchange executions in order to attract orders.

A question was asked about trading options and futures in high volume periods. Mr. Auch stated he believed that there was adequate intermarket surveillance to detect trading abuses during such periods.

Commissioner Evans then asked whether, with automated execution systems becoming more common, small orders will continue to be included in the auction process. Mr. Rickershauser mentioned that on the Pacific Stock Exchange there is a 30 second delay before execution, so that specialists have the opportunity to improve the execution price for small orders. Mr. Phelan commented that the exchanges were responding to member firms' demands in adopting automated execution systems. Mr. Marron suggested that such systems brought in small investors. Mr. Scarff commented that the manner in which small orders are executed is a very important question that the DeNunzio committee must address in its deliberations concerning order exposure.

Panel Discussion—New Products and Capital Formation

Walter Auch

Mr. Auch began by noting that both new options and futures products serve useful, although different functions. He believes, however, that options on futures are unduly complex and could be used by professionals to take advantage of less sophisticated investors.

Mr. Auch also stated that he did not believe that a National Market System for options is desirable because he believes multiple trading of options is impractical and unnecessary due to the derivative nature of the market. Mr. Auch then commented that, while the current lottery system for allocating stock options was appropriate, the present system could be improved. He indicated that any system developed to determine who should trade new product options should reward an innovator by allowing him to establish a product before others copy it.

Mr. Auch stated that he did not think there should be an over-the-counter market for options on listed stocks. (He stated that he had no opinion whether an over-the-counter market for options on over-the-counter stocks would be desirable.) Such a market necessarily would have multiple trading, which would be fragmented and could result in internalization, all of which he found objectionable. Finally, he commented that competition could not entirely take the place of regulation and there must be fair and equal regulation of the options and commodities markets.

Robert Birnbaum

Mr. Birnbaum began by stating that the 1975 amendments reflect a strong pro-competition policy, but that they did not forsee the current new product environment. Despite the enactment of the Shad-Johnson accord, he foresaw continued regulatory uncertainties, including, possibly, the eventual merger of the SEC and CFTC.

Mr. Birnbaum then commented that product innovations now are coming from the exchange community, rather than from member firms as in the past. He also cited a number of potential risks to the industry and the public which may be involved in the creation of a large number of new products, relatively few of which will be lastingly successful. Despite these risks, because of competitive pressures, exchanges and member firms must gear up to trade as many new products as possible.

While he stated that his purpose in raising these questions was not to undermine confidence in the products being introduced, he believes that all of those involved in products planning must ask themselves if outright competition is working properly, and whether a continuation of this trend might eventually hurt public investors who do not understand the risks.

Robert Baldwin

Mr. Baldwin indicated that tax policy is the most important factor influencing capital formation. He also believes that the Commission's main role should be regulation and while it should not formulate policies affecting capital formation, it should evaluate and comment on such policies proposed by Congress and the Treasury.

Mr. Baldwin stated that during the recent surge in volume, five large broker-dealers were responsible for 76 percent of the debt offerings. That same group underwrote 70 percent of the debt offerings for the year to date and 85 percent of the shelf offerings. He continued that there are substantial risks in this area, especially with volatile markets, and that problems could have developed if the high volume had occurred in a down market. Mr. Baldwin emphasized the importance of the securities salesman in selling new issues and maintaining liquidity. He believes that spreads in shelf offerings are too small to provide adequate concessions to achieve broad retail distribution forcing the market to become increasingly institutionalized, a problem he believes should be addressed.

Finally, he commented that options are useful for professionals, but that they may be a bit speculative for individuals.

The Discussion Period

Commissioner Evans asked Mr. Phelan whether stock and option markets should be kept separate. Mr. Phelan responded that options gradually would be integrated into the National Market System primarily due to automation. While he advocates side-by-side trading, he does not believe that options and stocks will be traded electronically side-by-side until the markets become more automated.

A question was asked about the discount brokerage community and its role in selling new issues. Mr. Baldwin saw a role for discounters generally, but he did not believe that they would play a role in new issues because he believes that stocks are sold and not bought.

Commissioner Treadway asked if Mr. Baldwin had changed his "wait and see" attitude on Rule 415. Mr. Baldwin said that the issue still has not been settled. However, he did see a small number of firms receiving an increasing amount of the shelf offering business and, possibly, a more volatile, institutional market. He stated that his "wait and see" attitude was prompted by concerns that the Commission would move too quickly. Commissioner Thomas agreed with Mr. Baldwin's remarks and asked what the Commission could do to abate these trends. Mr. Baldwin answered that there was nothing to do now. When a broker-dealer buys a shelf offering, it cannot syndicate the issue and necessarily will go to the ready market (i.e., institutions).

Chairman Shad then commented that, with respect to the concerns raised over the explosion of new products, the Commission cannot approve or disapprove new products based on their quality. He asked if there were an alternative way to satisfy these concerns. Mr. Auch commented that the most appropriate approach currently would be for the Commission to study the area further. Mr. Whitehead did not believe that the Commission should be involved in approving new products based on quality.

Conclusion

Mr. Whitehead concluded by noting three significant points. First, there is a growing trend toward internationalization of the capital markets, and the United States must attempt to attract capital on a worldwide basis. Second, there has been such a rapid proliferation of securities products that investors may become confused and withdraw from the market. Third, he emphasized the importance of broad public ownership of securities and commented that the industry should be encouraging that.

Panel V—Investment Management Regulation

The final panel discussed desirable changes in the regulation of investment companies and advisers.

Moderators:	George S. Johnston, President Scudder, Stevens & Clark
	James C. Treadway, Jr. SEC Commissioner
Panelists:	George Putnam, Jr., Chairman The Putnam Management Co.
	David Silver, President Investment Company Institute
	Howard Stein, Chairman The Dreyfus Corp.
	Steven K. West, Partner Sullivan & Cromwell
Staff coordinator:	Joel H. Goldberg, Director SEC Investment Management Division

Introduction

Commissioner Treadway established the theme of the panel as an examination of the regulation of investment companies and investment advisers, particularly in light of industry growth and changes in the marketplace. The major topics discussed included recommended changes in the regulatory scheme for investment companies, the feasibility of a self-regulatory organization for investment companies, whether regulation inhibits innovation, and whether disclosure should be substituted for regulation. Other topics included a proposal for a simplified prospectus and the ability of investment companies to compete in the financial marketplace.

Panel Discussion

Alternative Approaches to Investment Company Regulation

Stephen West opened the discussion by briefly summarizing his proposal to create a new type of investment company, a "unitary investment fund" (UIF), having neither voting shareholders nor boards of directors. Mr. West suggested that, in addition to mutual funds, other commingled asset pools, such as common trust funds managed by banks, insurance company separate accounts and the new competitive accounts just authorized for depository institutions by Congress, could be subject to regulation as UIFs. The addition of a unitary form to the Investment Company Act of 1940 (the "Act") would have the advantage of providing for uniform regulation of all commingled funds administered by one regulatory agency, which would not necessarily have to be the Securities and Exchange Commission.

Mr. West also mentioned an alternative approach to investment company regulation, advocated by Richard Phillips, under which open-end funds would be exempted from shareholder voting requirements under the Act. Mr. West questioned whether the elimination only of shareholder voting would be beneficial because the board of directors would then become self-perpetuating. To avoid state law shareholder voting requirements, funds would have to convert to a trust form or recapitalize and issue all voting shares to the sponsor. If a fund reorganized in trust form, the trustee or trustees would still be self-perpetuating. On the other hand, if a fund recapitalized, a unitary fund with the sponsor dominating management would be created.

Howard Stein commented that, in his opinion, disinterested directors should remain an integral part of mutual fund structure because, in his experience, such directors do function independently. George Putnam emphasized that the internal oversight performed by the independent directors is the strongest protection any shareholder can have and, if anything, should be reinforced by "good ground rules." Mr. Putnam suggested, for example, that: (i) the board be composed of a super-majority of disinterested directors, such as 75% or 80%; (ii) key committees (audit, nominating and compensation) be required; (iii) such committees be composed exclusively of independent directors nominated by other independent directors; (iv) full boards meet at least 10 times a year; (v) director oversight be expanded to include review of selling practices; and (vi) the directors and all employees be governed by a published code of ethics. Mr. Putnam also observed that the directors should be held to a high level of diligence. He emphasized, however, that the level of director accountability should not be so high as to discourage qualified candidates from serving. In addition, Mr. Putnam suggested that the oversight provided by a Fund's independent public accountants and independent counsel should also be broadened.

David Silver remarked that, if directors were to be eliminated in a UIF context, the regulatory structure governing such entities would have to have greater rigidity, in part because the Commission's exemptive rules place great reliance on directorial oversight. For certain companies, therefore, the UIF approach might be too constricting and detrimental to shareholders. Mr. Stein indicated that, in view of the increased responsibility placed on independent directors by the Commission's exemptive rules, the creation of an entity without directors could lead to serious problems for the industry. When asked by Commissioner Treadway whether unitary investment funds would require some sort of banking or quasi-banking examination, Mr. Stein responded that they could. He stated, however, that such regulation would be more burdensome than the present system, which relies on the independent directors and Commission oversight. Mr. Putnam added that the UIF approach might be the most appropriate way to structure a money market type fund, where the directors play a less significant role. Shareholder voting should be made optional, especially in the case of money market funds, where investors have shorter-term interests. As a general rule, Mr. Putnam observed, the longer investors elect to stay in a fund, the more they need the protections afforded by shareholder voting and independent directors.

In response to a question from the audience asking how many basis points of money market fund yields are expended on regulatory compliance, Mr. West responded that holding annual director and shareholder meetings can cost four or five basis points. Commissioner Longstreth remarked that, given the potential competition that money market funds will be facing from the insured deposit accounts just authorized by Congress, if government insurance is not granted to such funds it seems that they would want to attempt to distinguish themselves by stressing their strengths, such as shareholder voting and independent directors. Mr. Putnam agreed that the Putnam funds would certainly want to do so. Mr. Putnam indicated that a fund complex with exchange privileges certainly would want all funds in the complex, whatever their size, to be similarly structured.

In response to a question from Commissioner Treadway, Mr. West stated that, although he did not know whether legislation would be essential to implement the UIF concept, he believed that it would be politically desirable and would impart more permanence to the regulatory system. In summarizing the panel discussion, George Johnston called for a way of relieving investment companies, particularly money market funds, of routine shareholder voting.

Self-Regulation for Investment Companies

The concept of investment company self-regulation was addressed principally by David Silver. Last year the Investment Company Institute (ICI) submitted to the Commission staff a proposal for the development of an investment company self-regulatory organization for the limited purpose of conducting inspections of investment companies and suggesting remedial measures in the case of deficiencies. In formulating its proposal, the ICI responded to the Commission's general concern that the dramatic growth of the investment company industry in recent years, coupled with government budget cuts, made it more difficult for the Commission to conduct routine inspections of investment companies with the frequency necessary to detect specific problems and generally to maintain investor confidence in the industry's safety. The ICI proposed that such an SRO be funded primarily through Commission waiver of Securities Act registration fees for investment companies participating in the SRO.

Howard Stein stated that he would support any regulatory policy that has the general support of the industry and regulatory bodies, but that he preferred to have the Commission continue to monitor and regulate the industry. In his view, the public perception of the credibility and respectability of the industry might diminish under a system of SRO rather than Commission inspections. Mr. Stein also stated that, to the extent the impetus for an SRO is the desire to fund an adequate inspection program, he believed the industry would be willing to pay increased fees to be used directly by the Commission.

George Putnam expressed no preference for inspections by the Commission, a SRO, or independent auditors, but he emphasized that external regulation has two parts: inspections and adequate rules and standards. In Mr. Putnam's view, one major purpose of external regulation is to encourage good internal regulation, which he believes provides the most important protection for investors.

David Silver stated that, in response to suggestions by Chairman Shad and former Chairman Harold Williams that the industry consider self-regulation, the ICI Board of Governors agreed to the following framework for a self-regulatory proposal: (i) an SRO limited only to compliance and not responsible for substantive rulemaking or the setting of business practice standards; (ii) an absolute minimum of duplication of inspections by the SRO and the Commission; (iii) a sound basis for funding the SRO; and (iv) no "double jeopardy" (i.e., Commission enforcement action relating to conduct subject to SRO remedial efforts) except in the most unusual circumstances.

Mr. Silver emphasized that the SEC should not abrogate its responsibility nor should present law be changed. He felt, however, that the Commission should articulate in a policy statement the circumstances in which it would and would not "second guess" an SRO, or more precisely, what Commission policy will be in conducting examinations and bringing enforcement actions involving an SRO member. Arguing that a policy statement is necessary as a matter of fair play and because of the natural human tendency to second-guess, Mr. Silver stated that the Commission must be willing to "stay its hand" voluntarily to give self-regulation a chance to work—to allow the SRO the right to be wrong—except where the failure to act would involve discernible harm to investors or the public interest.

In responding to a question from Commissioner Treadway about the degree of restraint the ICI wants the Commission to practice with regard to SRO members, Mr. Silver first distinguished the proposed SRO from existing SROs under the federal securities laws that have the power to discipline members and to promulgate substantive rules. He stated that there have been cases in which the Commission engaged in "piling on." Commissioner Evans responded that the Commission did not, of course, believe it was "piling on" in those cases. Commissioner Longstreth added that the ICI proposal reflects a serious tension between the proposition that the Commission should not abrogate its authority and the proposition that the SRO deserves "the right to be wrong." He concluded that this tension ultimately may be resolved in the actual implementation of a self-regulatory system rather than by a written policy statement.

Observing that the Commission must take the next move with respect to the ICI proposal, Mr. Silver mentioned the need for clarification of the Commission's specific reservations regarding the ICI proposals for a statement of policy and waiver of registration fees to fund the SRO. He remarked that over 30 percent of all fees collected under the Securities Act of 1933 during the year ending May 1982 were paid by investment companies.

Mr. Silver took issue with the position taken by John C. Bogle, Chairman of the Vanguard Group, who, in an earlier panel discussion on self-regulation, expressed a preference for an investment company SRO with disciplinary and rulemaking as well as inspection authority. Indicating that the ICI estimated a $3 million cost for an SRO to conduct inspections, Mr. Bogle had stated that he would be willing to support an SRO with a budget of even $10 million, which could, if necessary, be readily funded by the industry. With respect to Mr. Bogle's examples of specific areas in which investment company standard setting would be useful, Mr. Silver argued that there was no reason to believe an SRO would be more effective than the Commission in detecting the obvious violation, for example, an instance of a money market fund suffering a decrease in net asset value or in being able to anticipate wholly unexpected legal problems such as the treatment of repurchase agreements in bankruptcy. He added that such matters as setting business standards and monitoring compliance with respect to Rule 12b-1 distribution plans by second guessing business judgment would be inappropriate because, in his view, only business practices that approach fraudulent conduct should be regulated by an SRO.

Chairman Shad expressed concern regarding the adequacy of the current inspection cycle, and asked Mr. Silver whether the ICI had considered a framework in which independent auditors would conduct reviews of investment company operations and make the results available for Commission review. Mr. Silver answered that the ICI Board had considered this alternative, but had concluded that the SRO framework was preferable if the industry were to bear increased compliance responsibility. Mr. Putnam stated that the audit framework deserved consideration if clear guidance in the form of standards for such audits were given.

Regulation of New Products

On the topic of whether investment company regulation unduly inhibits the creation and marketing of new products, Howard Stein stated that, although the Commission's review process is often time-consuming and frustrating, the flow of innovative products from investment companies in the past few years indicates that Commission regulation has not been overly restrictive. Mr. Stein said that substantial progress has been made in reducing advertising and marketing restrictions on mutual funds, and that Commission monitoring has helped prevent abuse and deception in promotional material. Mr. Stein spoke highly of the Commission's role as monitor and regulator, noting that the agency has exhibited a high degree of flexibility in adjusting to marketplace developments and has provided a "sobering voice" that has diligently kept the industry "on the straight and narrow." While crediting the SEC with preventing imprudent trends in the industry, Mr. Stein urged the staff to expedite the review process as mutual funds seek, in the immediate future, to compete innovatively with new bank products.

Proper Role of Disclosure

George Putnam addressed the proper role of disclosure in investment company regulation. Recalling that the Investment Company Act was passed seven years after the disclosure laws, Mr. Putnam expressed his view that disclosure alone is an insufficient form of regulation for investment companies because of their nature and complexity. He noted that investment companies are unlike industrial entities whose disclosure reports are scrutinized by "legions" of analysts. In addition, he challenged anyone to analyze a fund's portfolio, even if the disclosure is current, and predict future performance beyond a few weeks.

Mr. Putnam theorized that there are at least five forms of regulation, the first of which is disclosure. He commented that current prospectus disclosure requirements mandated more information than a potential shareholder needs to make an intelligent investment decision. The second form of regulation, Mr. Putnam continued, is internal oversight, which includes independent directors, counsel, and auditors. Mr. Putnam advocated that audits include review not only of securities transactions, but also of procedures, selling practices, use of cash balances, and commissions. He suggested that independent counsel should keep the directors informed of industry practices and marketing methods. The ability and integrity of management of investment companies, Mr. Putnam stated, can best be achieved by internal oversight.

Litigation, the third type of regulation, is a valid forum for testing certain issues, but only in extreme cases. The fourth form of regulation is marketplace competition, which encourages innovation and product development. Finally, external oversight is the fifth form of regulation, and consists of inspection and ground rules. Mr. Putnam thought that ground rules are important to encourage effective internal oversight and to standardize industry practices in areas such as pricing, custody, bonding, "anti-dumping," "anti-pyramiding," and affiliated transactions.

Several participants stated that the Commission should consider a simplified prospectus for investment companies. Mr. Putnam commented that the current prospectus is seldom read and that the "summary prospectus" proposed by the ICI would more likely be read and understood by investors. He added that the full prospectus should be available upon request. Mr. Silver urged the Commission to expedite its consideration of the simplified prospectus to enhance the ability of investment companies to compete with banking products for which disclosure is less rigorous. Mr. Goldberg indicated that the Division would be making a recommendation to the Commission in this area very soon. Mr. Silver also requested expedited consideration of an amendment to Rule 482 (17 CFR 230.482) to permit an abbreviated prospectus to be used in direct mail solicitation.

Competition in the Financial Marketplace

Another topic that was discussed in depth was the ability of investment companies to compete in the financial marketplace with the new competitive account to be offered by depository institutions. Several panelists commented that the industry will be unable to compete with the new instrument. Mr. Stein suggested that several new products may be forthcoming. Mr. West noted that investment companies enjoy the advantage of freedom from the banks' reserve and capital requirements.

Assessment of the Investment Company Act

At Commissioner Evans' urging, several panelists offered an assessment of the Investment Company Act of 1940. Mr. Putnam noted that he is sure the Act can be improved, since 40 years have elapsed since its enactment. He emphasized, however, that the Act provides very useful ground rules for directors, auditors, and counsel, which, in his view, is preferable to regulation by litigation. Mr. West commented that the Act started out well in 1940, was perfected in 1970, and generally is a very good Act. He added that, despite his suggestion to alter the Act's corporate governance aspects, its core, particularly the self-dealing and valuation provisions, is very good, and perhaps should be applied to other "commingled products" in the financial marketplace.

Conclusion

In summarizing the panel discussion, George Johnston stated that the Investment Company Act has on a whole been a very good statute and the amendments to it have been very constructive. In his view, the public and the industry have been well served by this statute. He urged the creation of an SRO for money market funds as a step towards functional regulation. Mr. Johnston noted that, although the panel discussion focused on matters of concern to managers of investment companies, and especially money market funds, the investment advisory industry is composed of three major groups: money market fund managers that share great commonality of interest, other investment company managers with less similar interests, and all other advisers, which are a large group with little commonality of interest. He advocated that regulatory policy take into account these disparities of interest.

AGENDA

Wednesday, October 6 (at the SEC)

6:00 p.m. – 8:00 p.m. -- Cocktail Reception and Registration at the SEC's new headquarters, 450 Fifth Street, N.W.

Thursday, October 7 (at the Sheraton Washington Hotel)

8:30 a.m. – 9:00 a.m. -- Registration

9:00 a.m. – 11:30 a.m. -- Regulation of Financial Institutions and Markets in the 1980's: New financial products and major mergers have bridged the traditional gaps between the securities, banking, insurance and savings and loan industries. Are the present regulatory frameworks responsive to these structural changes and the future needs and interests of investors, depositors and policyholders?

Moderators:

J. Charles Partee, Governor, Federal Reserve Board
John S.R. Shad, SEC Chairman

Panelists:

Anthony M. Frank, Chairman, 1st Nationwide Savings
Frank J. Hoenemeyer, Vice Chairman, Prudential Insurance Co.
Lewis T. Preston, Chairman, Morgan Guaranty Trust Co.
William A. Schreyer, President, Merrill Lynch & Co.

Coordinator:

Edward F. Greene, SEC General Counsel

12 Noon – 2:00 p.m. -- Luncheon

Keynote Speaker:

Richard T. McNamar, Deputy Secretary of the Treasury

2:15 p.m. – 4:15 p.m. -- Self-Regulation v. Government Regulation of Financial Institutions: What are the appropriate roles of private sector self-regulatory organizations and government agencies in an era of financial conglomeration, telecommunication and internationalization of capital markets?

Moderators:

Richard B. West, Dean, Amos Tuck School of Business
Bevis Longstreth, SEC Commissioner

Panelists:

John C. Bogle, Chairman, The Vanguard Group
C.T. Conover, Comptroller of the Currency
Albert B. Lewis, New York State Superintendent of Insurance
Gordon S. Macklin, President, National Association of Securities Dealers
Richard T. Pratt, Chairman, Federal Home Loan Bank Board

Coordinators:

John M. Fedders, Director, SEC Enforcement Division
Douglas Scarff, Director, SEC Market Regulation Division

4:30 p.m. – 6:30 p.m. -- Disclosure and Enforcement Problems:
What enforcement and disclosure problems will emerge as a result of the proliferation of new financial products and services, and the changing structure of the financial service industries and securities markets?

Moderators:

Graham O. Harrison, President, U.S. Steel and Carnegie Pension Fund
Barbara S. Thomas, SEC Commissioner

Panelists:

Robert Carswell, former Deputy Secretary of the Treasury
Donald J. Kirk, Chairman, Financial Accounting Standards Board
Robert V. Roosa, Partner, Brown Brothers Harriman & Co.
Edward C. Schmults, Deputy Attorney General

Coordinators:

Lee B. Spencer, Jr., Director, SEC Corporation Finance Division
John M. Fedders, Director, SEC Enforcement Division

7:00 p.m. – 8:00 p.m. -- Cocktails (cash bar)

8:00 p.m. – 10:00 p.m. -- Dinner

Guest Speaker:

Preston Martin, Vice-Chairman, Federal Reserve Board

Friday, October 8 (at the Sheraton Washington Hotel)

9:00 a.m. – 11:00 a.m. -- Structure of the Securities Markets:
What are the prospects for the National Market System? What changes will occur in the securities markets and financial products during the 1980's? Are changes needed to facilitate capital mobility and formation?

Moderators:

John C. Whitehead, Senior Partner, Goldman, Sachs & Co.
John R. Evans, SEC Commissioner

Panelists:

Walter Auch, Chairman, Chicago Board Options Exchange
Robert H.B. Baldwin, President, Morgan Stanley, Inc.
Robert J. Birnbaum, President, American Stock Exchange
Ralph D. DeNunzio, President, Kidder, Peabody & Co.
Gordon S. Macklin, President, National Association of Securities Dealers
Donald B. Marron, Chairman, Paine Webber, Inc.
John J. Phelan, President, New York Stock Exchange
Charles E. Rickershauser, Jr., Chairman, Pacific Stock Exchange

Coordinator:

Douglas Scarff, Director, SEC Market Regulation Division

11:30 a.m. – 1:30 p.m. -- Investment Management Regulation:
What changes should be made in the regulation of investment companies and advisers? Do existing regulations unduly inhibit the creation and marketing of new products? Should a self-regulatory organization be created for the investment company industry?

Moderators:

George S. Johnston, President, Scudder, Stevens & Clark
James C. Treadway, Jr., SEC Commissioner - designee

Panelists:

George Putnam, Jr., Chairman, The Putnam Management Co.
David Silver, President, Investment Company Institute
Howard Stein, Chairman, The Dreyfus Corp.
Steven K. West, Partner, Sullivan & Cromwell

Coordinator:

Joel H. Goldberg, Director, SEC Investment Management Division