REMARKS OF

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Ladies and Gentlemen:

It is a great pleasure for me to be with you. Since this is my last occasion to address you as Chairman of the SEC, I appreciate your decision to include a member of the Lame Duck Society in the program. Of course it is always wonderful to visit Boca Raton, the city the New York Times has dubbed "An Oasis Rich in Shady Operators". Boca is the only coastal city in Florida that has more sharks on land than in the water, present company excluded. Indeed, the SEC has so many defendants in Boca that I have decided we should open a branch office here. Of course I wouldn't want anything regal -- just a few desks, phones and a dungeon.

This year's annual meeting comes at a time of great success for the securities industry. You have more than a few -- in fact a few billion -- reasons to look back on 1992 with fondness. Recalling the mood at SIA's meetings in 1989 and 1990, I definitely prefer the 1992 version -- and I don't even get a year-end bonus.

This is a time of transition for our country and for the SIA. I would like to extend my congratulations to Ed O'Brien for his long years of strong and effective service to SIA, and my best

wishes for his future endeavors. At the same time, I would like to congratulate Mark Lackritz, who will play a crucial role in helping you to face the many challenges that will arise in the future. I think time will demonstrate that your search committee made an outstanding choice.

I.

For over three years, I have had the extraordinary opportunity to lead a truly remarkable institution of government. During this time more than 15,000 registration statements covering nearly $2 trillion in securities have been filed with us. We have acted on over 1,000 enforcement cases, including the Salomon Brothers and Milken cases. We have also acted on more than 100 rulemaking proposals ranging from minor housekeeping to significant policy shifts.

Doubtless some would argue that some of the rules we have considered look like the regulatory equivalent of Trivial Pursuit. Actually, now that I think about it, some of the people saying that resemble the human equivalent of Trivial Pursuit. However, I know that many of these rules have been quite important, and I hope that they will be of lasting value to the market.

For example, from now on, all of the nation's shareholders have a significantly greater ability to express their views concerning the operation of the companies whose stock they own. We

have transformed the role of the SEC from making it difficult for shareholders to express opinions and to have an impact on companies whose management obviously isn't performing, to protecting the ability of shareholders to act on the information that is disclosed to them.

Potentially that one set of rules will help to restore a sense of responsibility and accountability to shareholders among corporate officers and directors. Hopefully it will lead to a much more active role for directors in turning around companies that are not performing adequately.

In this category I would include: our overhaul of the proxy voting system and compensation creation of the 144A market, overhaul of the capital-raising system for small companies, removal of impediments under the Securities Act and Investment Company Act to structured financings, improvements to broker-dealer capital requirements and development of risk assessment procedures for holding companies, higher quality standards for money market mutual funds, and broader flexibility to create new mutual fund products, among others.

During the last three years we have also been very fortunate to enjoy excellent relations with the Congress, which has played a very constructive role in improving the securities regulatory system to help accommodate the growth in investment and offering

levels. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 provided the SEC with immensely valuable tools to fight abusive market practices. We have made heavy use of our ability to issue cease and desist orders and to impose fines for violations of the law. Except for fines for insider trading, these powers did not exist when I arrived at the agency. The holding company provisions of the Market Reform Act also gave us the ability to adapt our programs to grapple with the risks created by the growth of OTC derivatives of all types.

These past three years have also been a time of extraordinary change in the markets themselves. Happily, most of those changes have been quite positive. For example, in the last decade more than 20 million new investors have begun to participate in the market as direct investors. More than 50 million new accounts have been opened with investment companies, whose assets have increased more than $1.5 trillion in the last ten years. Coupled with sharply higher values of assets invested directly in securities by individuals has risen dramatically. Individual investors, once feared to be an endangered species in the market, have returned in force.

After a long slide in their attractiveness, equity securities have returned to favor with American investors and issuers alike. After destroying more than $500 billion in equities through buyouts from 1983-1990, we have seen strong levels of net new equity

formation in both 1991 ($48.3 billion) and 1992 ($ 71.1 billion). This has helped U.S. corporations to reduce their relative levels of debt sharply in the past three years.

As part of the return to equity investing, we have seen a skyrocketing interest in IPOs. Indeed, annual issuances of IPOs have risen from around $5 billion in 1990 to over $25 billion this year. This capital for the growth sector of the economy is extremely important for the long term economic prospects of the economy. With better access to capital, these companies will provide not only jobs and gdp growth, but also new technology, productivity and possibly whole new industries.

The boom in IPOs is only one part of an extraordinary increase in use of the securities markets to finance the overall U.S. economy. In 1990, my first full calendar year as Chairman, the total volume of public offerings was around $320 billion. In 1991, that volume increased to $600 billion. At current rates, we should see more than $900 billion for 1992. When you include 144A transactions and other private placements, this year is likely to be the first "Trillion Dollar Year" for any capital market in the world. This year on average about $20 billion in fresh capital has been raised in our securities market every <u>week</u>. By way of contrast, on average the banking system has <u>reduced</u> its outstanding loans to business by about $200 million every week for the past three years.

Another area of great change has been the international side of the market. Here there are many serious issues on which people can legitimately differ. One thing about which you can't legitimately differ is the international competitiveness of the U.S. securities market and securities industry. Compared with more than $1 trillion in U.S. securities offerings of all types, total offerings in the United Kingdom this year, including Eurobonds, will probably not exceed $100 billion. Total offerings in Japan will be even lower, probably not exceeding $75 billion. Thus, in terms of raising capital for issuers, the fact is that there is not any other market in the world that comes close to that of the United States.

The capital-raising power of the U.S. market helps to explain why foreign companies are flocking to issue securities in the U.S. in numbers we've never seen before. During my term as Chairman 181 foreign companies have entered the U.S. public markets for the first time -- an average of around one new company every week. During the same period, foreign listings in both London and Tokyo have declined. Indeed, we have had more new listings in three years than all the foreign listings in Tokyo combined. In addition, 127 foreign companies have made offerings in the 144A market.

There are undoubtedly many changes that need to be made to accommodate greater internationalization in the markets. For

example, 144A transactions ought to be totally exempted from Rule 10b-6 in my opinion. This rule had a legitimate purpose, but frankly the rule has long since become so overcomplicated and unduly restrictive that we probably ought to repeal it outright for all offerings. It could be replaced, if necessary, with a general standard that should be far simpler, and that would not act as an impediment to global placements in the U.S. as is now unfortunately the case.

Even more important to facilitating competitiveness of the U.S. market would be sensible reforms to our system of liability. The SEC would never want to see private actions for fraud or other violations of the law eliminated, because they provide a very important discipline for officers and directors of corporations, among others, to obey the law. However, the current system is out of control, and there are far, far more suits than can be justified to achieve the legitimate purposes of private actions.

We can't live with a system that imposes insurer's liability on underwriters or accountants, yet that is what many suits essentially seek to do. Frankly, in many of these cases real investors reap little benefit. The system is run to benefit an industry of lawyers who are in effect imposing a litigation tax on the entire capital raising process. That hurts the shareholders and employees of all U.S. companies, and it creates a very great deterrent for domestic and foreign companies to use our market.

Over and over again foreign CEOs considering securities offerings in the U.S. have raised their concerns over abusive litigation, not disclosure, with me. Congress could easily curtail many of the abuses in this area without impairing the rights of investors in legitimate cases.

II.

There is much to be pleased about in the robust market for financings that we see today, and the substantial increase in participation in that market. However, having seen cycles come and go before, it is perhaps more important to think about what steps would help to maintain the current health of the market and the participation of the new investors on a more permanent basis. Here there is the danger that complacency might prevent needed attention to areas where improvements ought to be made. In this area there is still a need to focus on long term public confidence in the safety of the market and the honesty of the industry.

In the area of safety, much has been done. The improvements at the Exchanges and the NASD in the wake of Black Monday have been considerable, and in the main quite successful in addressing systems problems. However, the U.S. clearance and settlement system remains largely where it was, and we have expended much talk but made little progress in actually implementing real improvements.

Shortening the settlement cycle to T+3 and converting to same-day funds will involve changes in the way business is done -- particularly in handling retail accounts. However, these steps would also eliminate enormous risks that now exist. That would both improve the system's capacity to absorb stress, and also the public's confidence in the stability of the market. Though purely voluntary industry effort to adopt such reforms might still be possible, I think that it is increasingly apparent that the SEC may need to establish timetables for specific reforms like shortening the settlement timeframe, even if those timetables are relatively lengthy.

Improving public confidence in the honesty and integrity of market participants is in some ways a more difficult assignment. If anything, however, it is a more important task because that is something that EVERY investor thinks and cares about a great deal. At the outset, I should note that the U.S. market has by far the best protections for investors of any world market. We insist that investors get the most information from companies. We also insist that the information be accurate and complete.

In the U.S. we devote far more resources to detecting and prosecuting abusive practices than is true in any other market. At the same time, the SEC has by far the widest range of enforcement powers of any market regulator. These quality standards for investors are very high, and they make the U.S. market much more

attractive to investors from around the world. If anything, that advantage is likely to be greater in the 90s than it has been in the past.

Despite the efforts of the SEC, the SROs and firms themselves, we continue to see a very significant number of enforcement problems. During my relatively short time at the SEC, we have had to deal with the continuing problems and eventual collapse of Drexel Burnham, as well as with Mike Milken, Salomon Brothers, International Loan Network, Miniscribe, Crazy Eddie, and many more. These notorious cases easily make it into the pages of the newspapers. However, in addition to these highly publicized cases, there is a daunting volume of less well-known cases. Week after week, the SEC considers action on a seemingly endless river of cases. Those cases involve little frauds and big frauds, cooked books, manipulated prices, overreaching, churning, unsuitable recommendations, imaginary earnings (sometimes imaginary companies!) and many more problems. As part of these cases we have had to sue registered representatives, portfolio managers, compliance personnel, investment bankers, arbitrageurs and too many others.

Sadly, all too often these cases are not limited to tiny or unsophisticated firms. As many of you may know, yesterday the SEC filed suit in U.S. District Court for the Southern District of New York against two former senior officials of Salomon Brothers, Paul

Mozer and Thomas Murphy. The suit charges each individual with multiple violations of the securities laws stemming from numerous false bids totalling over $15 billion in auctions of U.S. Treasury securities from 1989-1991. In addition, the suit charges that these individuals sought to cover up their actions by causing the books and records of Salomon to be altered to conceal their actions.

The suit alleges that Mozer planned and executed most of these false bids. It also alleges that Mozer sought to cause others to submit false bids or other information to the government to assist in his schemes.

The suit against Mozer and Murphy seeks permanent injunctive relief against future violations, and it seeks disgorgement and fines in amounts to be determined by the court. The suit also seeks to bar Mozer from ever serving as officer or director of a public corporation.

The facts alleged in this complaint were developed in a long and painstaking investigation into Salomon's role in connection with auctions of Treasury securities. The actions we have alleged that these very senior personnel of Salomon took are justifiably shocking to many Americans, for it represented tampering with an immensely critical market on which the entire country depends. However, the SEC has not charged that any other persons within

Salomon were directly involved in the alleged direct violations of the securities laws.

As all of you know, however, the federal securities laws create a duty to supervise the actions of subordinates to prevent repeated violations of the law. Faced with wrongdoing, it is not sufficient for the senior management of a firm to turn their heads and allow the conduct to reoccur. Today the SEC is instituting administrative proceedings against John Gutfreund, formerly Chairman and CEO of Salomon, Thomas Strauss, Salomon's former President, and John Meriwether, formerly a Vice Chairman of Salomon for their failure to satisfy this duty to supervise.

The SEC's investigation did not reveal evidence that Gutfreund, Strauss or Meriwether participated in the false bids that were submitted on behalf of Salomon. We did not discover evidence that they were aware of Mozer's activities prior to April of 1991. As a result, these individuals are not being charged with the violations of law that the SEC has alleged were committed by Mozer and Murphy. However, in the proceeding being filed today, each is charged with failing to supervise Mozer after they learned in April of 1991 that Mozer had submitted a false bid totalling $3.15 billion in an auction of Treasury securities held on February 21, 1991.

It is not contested that these individuals learned in April

of 1991 that the head of Salomon's government bond trading desk had submitted a multi-billion dollar false bid to the Treasury during the February 21, 1991 auction. Certain of these supervisors also learned that Mozer encouraged another firm not to respond to a letter of inquiry from the Treasury Department relating to the false bid. All three individuals were also informed by Donald Feuerstein, Salomon's chief legal officer, that Mozer's action appeared to be a criminal act, and that in his view it should be reported to the government.

For a period of months following this discovery, these individuals did not cause Salomon to investigate Mozer's actions, and they did not seek to limit or discipline Mozer's actions in any way. Though notifying the government was discussed and apparently agreed to among the individuals, that also was not done. Literally for months after the very top leadership of the firm learned of Mozer's wrongdoing they did not take any action to find out the facts or to limit his scope for further wrongdoing. Given that Mozer admitted one instance of what the management was advised was criminal conduct, they had every reason to be sceptical of his assurances that he had only engaged in this conduct on one occasion.

Though it was too late to change Mozer's original conduct, Salomon could easily have taken steps that would have prevented further misconduct once the problem came to light. Instead, nothing

was done. During that time the senior management knew of the problem and chose to do nothing. ,ozer committed additional violations of the securities laws in connection with two additional Treasury auctions.

As far as I am concerned, any firm can have a rogue employee who chooses to violate any set of laws or code of ethical principles. That is also true of other human organizations, including government agencies. There is not any set of rules that can't be broken, and the fact that a problem occurs should not signify a problem with the firm itself.

While anyone can have a problem, it is how the firm responds to the problem that demonstrates the character of the firm itself and its senior leadership. Of course we have seen cases before where the leadership of a firm condoned serious wrongdoing within a firm. For the most part, those firms do not continue to exist when their customers discover that illegal conduct is acceptable to the organization.

Nonetheless, though it has happened before, it still strikes me as truly shocking that the chief executive officer of a major firm could be told that the head of a major unit of the firm had committed, apparently, a criminal act, and that nothing would be done. Indeed, it is hard to think of anything that is more important for the chief executive of a firm than setting a standard

for the firm in compliance with the law, as well as establishing a code of ethical standards. If the chief executive isn't troubled by illegality or unethical practices among the most senior management, that cannot fail to send a message within the organization, and it is the wrong message.

Firms do not have a choice about obeying the law. That is your duty, and if you do not satisfy that duty then we will step in and take action for you when we find out about it. Establishing ethical standards is a different question. You, not the SEC, have the responsibility for setting standards of good ethics. Indeed, that is one of the most important responsibilities of every chief executive. Like people, organizations need principles to live by, because the market moves too fast to try to think through ethical questions for the first time when the problems in the real world arise. Hopefully, each individual comes equipped with a strong sense of integrity, and a firm's code of ethics can strengthen and reinforce those personal ethics. Here the SROs also have played an extremely important and constructive role.

There at a minimum good ethics means obeying the law. Hopefully, it ought to mean something more than avoiding conduct that is openly felonious. Firms whose personnel are encouraged to take advantage of the customer or others in the market as long as they can get away with it are much more likely to find themselves in a serious problem. Sooner or later, someone will cross the line

between conduct that is sleazy into conduct that is unlawful. Unfortunately, their actions can seriously tarnish the reputation of the entire industry.

By failing to act seriously in the face of apparent criminal activity at a senior level, Salomon's management exposed themselves and their firm to substantial legal risks. What would have been an unfortunate act on the part of an individual became a problem for the firm itself when it chose not to keep its own house clean. The Order of the SEC in today's case should be read, and read carefully, by every senior manager of a firm. At base, it is a simple proposition that if you learn of conduct that may violate the law, you have a duty to find out what in fact has transpired. You have a duty to take steps reasonably intended to prevent repetition of wrongful conduct.

It will not satisfy your duty that you thought about a problem, or even that a group of managers talked about it and each thought someone else would handle the problem. " See no evil, hear no evil" may be a defense the first time a problem occurs, but it will not suffice once management is on notice that there is possibly a problem within the firm. There affirmative steps to investigate, to reinforce or supplement internal controls, to remove an individual or limit his or her discretion or other steps

may be taken in the management's best judgement of what the situation requires. However, if you just look the other way the employee's problem will become your problem.

In a settlement of the failure to supervise charges with the SEC, Mr. Gutfreund has agreed to be barred for life from acting as the Chairman or CEO of a broker-dealer, municipal securities dealer, investment company or investment advisor regulated by the SEC, and to pay a civil penalty of $100,000. Mr. Strauss has agreed to be suspended from associating with any such firm for a period of six months, and to pay a fine of $75,000. Mr. Meriwether has agreed to be barred from associating with any such firm for a period of three months and to pay a fine of $50,000. These are the first monetary fines imposed by the SEC for a failure to supervise.

This has been, and continues to be, a very sad case. A very large and successful securities firm was nearly pushed out of existence because of serious wrongdoing by two senior members of the firm. Senior management was advised that the man heading Salomon's entire government trading desk had apparently committed a criminal offense, and yet they did not respond at all. They didn't seek to verify his admitted false bid, or to investigate whether he had been truthful in saying this had only occurred once. They didn't limit his role in future bidding, or impose any other restrictions on his activities. In short, they heard directly of

criminal activity at a very high level of the firm, and they failed to act. By that failure to act in any manner, they not only put Salomon's continued existence at risk, but they also violated the law that requires them to take reasonable steps to prevent recurrences.

Another sad aspect of this case is the impact that it must surely have on the individuals involved. They did not engage in the original wrongdoing, and they each have long and honorable histories in the securities business. Whether or not the SEC took any action, each of those individuals has undoubtedly already paid a very great price in terms of their careers and their personal reputations. That is a matter of considerable personal anguish for them, and hopefully with this action the healing process for each individual can begin.

While one must be sensitive to the human dimension of a case like this, there are also important principles at stake. We all have to remember that across this land from coast to coast there are people who have put their life's work, their dreams, their future, into your hands. They look to you not only for technical knowledge and trading services, but also for judgement and for fair treatment. Those investors may be faceless when you look at a trading screen, but they are real people, and they expect this industry to keep faith with them. Honesty, integrity and fairness are not qualities that are anachronisms. They are just as

important to investors today as they ever have been.

Those investors expect you to obey the law, and they expect the SEC to step in if you don't. Strong internal codes of ethics and an unequivocal commitment to ethical standards by the leadership of a firm ought to be good business. I know that it is also good preventive medicine. Please believe me that we would much rather have you prevent a problem than for us to have to solve a problem like Salomon became.

You operate in fast-paced and high-powered environment. You make possible economic growth, and you help fulfill economic dreams around the world. You have been instrumental in building the world's most efficient, transparent and sophisticated securities market, and also the market that provides the highest quality to investors. Yet all the technology and all the transactions ultimately depend on a simple word called "trust". Trust and confidence in both your financial skill and your integrity is the foundation of our market. Hopefully a strong commitment to building firms that merit that trust is something that would rank among the industry's highest priorities.

For many years the securities industry and the SEC have worked closely together to help achieve our goals. We have accomplished

quite a bit together, though we don't always see every question eye to eye. Of course, I don't see every question eye to eye even with myself. Hopefully that working partnership will continue to be as strong in the future as it has been in the past. Together we can help insure that our market remains firmly based on solid economics and fundamental integrity.

Thank You.