

THE WHITE HOUSE

WASHINGTON

June 22, 1989

MEMORANDUM FOR THE CHIEF OF STAFF

FROM: RICHARD C. BREEDEN *RCB*

SUBJECT: SEC CHAIRMAN

You asked for a brief note concerning my qualifications for consideration as Chairman of the SEC. Traditionally, the SEC Chairman has been seen as a lawyer's job. Legal training is useful because much of the Commission's work is quasi-judicial enforcement cases, while its rulemaking often involves technical legal issues. A Chairman who is not an experienced lawyer would be more likely to be dominated by SEC staff.

My qualifications include:

1. Legal Background. I have been a financial services lawyer for 13 years, and I have handled virtually all types of securities transactions. My former law firm in New York -- Cravath, Swaine & Moore -- is widely known as one of the premier securities firms. Immediately prior to joining the Administration I had been a partner of, and head of the Finance Department in Washington for, Baker & Botts. Baker & Botts is one of the largest U.S. law firms, with an extensive securities practice.
2. Transactional Experience. For the last 7 years I have been involved in the policy debates affecting securities markets -- including the future of takeover laws, LBO restrictions, and modernizing the basic financial services legislation in the U.S. However, I have also handled such transactions in the private sector, including large multibillion dollar transactions and international work in numerous countries.
3. Regulatory Experience. Even before the FSLIC crisis, I was widely known as an expert in U.S. financial regulation. I spent 3 years working with SEC Chairman John Shad and the SEC staff while serving as staff director of the Task Group on Regulation of Financial Services from 1982-1985. As a part of that process, I have also worked with regulators in Britain, Japan and other countries. The report that I wrote on behalf of then-Vice President Bush, Blueprint for Reform, has been widely studied in the U.S. and internationally. My widespread experience in U.S. financial regulation of all types, including banking and thrift regulation, would enable me to bring a wide perspective to the SEC. I also have a generally excellent reputation among the press covering financial issues.

4. Administration Backing. My appointment would be seen by the Commission staff, and probably the industry, as a signal that the President intends to upgrade an agency that has slipped badly in prestige in recent years.

There are several important tasks facing the next Chairman. These include:

1. Financial Institutions. The SEC has not been a significant force in the debate over reshaping America's financial markets. U.S. markets have a major interest in this subject, as both Japanese and European markets and financial firms are emerging as a significant threat to U.S. competitiveness. For example, the largest Japanese bank has a greater stock market capitalization than the 20 largest U.S. banks. I have almost ten years experience with these issues, and I am widely acknowledged to be one of the most experienced lawyers in this field. President Bush has an opportunity to follow-up his success in the thrift legislation with a much broader reform of the overall financial market to help recapture U.S. competitiveness.
2. Globalization. The securities markets have become linked over the past decade, with 24-hour trading an increasingly common phenomenon. Unfortunately, while there is a global trading market, regulation remains divided along national boundaries. Problems in Hong Kong, for example, seriously worsened problems in the U.S. during the October '87 crash. Securities regulatory authorities are far less organized internationally than their banking colleagues, who have more institutionalized relationships. My international experience and credibility on regulatory problems would enable me to forge much closer international regulatory cooperation.
3. Cost of Capital. Reducing structural elements in the cost of capital in the U.S. should be a major national priority, and the SEC could play a major role in support of Administration initiatives to reduce the long-run cost of capital.
4. Motivation. The SEC has been generally slipping from its traditional position of preeminence among independent agencies, in part due to leadership problems at the top. The vacancy of the Chairman and several of the commissioners this year offers the opportunity to rejuvenate the entire Commission. I would provide strong leadership, with support in the White House being seen as a major plus for the Commission.