

EXCERPTS FROM REMARKS BY
VICE PRESIDENT GEORGE BUSH
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Good Evening. I want to thank you for the gracious introduction and for the honor that you have awarded to me this evening. However, with all due respect I think you have given the award to the wrong person.

Over the last three years, Chairman John Shad and the Commission he leads have compiled an impressive record of achievements. These have included improvements in both the efficiency of our capital markets and the protection of the investing public.

While I'm not going to try to list all the Commission's achievements under John's leadership, even a few examples are impressive.

Probably the most significant improvement in administration of the securities laws in the last 50 years has been the integration of disclosure requirements under the 1933 and 1934 Acts. These new rules are expected to save the shareholders of issuing firms \$350 million per year, without any compromise of full disclosure for investors. Looked at another way, that's \$3.5 billion every decade in cost-free investment capital that would otherwise have been consumed by unproductive overhead.

Another important step was the decision to broaden and simplify exemptions from registration for limited or private offerings. Small businesses were a major beneficiary of these

changes, which the Commission estimates will save them \$50 million per year. When the Commission's actions in this area are coupled with the recent reductions in the almost confiscatory capital gains tax, the net result has been a geometric increase in the amount of venture capital that is available to produce the jobs of tomorrow and to keep America's world leadership in many areas of technology. The 100-fold increase in venture capital, from \$40 million in 1977 to \$4 billion in 1983, is the envy of Western Europe and Japan and helps explain the strength of our economic recovery. Importantly, this was accomplished by sensible reforms that fully maintained investor protection and, in the tax area, actually raised the total proportion of taxes paid by those in the highest income brackets.

Finally, under Chairman Shad's leadership the Commission also tackled many nuts and bolts issues like revised net capital rules, updated clearing requirements and expanded book entry delivery. All told, these "nuts and bolts" matters have produced \$1 billion in freed-up capital for the industry, and over \$350 million in annual savings. Now a mere billion dollars may not sound like a lot to many in this audience, but that is enough to buy at least six new hammers and a screwdriver for the Pentagon spare parts department.

It is important also to cite the SEC's efforts to strengthen investor protection. The Commission last year achieved all-time highs in several areas of enforcement, while also handling a significant increase in disclosure filings. All of this was accomplished with a 3% reduction in staff, which demonstrates

that you don't always have to use more tax dollars to run a better program.

Other contributions to better investor protection include new steps to require more accurate disclosure and accounting practices by bank holding companies, as well as vigorous enforcement action against insider trading. In fact, the Commission has proposed tough new legislative sanctions against insider trading here at home, and it is pursuing international agreements such as the recent agreement with Switzerland to deter foreign abuse of our markets.

I think it is especially important to single out the SEC's strong stance in enforcement because it underscores an important point regarding regulatory reform in the whole financial area. Opponents of regulatory relief love to charge that we are dismantling programs vital to the preservation of safety and soundness or to the maintenance of investor protection. While these often-emotional appeals for more regulation as the only means to protect the public may make good copy, they really don't square with reality.

It is not the objective of this Administration to eliminate all financial regulation. The financial services industry is uniquely subject to regulatory controls because it inherently involves stewardship over other people's money. Some things like human nature stay the same, and I'm sure there are as many people out there today as there ever were who want to make money the old-fashioned way - by stealing it.

So, we have to be realistic in our approach to regulation, with protection of the public the most important objective. However, we shouldn't be afraid to try new techniques to accomplish the goals of regulation more efficiently and with as little interference as possible to the free market.

I should also add that neither John nor the Republican Party have been alone in trying to improve our financial regulation. At the SEC Commissioners Treadway, Cox and former Commissioner Longstreth have made important contributions to this effort, and I'm sure that our two new Commissioners Aulana Peters and Lindy Marinaccio will undoubtedly also play a major role in the future. Members of Congress from both sides of the aisle and the exceptionally able and dedicated SEC staff have also shown that obtaining good financial regulation requires a true bipartisan effort to weigh and balance all the conflicting considerations.

In the end, however, it was John Shad who provided the leadership and determination to get the job done. His efforts are really deserving of tonight's award, and so tonight I hope you will join me in applauding him for his exceptional efforts.

Task Group

I must confess that I have never considered myself a guru of the intricacies of financial regulation. However, it is apparent to me that the efficiency, fairness and stability of our financial system is a matter of the highest national interest. Our financial system is in a very real sense the central nervous system of the economy. Its health and vitality have a direct impact on the international competitiveness of American products,

as well as on the level of domestic economic activity. With over 50,000 financial firms managing more than \$4 trillion in private assets, financial services is a major industry in its own right, as well as having an impact on all the others.

Probably the only thing more complex than our financial markets is our financial regulatory system. We have literally hundreds of agencies at the state and local level, together with 7 primary federal regulatory agencies. At the federal level alone the responsibilities are so fragmented that when Richard Breeden, my key staff aide in this area, first showed me a diagram of the agency responsibilities I thought he must have been ingesting some of the evidence from our task force on narcotics interdiction.

The federal regulatory system had a modest beginning when Abraham Lincoln created the Office of the Comptroller of the Currency to help finance the Civil War through a new system of national banks. Of course Lincoln's Comptroller had only 6 employees - 5 clerks a messenger - to help him regulate national banks. We still only have 1 Comptroller, but the 5 clerks were evidently more prolific than rabbits, because the federal financial agencies now have over 38,000 full time employees. That's the equivalent of more than 2 full strength Army Divisions. The OCC, FDIC and Federal Reserve alone employ more than 7,000 people in regulating banks, and we spend more than \$2 billion at the federal level every decade just examining banks. So, while Lincoln asked his regulators to finance a war, we now

have enough regulators to give us the option of having them fight one!

This complex system has grown piece by piece over the last 121 years, and it has never been comprehensively overhauled. As a result, we have 5 agencies for antitrust issues, involving financial firms, 5 agencies for securities matters, 3 agencies to regulate banks and widely differing treatment for different types of competitors.

In addition to duplication, however, the current system also exposes many financial organizations to regulation by two or more federal agencies. Unfortunately there is no means of coordinating the actions of the "independent" agencies, who often disagree over their own authority or impose inconsistent requirements. For example, a national bank and its parent holding company represent a single integrated organization, yet that organization is regulated by both the OCC and the Fed. For the private firm such a situation means that it must deal with 2 different sets of rules, field personnel, legal interpretations and so on. In short, they may incur twice the cost.

In addition, this fragmentation could actually hurt supervision by creating a risk that the two agencies might react to a supervisory problem like two overly polite outfielders expecting each other to catch a fly ball.

Another serious problem is created when regulatory programs create artificial advantages or disadvantages for particular types of competitors. This can easily happen when participants

in the same functional activity are not subject to a common set of requirements administered by a single agency.

Of course the Task Group was not the first group to review these issues, and the libraries are full of previous "studies." However, our objective was not to do yet another academic study as some in Congress advocate, but rather to develop a specific set of workable proposals for action to begin the job of serious reform. We also believed that to be most effective such proposals should incorporate a consensus view of the affected agencies, as well as interested groups in the private sector.

After 18 months of effort, including review of proposals from all the agencies and trade associations and many helpful suggestions from the public, the Task Group staff formulated a series of legislative proposals that, with modifications, were unanimously adopted by the Task Group principals. I can tell you that unanimity was not entirely easy to achieve given the disparate views of our members, but perhaps my experience at the United Nations helped me to guide us to a genuine compromise that balances all the important interests.

The Task Group's Final Report will be issued this summer, and legislation incorporating its 50 recommendations will be introduced in the Fall. Obviously both Congress and all affected parties will want to give these proposals careful scrutiny. I am confident, however, that our proposals will be favorably reviewed and will justify strong support from all of you.

Time will not permit me to review our proposals in depth tonight. However, the overall objective of the proposals is to

strengthen the regulatory system by simplifying it and improving accountability. No agency would be eliminated, but agency responsibilities would be clarified and the overall process would be streamlined. Among the key points of our proposals are that:

- The number of day to day bank regulators would be reduced from 3 to 2.

- The FDIC would be reoriented to act like an insurance agency rather than an all-purpose regulator, and risk-related premiums would make the insurance program more equitable.

- The Fed would continue to supervise all the largest bank holding companies, as well as state-chartered banks where the state agency was not strong enough to handle exclusive supervision. However, except for the largest firms most banking organizations could have a single federal regulator for both their bank and holding company.

- The Fed's authority to establish the permitted activities for bank holding companies would be transferred to a new banking agency that would be part of the elected government.

- Antitrust, securities, deposit insurance and thrift regulation would each be handled on a functional basis, usually by a single agency.

- Federal duplication of strong state regulatory programs would be reduced, and

- Unnecessary litigation and other costs would be reduced by amending RICO and the Investment Company Act, as well as by modifying many other areas of regulatory red tape.

These proposals of the Task Group will not solve all the problems of the financial world. They will not substitute for good management. And they will not make the competitive environment easy for financial firms.

Many other significant issues will also remain, including the vital question of the powers of the various types of financial institutions that Secretary Regan discussed with you this afternoon. However, while the Task Group proposals will not solve all financial problems, we feel that these proposals would begin to improve our regulatory system in a much needed fashion.

The Task Group proposals would strengthen our ability to achieve a safe and sound financial system, while at the same time reducing many of the unnecessary costs and burdens that we have today. As a comprehensive package the proposals would also represent the most significant overhaul of our federal regulatory

aparatus since the 1930s. I believe the result would be of great benefit to both our financial markets and to the public at large.

As we move into the legislative process we want to receive your suggestions for improvement, and we will need your support. Together, I believe that we can achieve the public interest in a safe, fair and efficient financial system that will serve us well as we move forward into the 21st Century.

I hope that as we introduce our legislation and move forward in 1985 in the legislative process that you will join the Administration, all of the regulatory agencies and interested persons from both political parties in supporting the enactment of sensible and constructive reforms.

Thank you.