

The Economic Club Of New York
385th Meeting
98th Year

The Honorable Christopher Cox
Chairman of the Securities
and Exchange Commission

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Questioners: Arthur B. Culvahouse, Jr.
Chairman, The Law Firm of O'Melveny and Myers

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Introduction

Barbara Hackman Franklin

Good evening everyone. I am Barbara Hackman Franklin. Chairman of The Economic Club of New York. And it is my great pleasure to welcome each and every one of you to this, the 385th meeting, in the 98th year of this esteemed club. We are honored this evening to welcome, as our guest of honor, the Honorable Christopher Cox, Chairman of the United States Securities and Exchange Commission. We consider it a great privilege to have him at this early time in his tenure as Chairman, for his first major address as Chairman, here in New York. And in particular, because he is fighting a cold. We appreciate his being here.

Now before we get...I know you all want to hear from him, but before we get to that, I want to acknowledge two of the Club's members, both up here on the dais. Who have recently returned from government service in Washington. Bill Donaldson who was Chris Cox's immediate predecessor as Chairman of the SEC and Bill McDonough a former Chairman of the Club, who until about two weeks ago, was the Chairman of the Public Company Accounting Oversight Board. Welcome home to you both and thank you for your exemplary public service.

Turning to the program. We will first hear from Chairman Cox and then we will have our usual question period, during which a member on either side of the dais will take turns asking questions of the Chairman. And at the conclusion of that, your dinner will be served. And we

are delighted that Chairman Cox will stay with u to enjoy the rest of the evening.

So, turning right to the introduction. President Bush nominated Congressman Christopher Cox to head the Securities and Exchange Commission, on June 3, 2005. He was unanimously confirmed by the United States Senate. And on August 3rd was sworn in to become the 28th Chairman of the SEC. Before being tapped by President Bush, Chris Cox represented California's 48th congressional district for 17 years. And for the past 10 of those years he was a member of the House majority leadership as Chairman of the House Policy Committee. He has chaired various committees, including the Committee on Homeland Security, and the Task Force on Capital Markets. During his career in Congress, he has served in a leadership capacity on virtually every committee with jurisdiction over investor protection and U.S. capital markets. He has many legislative accomplishments to his credit, but the one I want to single out, is his work to eliminate the double taxation of shareholder dividends. That was enacted into law two years ago and brought to reality, a theory that he had first developed in a thesis at Harvard in 1977, Chris we appreciate your perseverance on that one. (Applause) Chairman Cox served in the Reagan Whitehouse as Senior Associate Counsel to the President between 1986 and 1988. Before that, he was a securities lawyer with Latham and Watkins. Taught tax law at Harvard. And founded a company with his father that provided English translation of Pravda. The daily newspaper of the former Soviet Union. He graduated magna cum laude from the University of Southern California and holds both an MBA and a JD degree from Harvard where he was Editor of the Law Review. He is an avid USC football fan, too. Congratulations on that season.

Chris Cox has been charged by President Bush to “vigorously enforce the rules and laws that guarantee honesty and transparency in our markets and corporate board rooms”. We in the private sector want public trust in the integrity of our capital markets, our companies and their governments, and our accounting profession. We know that we are accountable, but the SEC’s regulatory role is vital. Chris Cox is well equipped for the job at hand. He has the intellect and integrity. He keenly understands the issues, and he has the appropriate temperament, the sense of fairness which every regulator needs. So it is with great pleasure that I welcome to this podium, the Honorable Christopher Cox, Chairman of the SEC.

The Honorable Christopher Cox
Chairman of the Securities and
Exchange Commission

Barbara, I can’t tell you how excited I am to be the third USC Trojan invited to New York City for a formal ceremony this week. I am really delighted to be here this evening, because it is a great honor to address The Economic Club of New York. Over the years you have established yourselves as the foremost nonpartisan form for economic discussion in our country and you have provided the venue for speeches from presidents and prime ministers, not to mention the occasional SEC chairman. And I know that there are no fewer than three of us here this evening. This is a distinguished gathering. Educated, accomplished and cultured. And so I am certain, you already know that we are celebrating today, the birthday of Edvard Munch, maybe some of

you didn't know that. (Laughter). He is of course best known for his haunting depiction of existential anguish, you know that familiar painting of the cheek slapping, haunting look called the scream. Or as I like to call it, the look of the Enron investor. (Laughter). Alternatively it could be called the look on Barbara's face when she sees the bar tap tonight. In any event, happy Edvard Munch's birthday.

I am very pleased to be here with national leaders such as you Barbara, with my predecessor's Bill Donaldson and Harvey Pitt, and with Bill McDonough with whom I have collaborated so closely during the months of our overlap of terms, in his capacity as Chairman of the PCOB. This is undoubtedly, the leading group of men and women in the financial capital of the most productive economy in the history of the world. Unless we take that fact for granted, it is worth drawing upon for a moment. The American economy truly is a marvel. For some time now, our economy has surpassed most of the industrialized world. Both in its rate of growth, and in its ability to create wealth. Now even though this is The Economic Club, I don't want to bury you in statistics at this point, lest I put you to sleep before dinner. But I do want to remind you of what you already know. That our economy's amazing capacity for growth holds vital meaning in very real ways for real people. Individuals and families whose lives and hopes and opportunities are directly tied to these numbers. That is what it means that for many years now, economic growth in the United States has outpaced much of Europe and Japan. Our real economic growth averaged 3.2 percent over the last decade. Compared to only 1.8 percent for all industrialized economies. This year, we are averaging over 4 percent growth. This audience,

more than most, understands how that translates into the way people live. From improvements in our nations infrastructure to our security , to the education, health and quality of life of every American. It is a measure of our ability to open our hearts. Our capacity to give, and our opportunity to research and innovate. American's business's have created 1.8 million new jobs, this year alone, and over 4.5 million new jobs since the middle of 2003. Payrolls's have been growing for 30 straight months. Unemployment is lower now than the averages of the 1970's, 1980's and 1990's.

What else does our economy do that we take for granted? Well we are the world's leader in farm exports. We produce enough food to feed our entire country, and the people of many other nations besides. We have been a net exporter of farm products, every year, since 1959, an unbroken string of 44 years. Our per capita gross national income in terms of purchasing power is fully a third higher than France, Germany and the United Kingdom. That gives every American on average, 33 percent more to spend and invest than citizens of Paris, London, and Berlin. Which may explain why the German government recently lost a \$47 million advertising blitz, its largest public service campaign ever, to encourage Germany citizens to cheer up. Perhaps a 33percent increase in purchasing power would work better. I know that would work for me.

The fact is, per capita income in the United States is among the highest in the world. And this exceptionally high income in turn improves America's quality of life. The United States spends

about 5 percent of our GDP, well over half a trillion dollars annually on environmental protection. More than any other country on Earth. That can't happen in nations without growing economies.

As people head home for the holidays, there is a good chance, they are headed to a home that they or their family own. Nearly 70 percent of Americans now own their own homes, a far greater number and a far higher percentage, than anytime in our history. And of course, the greatest in the world. It is a privilege that we take for granted, but that is completely denied of the citizens of many other countries.

The sustained economic growth is all the more remarkable given our size. We are the third largest, most populous country in the world. And because of the economic opportunity here, people are flocking to our shores. During the last decade, our nations population increased 13 percent. That is five times faster than the percentage increase of all other industrialized countries in the world combined. So congratulations. You are all leaders of this extraordinary economic marvel. And that you all know, that you are really not that much smarter or more insightful than the business leaders of Britain or Germany or India or Japan. Or at least that fellow sitting next to you isn't. We have to ask ourselves, what is it that accounts for America's superlative economic performance compared to other countries. And almost any analysis of that question begins with recognition of the mainstays of America's free enterprise economy. The Rule of Law. The absence of corruption, bribery and other forms of coercion by government and

powerful economic actors. The climate of entrepreneurship that encourages men and women to take risks and finally a large efficient capital market to finance all of this.

The SEC has important responsibilities in each of these areas. Our law enforcement duties are an essential element of maintaining the Rule of Law in our nation's economy. Our powers to prosecute fraud and unfair dealing are guarantors against corruption and bribery. Our responsibility to exercise prudence and discretion in the use of those powers is key to maintaining a regulatory climate that is hospitable to entrepreneurship and risk taking. And our regulation of markets is aimed at upholding their honesty, efficiency and integrity. When distilled to its essence, the tripartite mission of the Securities and Exchange Commission, to protect investors, to maintain fair, orderly and efficient markets, and to facilitate capital formation, is really all about making America more productive.

Allen Greenspan, whose two cents worth, are usually worth a lot more than that, recently said to me that the best investor protection is a growing economy and a rising market. Since we at the SEC are most assuredly in the business of investor protection, we have to be vigilant in seeing to it that our actions do in fact contribute to America's productivity. To that end, all that the SEC does, or should be doing for our country, is meant to help create and sustain an environment that promotes economic growth.

So while we must all recognize the tragic fact of life, that there is indeed, fraud and unfair

dealing in our capital markets, it is equally important to keep in mind that there is a lot about our financial markets that is working well, and that deserves the respect and support of our government. Another words, if “it ain’t broke, don’t fix it”. And when it does need fixing, I know this from experience, the first rule of tinkering is to save the spare parts.

That is especially important when it comes to the regulation of our capital markets, which perform such a critical function in our free enterprise system. Our capital markets serve to connect men and women in business enterprises, large and small, with investors and lenders, who measure the risks, accept the most promising and reject the less worthy. That process amounts to a constant reallocation of capital, to the most promising and important uses and away from the less efficient and the less vital. It is a marvel that no central planning system could ever hope to approximate. And the ultimate result is that our economy is more productive.

That is why the SEC’s Mission Statement requires us to facilitate capital formation. In our regulation of the nation’s capital markets, the SEC is a partner in making America more productive. I am absolutely convinced that our inspection and enforcement activities deter fraud. Our regulation of the exchanges maintains orderly and efficient markets. And our disclosure regime helps investors make sound decisions. These are all essential aspects of well functioning capital markets.

But not everything we do is a net contributor to American productivity. Not all of the SEC’s

rules and policies are clearly written and easily understood. Not all of the disclosure we mandate in our role as the investors advocate is really useful to investors. I pledge to do everything in my power to correct that.

Since the day I began I have been focused on translating legal gobbledey goop into English. Clearly defined rules are necessary for people to conform their conduct to the standard the law expects of them. And clearly written disclosure is necessary for investors to gain the benefit of market information. When it comes to giving investors the protection they need, information is the single most powerful tool we have. It is what separates investing from roulette.

If the Securities and Exchange Commission is truly to succeed in helping investors and insuring compliance, with the law in the securities industry, we will need nothing less than an all out war on complexity. It is of course true that a complex world often requires complex solutions. And certainly there are desirable states of complexity. The ones that arise from a thing's intrinsic nature. DNA, a snowflake, an encryption algorithm, there the complexity is essential to the function. But it is the contrived artificial complexities that cause the problems. Intricacy without function. Winston Churchill said it best, "However beautiful the strategy, you should occasionally look at the results".

That ladies and gentlemen is what we are now doing at the SEC. We are looking at results and what we are finding is that in many cases we are not getting the right results. The complexities

of our rules, too often, add nothing to function. And that of course would be bad enough, even if the only thing it did was to annoy people or cut into our nation's productivity. But more than that we have found that complexity often impedes compliance. Even among those who want to comply. In another words, it is undermining the Rule of Law. What we surely wish to avoid are rules so complex they actually assist concealment of the very wrong doing we seek to prevent. Complexity is great camouflage. I suspect that rules that run on confusingly and at great length, are often the product of not just poor draftsmanship but shoddy and hurried thinking. As Mark Twain once wrote in correspondence with a friend, "Sorry for the long letter, I didn't have time to write a short one".

Some years ago under Chairman Arthur Levitt, the SEC began a crusade for plain English in investor documents. It was a noble first step that has been carried on by each of my predecessors here this evening. During my time at the Commission, I hope to advance this cause still further. One of the ways we can do this is to reduce our use of jargon. Insider shorthanded works in our own little circles but effectively excludes those without the decoder ring. We can also express ourselves more clearly. With a view to providing clear standards for people to follow rather than preserving future opportunities to play gotcha.

To this end, at the recent AICPA convention, both FASBE Chairman Bob Herz and I, announced our combined efforts to combat complexity in accounting. This will be an across the board effort that will benefit issuers and investors alike. We have other initiatives as well. When it comes to

disclosure documents intended for investors, nothing is more complicated than the description of executive compensation. We aim to simplify it and make it more meaningful.

Now before you get that Edvard Munch look in your face, let me be clear about what this does not mean. The Commission does not intend to, and never will, while I am Chairman, dictate what any employee of any company makes. Whether it is the CEO or the mail clerk. Those are marketplace decisions. This is not about wage control, it is about wage clarity. Information that is clear, complete and comprehensive, that is it. We don't want to judge, comment, editorialize, pontificate, meddle or otherwise interfere, in salary decisions. And we most certainly don't want to cap salaries. This isn't the 1970's.

What we will propose is disclosure that permits a complete and accurate understanding of the compensation package. Any judgement or action taken on that information by board's of directors or shareholders is up to them. Not us. It is absurd to think that the owners of an enterprise should be denied full knowledge of how much they are paying their employees. The shareholders own the company, after all, and the executives work for them. Think about it this way. Which of our nations' corporations issues signed, blank payroll checks for the employees to fill in the amount, learning only after the employee has cashed the check, just how much that check was for. Not only will improved disclosure of compensation information be useful to shareholders, it will also help directors, by getting them better information about executive compensation decisions in other companies. It will help make their judgements better informed

and less susceptible to challenge and expensive lawsuits that cost shareholders and companies alike.

It has been 13 years since the SEC last revised our executive compensation rules. And in that time, the nature of executive pay has changed, rather dramatically. The rules simply haven't kept up. The result is that too often, technical compliance with the rules doesn't adequately capture the details of the latest compensation packages. A proxy statement today may well contain all the required information and yet still not tell anybody much of anything. Is it really disclosure if the investor has to sort it out and piece it together. Imagine the reaction from the press, if I met their request for a transcript of every word in this speech, by plunking down a dictionary. Here it is, every word. Technically I would have complied, but of course, I would have provided nothing at all of value. The message from that kind of disclosure is at best, you do the work. And at worst, it looks like we are trying to cover something up here. Both messages are unacceptable. Investors and their directors have a right to this information, complete, clear and comprehensible. It is quite simple really. Investors should get all of the information they need, and they should get it in a form they can use. If someone orders a steak, you don't give them a cow and a meat cleaver.

Making our mandated disclosures actually useful to investors is the idea behind another SEC initiative, interactive data. The beauty of interactive data is that it will not only make today's 10K's and proxy's and mutual fund prospectuses more useful to investors, but it will also

eliminate much of the time and expense that companies currently devote to filing SEC reports. Today the SEC has over 800 different forms. Each form is required to have its own cover page. The genesis of this dates back to when reports were hand filed in steel filing cabinets. Back then, the cover pages helped commission staff do the filing. But today they provide no useful information whatsoever, to the public, or to the SEC. Despite the fact that every individual company is required to file many different forms, these cover pages, ask over and over again for the same information, in very slightly different ways. Another words, more stuff, no one needs or wants. It is kind of like the holiday fruit cake that comes in different colored cellophane. If one goes beyond the cover pages to the entire forms, to focus only on the truly unique information, in each report, it has been estimated that instead of the over 800 forms the SEC now provides, we can get by and satisfy our own needs with about a dozen.

The key to making this happen is looking at the data on the forms, independently from the forms themselves. That is what we mean by interactive data. Computer codes can tag each separate piece of information on a report and tell us what it is. Operating income, interest expense and so forth. That way, every number in a report or financial statement is individually identified, both qualitatively and quantitatively. For individual investors this means they will be able to use more sophisticated software tools to analyze the information from SEC filings in real time. For the SEC, it means we can organize our database, not around, individual reports, but rather around the companies that file them. Obvious things, beginning with the registrants address, state of incorporation, its classes of securities outstanding, wouldn't have to be repeated on every filing.

The SEC would have all that already. This will eliminate duplication and let registrants focus only on the updated information. We would no longer need what we have today. Nine securities act registration statement forms, three exchange act registration statement forms, two annual report forms, two quarterly report forms, one current report form, and a partridge in a pear tree. Investors and analysts wouldn't have to hunt around for each separate form. All the information would be in one place, organized by company. And I haven't even gotten to all of the forms for proxy materials, annual reports, securities ownership, tenure offers and mergers and acquisitions. Today, every one of these forms has to be filed and processed separately. Rube Goldberg would be proud.

But the very best thing about interactive data is not just the form filing it would save, or even the time and cost savings for issuers and registrants, it is that the data will all be immediately accessible to investors in real time. Today the over 800 SEC forms result in some 700,000 reports being filed electronically on the SEC's EDGAR System. But EDGAR, for those of you who aren't securities regulation mavens, that stands for electronic data gathering analysis and retrieval. That EDGAR system is over 20 years old. And the shortcoming of having such a fossilized system is that all of the information in these not only computerized SEC reports, isn't searchable. What is on file with EDGAR are just static reports, mere electronic pieces of paper. The result is that the investors and analysts who conducted 375 million online searches of the EDGAR database last year alone, had to manually retype the information or at least pay somebody else to do that, before they could use it in spreadsheets. The only way to make this

less efficient would be to require the use of a quill pen and ink. Interactive data will change that.

Making the information and SEC reports immediately downloadable by investors and analysts the world over by the Internet. I mention just one more area where the SEC is moving to demystify disclosure for individual investors. Over 90 million Americans, representing half of all U.S. households invest in mutual funds. Still more invest in 529 plans for college tuition or in annuities for their retirement. The SEC is moving to clarify the disclosure of the layers of costs and fees in these products. And how those costs hit the investors bottom line. This improved disclosure will also clearly identify when a broker has a special financial stake in selling those products. Such as the broker compensation system called revenue sharing. In proposing these improvements we have been listening to investors themselves. We have assembled some exceptionally useful information through focus groups and individual testing. They have told us that in order to be truly useful, investment information not only needs to be in plain English, but it needs to be timely. So our new proposal will call for getting disclosure to retail investors when they need it most, at the point of sale. And it will permit using the Internet as the platform for providing point of sale disclosure. That way mutual funds and other retail investments could make simple plain English summaries available to individual investors who could click through for more thorough detail if they wished. More sophisticated investors as well as analysts and intermediaries could find all the details if they wanted by drilling down into the densest minutiae. But because of the web based disclosure platform, individual investors wouldn't have to be buried with information that they don't want and won't use. And all of this can be done at

considerable cost savings to both issuers and their investors. I am very excited about these opportunities to make it easier and safer for Americans to invest. In waging this war on complexity, the SEC will be doing its part to increase America's productivity and the efficient functioning of our market economy. Nothing that we do in our country impacts more people or offers a greater opportunity to serve our fellow citizens, than the improvement of our capital markets. They are the well spring of support for the efficient functioning of our free enterprise system.

Whereas in Joe Kennedy's day, our first SEC chairman could marvel at the fact that one in ten Americans owned equities, today our financial markets encompass the investments, the hopes, and the dreams of half of all households. Fifty-seven million Americans now own stocks and the median income for shareholders is a very middle class, \$65,000 a year. Our market economy better than any other system in the world, enables the poor to rise from poverty, it enables the vulnerable and the marginalized to be protected. Because after all wealth must be produced before it can be shared.

To all of you whose location it is, to power this amazing engine of wealth creation with your imaginations, and your willingness to take risks, thank you for what you do. Thank you for what you give each day to your fellow men and women in this country, to your nation and to our world. The SEC is honored to be a partner with you. (Applause)

QUESTION AND ANSWER PERIOD

BARBARA HACKMAN FRANKLIN: Chris thank you very much for reminding us of the SEC's mission but then laying out such a well reasoned and a reasonable regulatory philosophy, waging a war on complexity is music to my ears. Probably all of us will benefit, investors, and registrants and everybody. So thank you for your comments. Now we will turn to our question period. And we have two distinguished questioners for you. On this side of the dais, Arthur B. Culvahouse, Jr., known as AB. Chairman of the law firm of O'Melveny and Myers. And on the other side of the dais, Consuelo Mack who is anchor and managing editor of Wealth Track which is shown on public television every week. The first question, I will turn to AB.

ARTHUR B. CULVAHOUSE, JR.: Thank you Barbara. Chris you referenced in your remarks that U.S. securities markets and exchanges are the preeminent markets and exchanges in the world. Are you concerned that, that leadership and future growth of our markets are threatened by Sarbanes-Oxley compliance costs and litigation risks that are discouraging the next generation of public companies, abroad, such as the state owned enterprises in China, from registering on the U.S. exchanges.

THE HONORABLE CHRISTOPHER COX: Well I don't think we can ever become complacent. I don't think we want to take for granted the fact that because right now, the United States of America has the deepest most liquid, largest most significant capital markets in the

world, that, that will always be so, or that isn't the product of an awful lot of hard work and leadership shown by generations of Americans that came before us. So we always have to be careful, as we appraise what it is that makes our system work, and improve upon it. And as we guard against those things that could encroach upon our success. You mentioned two, litigation and hyper-regulation. I think that with a degree of moderation, we would all admit that our system of justice, of civil justice in this country, and our system of regulation, are two of the reasons that our free enterprise economy works as well as it does and that our capital markets work as well as they do. So, caution, obviously is in order in making sure we never overdo it in either of these venues, or in other areas. But caution is also in order in making sure that we don't immediately run away from what has made us successful for such a very long period of time. And as we look across the globe at the competition that is rising from every corner of the world, not just in our capital markets, but in all of the industries that list on them, I think we have to keep it in mind that we are going to have to show American leadership to make sure that global accounting standards, global financial reporting standards and global investor protection standards rise to meet our level and that we don't participate in leading a race to the bottom.

CONSUELO MACK: Chairman Cox, you mentioned some of your priorities to us just now, but as far as talking to an audience from Wall Street and from accounting firms, as we are represented here. We would like to get a sense of what your priorities are in those two areas specifically. So let me just start by asking you, what...in the enforcement and the rules areas, what are your top priorities, what do you want to get done?

THE HONORABLE CHRISTOPHER COX: Well the simplest message I can give you when it comes to enforcement is if you are doing something wrong, look out. Because I want to make sure that the Securities and Exchange Commission is in fact your worst nightmare if you are running afoul of investor interest. Now, I see absolutely no native conflict between the interest of investors and the interest of companies. The companies and the directors who are the fiduciaries of the shareholders ought to be looking out for investor interests at all times. But if that ever happens not to be the case, that is why there is an SEC and I want to make sure that people understand that we are a law enforcement agency and enforcement is going to be a continued part of what we do in a big way. With respect to specific over the horizon, around the corner risks that we might see where we might be directing our enforcement resources, I can't really share with you tonight any special insights. But you know that particularly under Chairman Donaldson, that has been institutionalized and routinized within the SEC that our office of risk analysis is aimed precisely there and we are trying to share those insights with not only enforcement but also inspection at the SEC. And with respect to rule making, I touched on some of it, in my formal remarks but we want to make sure that we take a look at all of the rules of the SEC from the standpoint of keeping them modern and up-to-date. Take a look at all of them from the standpoint of making sure that they are clearly understandable and that the community that looks to the SEC for guidance on how our rules are meant to be applied, never has any question of what we expect of them. In terms of them taking the next step to look at where rules need to be enacted where they have never been before. That is to say, I am not

opposed to this ____ but we have to be careful about rules for rules sake.

ARTHUR B. CULVAHOUSE: Chris, speaking of enforcement, what is the appropriate role of State Attorney's General, in regulating the securities markets in public companies?

THE HONORABLE CHRISTOPHER COX: Well I think everybody in this room is well aware of the history of the blue sky laws in this country. They were there first. Before there even was a Securities Exchange Commission, and the qualitative aspects of securities regulation that are the province of the states go well beyond in many cases the jurisdiction of the Securities and Exchange Commission. So there has to be a cooperative and complementary relationship between state law enforcement and securities regulation on the one hand, and the Securities and Exchange Commission and federal law enforcement on the other hand. I think our cooperation as I have gone from city to city where the Securities and Exchange Commission has regional offices, with the local U.S. attorneys is absolutely superb. And I think our cooperation with attorney's general in the states where we are working together is also superb. I am going to do everything I can to make sure that it stays that way, indeed, that we improve upon it, wherever that is possible.

CONSUELO MACK: So far the SEC proposal to give shareholders greater access to corporate proxies has failed. What is your view on giving shareholders greater access to corporate proxies and what do you plan to do about it?

THE HONORABLE CHRISTOPHER COX: Well we have just recently proposed a rule at the Securities and Exchange Commission that would permit the use of the Internet as the platform for delivery of proxy information to shareholders. Not just the proxy card, but the whole proxy statement could be handled over the web. The reason I think this is so important is that I think it is a first step towards moving to an interactive relationship between companies and their shareholders on the one hand, and among themselves. That is obviously not contemplated by this rule, but it is easily imaginable in the future. And if you wash out the significant costs that are inherent right now in mailing all communications to shareholders, particularly in broadly held issues with a lot afloat, you can imagine a much more frictionless world in which shareholders can exercise their role much more easily without any harm being done to the company. I do think that we have to be careful about special rules to empower minorities, minority shareholders or those who don't represent or have an opportunity to represent a majority of the shares. If it were a shareholder democracy, then what that really means is that the majority has to win. And I think some of the rules that I learned in politics and governments over the last 20 years or in my service on the Board of Directors of the National Endowment for Democracy which promotes democracy of the world over, are not completely irrelevant to the issue of shareholder democracy. It is a good thing, I have confidence in it. I have confidence that the shareholders will look after their own interests.

ARTHUR B. CULVAHOUSE: Chris, you were heavily involved in the response by the Reagan

administration to the October 1987 stock market crash, which of course was fueled by program trading. Given the recent hiccups, in Tokyo and the prospect or the rumors that the next attack by terrorists might be an attack on our economy, and our markets, do you think that our markets have adequate continuity of operations, thinking and planning.

THE HONORABLE CHRISTOPHER COX: If I may, I am going to divide that question into two. One, the kinds of risks that we saw materialize in 1987 and I appreciate your stating in the preface of the question that it wasn't my fault, when it happened in 1987. And the other, the kind of attack that we weren't really thinking about in 1987 that might be waged, although, it is I think highly unlikely by terrorists. More likely, by a nation's state in some future war. Who would attack our infrastructure. I see no reason to disagree with Allen Greenspan when he tells me that we are now, much better off than we were in 1987 when it comes to dealing with the kinds of threats that materialized then, because of the redundancy and the globalization of trading in so many areas. But the great threat that we face now and it may indeed be an increasing threat, an attack on infrastructure, doesn't single out the financial sector, it doesn't single out capital markets, most of America's infrastructure has to face this, is something that we are only beginning to learn to deal with. And my last three years as Chairman of the Homeland Security Committee, I sat through an awful lot of classified briefings about what is possible, what might be happening, what people might be doing next, after they finish what they are doing now, and it is all quite hair curling. So I think that focusing on that at the Securities and Exchange Commission, focusing on that in our markets, as I know, everybody in New York

City, that is in this business does, because of the experience of 9/11 is vitally important in going forward.

CONSUELO MACK: Your fellow republicans on the SEC have complained on a number of occasions in the past that the rules in enforcement cases are promoted by Mr. Donaldson and the two democratic SEC commissioners have been unnecessary and overly burdensome. Where are you seeing any unnecessary and overly burdensome regulations currently by the SEC that you would like to change?

THE HONORABLE CHRISTOPHER COX: Well let me just give one example of what I think you are talking about, which is something called “Regulation NMS”. There was a great deal of controversy about that at the time it was under consideration. And it was not a unanimous vote. But, many if not all of the people who must now comply with Regulation NMS, have a slightly different attitude it now than they did then because they have already swum halfway across this river. And it is my view, in this context, and more generally, that one of the ways to make regulation even more difficult to comply with, is constantly to change it. There needs to be certainty and predictability and that is why, with respect to these regulations that were difficult to put in place, but that are now in place, I have tried to speak as clearly as I possibly can, that we are going to enforce them exactly as they are written. And I will say that on the commission, among the five of us, albeit 40 percent of us are new now, I think there is a good deal of collegiality and mutual respect as we move forward. I am sure we will have some falling out on

one or another issue as we go forward but I think we all have it in mind to make sure that we do the very best thing for investors which implies in every case that we are not piling needless costly regulation on their backs. They are the ones, certainly in my view, that ultimately pay for all of this. (Applause)

BARBARA HACKMAN FRANKLIN: Chairman Cox, that was really terrific. Thank you for sharing so much thoughtful comments and insight. I think we all have come away feeling as though we know better what you want to do and your priorities and how you will approach your regulatory job and we wish you well as you go forward and we thank you very much for being here tonight. (Applause) Please give a round of applause to our two fine questioners. And that concludes the formal part of our program, please enjoy your dinner and your table companions. Thank you for being with us and a happy holiday to all.

END OF MEETING