Testimony of

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On

Sovereign Wealth Funds and Public Disclosure

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Chairman Wortzel, Vice Chairman Bartholomew, and members of the Commission:

Thank you for inviting me on behalf of the Securities and Exchange Commission to discuss issues raised by the participation of government-owned commercial investment funds in the U. S. capital markets. I am going to focus my remarks on the law enforcement issues, especially issues related to the enforcement of the federal securities laws. I have also attached to my testimony two recent speeches by Securities and Exchange Commission Chairman Christopher Cox which address other, broader issues.

Government ownership of large investment funds, known as sovereign wealth funds, is not new, but it is a markedly growing trend that raises important issues for policymakers to consider. The world's sovereign wealth funds (estimated to hold $2.5 trillion in assets) are significantly larger than all of the world's hedge funds combined. According to some estimates, sovereign wealth funds could grow to hold as much as $12 trillion over the next eight years. The Abu Dhabi Investment Authority, Norway's Government Pension Fund, and Saudi Arabia's wealth fund, according to IMF estimates, each currently have more than a quarter of a trillion dollars in assets to invest. Kuwait, Singapore, Russia, and Hong Kong also each have sovereign wealth funds totaling more than $100 billion in assets. Focusing specifically on China, the Chinese government recently established the China Investment Corporation, with assets estimated at $200 billion. This new Chinese government fund appears to be taking a measured approach to its investments and is acting as a passive investor.

I should note that not all government-directed investment funds are foreign. For example, the Alaska Permanent Fund (a $40 billion fund) has diversified its oil income into stocks, bonds, and real estate. The permanent funds of Texas were originally oil based (and continue to have income derived from oil royalties from state-owned lands), but are today mostly financial portfolios.

These funds raise a number of securities law enforcement issues.

At the Securities & Exchange Commission an essential part of our mission is investor protection. Those investors include all investors, whether they are individual retail investors or very large institutional investors such as pension funds, hedge funds and sovereign wealth funds. Essential to the protection of investors is the protection of market integrity.

As with other participants in the U. S. capital markets, sovereign wealth funds are subject to the requirements of the federal securities laws including a variety of disclosure requirements as well as the anti-fraud provisions. Generally speaking, the disclosure requirements, found in Sections 13 (Periodic and Other Reports) and 16 (Directors, Officers, and Principal Shareholders) of the Securities Exchange Act of 1934, require disclosure of certain share ownership and other information to the Securities & Exchange Commission. These provisions include requirements that:

> Owners of more than 5 percent of a registered class of securities disclose their share ownership and any plans for influencing or taking over the issuer;
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> Institutional investment managers with discretion over accounts holding more than $100 million of SEC-registered securities file quarterly reports on all SEC-registered securities in the accounts; and
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> Owners of more than 10 percent of a class of equity securities registered with the SEC report on the size and composition of their holding and on changes to that ownership.

The anti-fraud provisions of the federal securities laws generally prohibit a wide variety of fraudulent conduct including insider trading, market manipulation and other trading related abuses. It falls to the Enforcement Division to investigate potential violations of our laws, and to recommend action to the Commission in appropriate cases.

One series of enforcement issues associated with sovereign wealth funds are similar to the issues associated with hedge funds. More specifically, we are concerned that some sovereign wealth funds, or persons associated with them, like some hedge funds, or persons associated with them, may undermine market integrity by engaging in insider trading or other market abuses. Sovereign wealth funds, like hedge funds, are relatively opaque. Also, sovereign wealth funds, like hedge funds, have, by virtue of their substantial assets, substantial power in our financial markets. However, in addition to this financial power, sovereign wealth funds, unlike hedge funds, have power derived from being governmental entities, which may give them access to government officials and information that is not available to other investors. There is the potential for these powerful market participants to obtain material non-public information, either by virtue of their financial and governmental powers or by use of those powers, to engage in illegal insider trading using that information. The magnitude of any such conduct could be quite large given the assets these funds have at their disposal. In our last fiscal year, ending on September 30, 2007, we brought 47 insider trading cases involving 110 defendants or

respondents. Those cases showed a disturbing number of market professionals, including professionals associated with hedge funds, engaging in illegal insider trading.

Another series of issues associated with sovereign wealth funds relates to the need for law enforcement authorities to work together in order to effectively police our increasingly global markets. Each year, the Securities & Exchange Commission makes hundreds of requests to foreign regulators for enforcement assistance, and responds to hundreds of requests from other nations. To facilitate this type of assistance the Securities and Exchange Commission has entered into more that 30 bilateral information-sharing agreements, as well as the IOSCO Multilateral Memorandum of Understanding, the first global multilateral information-sharing agreement among securities regulators.

In our last fiscal year we made 556 requests to foreign regulators, and received 454 requests from foreign regulators. These numbers reflect a 24% increase in requests to foreign regulators from our 2002 fiscal year and a 28% increase in requests from foreign regulators from our 2002 fiscal year. Returning for purposes of illustration to our insider trading cases from last year, of the 47 investigations, 16 (or about 34%) had an international component. Of the 110 defendants or respondents, 24 (or about 22%) were residents or citizens of foreign countries. It seems that insider trading cases are becoming increasingly international, as we have seen a growing number of perpetrators use foreign banks, agents and accounts to try to obscure their identities and hide the illicit proceeds abroad. Indeed, we have seen instances in which an insider trader in the U.S. sends his profits to a co-conspirator in one foreign country by way of bank or brokerage accounts in yet another country. But these strategies are of no avail – with the assistance of securities regulators and other law enforcement officials in many foreign countries; we have pursued insider traders and their profits all over the world.

To cite a very current example of our international work, this week we filed a settled action related to alleged insider trading in the securities of Dow Jones, a U.S. registered issuer, ahead of the public announcement of an acquisition offer by News Corp. The SEC's complaint alleged that a Dow Jones board member (a prominent business and political figure in Hong Kong) tipped a close friend – another very prominent Hong Kong businessman – about the News Corp. acquisition offer before it was publicly announced. Based on this inside information, the friend bought $15 million worth of Dow Jones common stock through a brokerage account in the names of his daughter and son-in-law, who were also residents of Hong Kong. The acquisition offer was substantially higher than the market price of the shares, and when it was publicly announced Dow Jones's stock price shot up by 58%. After the announcement, the friend sold all of his Dow Jones stock for a profit of $8.1 million. Seeing this highly unusual trading in a brokerage account in Hong Kong, the SEC commenced an investigation. The SEC's investigation first focused on the daughter and son-in-law as the account-holders, but ultimately led back to the Dow Jones board member and his friend. Without admitting or denying the Commission's allegations, the board member agreed to settle the action by paying an $8.1 million civil penalty, and the friend agreed to pay $8.1 million in disgorgement, plus an $8.1 million civil penalty. The daughter and son-in-law, who the SEC alleges traded on the same inside information in yet another brokerage

account, agreed to pay full disgorgement of their $40,000 profit and a civil penalty in the same amount.

In conducting the Dow Jones investigation, the SEC requested and received assistance from the Hong Kong Securities and Futures Commission. Given the inherent difficulties of conducting a cross-border investigation halfway around the world, this kind of cooperation is essential for our effectiveness and the need for the cooperation is increasing. In the context of sovereign wealth funds, we are concerned that if the government from which we seek assistance is also controlling the entity under investigation, the nature and extent of cooperation could be compromised. Indeed, in other contexts, we have seen less than optimal cooperation when foreign governments have an interest in the issue or person we are investigating.

The issues raised by the growth of sovereign wealth funds are under consideration in a number of venues including the President's Working Group on Financial Markets, of which the SEC is a member, as well as in the G-7, the World Bank, the OECD, and the IMF. The outcome of these analyses may be generalized agreement about the kinds of strong fiduciary controls, disclosure requirements, professional and independent management, and checks and balances needed to prevent corruption, all of which may help protect both investors and markets.

We are of course committed to vigorously pursuing our mission of investor protection and look forward to continuing and deepening our relationships with our counterparts around the globe.

Thank you for inviting me to appear today and I would be happy to answer any questions.

Speech by SEC Chairman:
The Rise of Sovereign Business

Gauer Distinguished Lecture in Law and Policy at the American Enterprise Institute Legal Center for the Public Interest

***by* Chairman Christopher Cox**

U.S. Securities and Exchange Commission

Ronald Reagan Building and International Trade Center
Washington, DC
December 5, 2007

Thank you, Chris [DeMuth] for your generous introduction. I think you gave me more credit than is due for saving the free world. Of course I would never correct you.

Your introduction surpassed even the one Ronald Reagan gave me once. The President's introduction in California during my first campaign 20 years ago (he did three very generous introductions in the closing months of the campaign, and this was the last) was looking to be the most impressive encomium of all time. Dana Rohrabacher, the White House speechwriter who was running for Congress in the neighboring district, had arranged with his speechwriter friends to lay it on particularly thick in the President's draft remarks. So at the event, where more than 5,000 people turned out in Long Beach, President Reagan credited me with every domestic and foreign policy victory his administration had achieved. In winding up he said that "whether going to the summit with the Soviet Union or balancing the budget or cutting taxes, I have always relied upon the advice and judgment of this outstanding American leader ... Chris Fox."

To this day, I'm still not certain whether it was a slip of the tongue or a masterfully executed lesson in humility. (My mother, who was in the front row at the time, lived out her life holding firmly to a vote for slip of the tongue.)

It truly is an honor to be invited to deliver the Gauer Distinguished Lecture, and to follow in a line of men and women who have given this address that includes Supreme Court justices, Cabinet secretaries, prime ministers, and presidents. It's especially poignant for me to follow in President Reagan's footsteps as your speaker, here in this building named not only in his honor but for international trade. President Reagan always held fast to his vision of a global free market, and a generation after his presidency, that vision is far closer to reality than at any time in human history.

My remarks tonight are focused on "The Rise of Sovereign Business." Two recent phenomena — state-owned or controlled corporations in our public markets, and government-owned commercial investment funds — are challenging conventional approaches to the respective roles of government and the private sector. The auspices for this lecture are especially fitting for the topic. The American Enterprise Institute is dedicated to limited government, private enterprise, and individual liberty and responsibility. And the Institute's central goal today is to understand how free

economies function. The fundamental questions that underlie this rapidly growing trend of sovereign business require us to examine fully the strengths of private enterprise, to appreciate how to capitalize on its strength and keep it vigorous, and to know how to address the problems that arise. These are precisely the missions of the American Enterprise Institute.

The National Legal Center for the Public Interest, with which AEI recently merged, has likewise long been dedicated to the study of issues that are central to any analysis of these issues. For more than 30 years, it has focused upon the importance of the rule of law and a fair and independent judiciary as the keystones of property ownership, free enterprise, and limited government. An exploration of these very topics is absolutely essential to appreciating the implications of the more active role that national governments seek to play in the world’s capital markets.

I have spent most of my career in government as a legislator, working to advance economic growth in America through lower taxes and limited government. More recently I have been a regulator, entrusted not with passing laws but enforcing them for the protection of investors. Now, I'm finding that defending the rule of law and the role of fair, predictable, and arm's length application of the law is just as important to protecting America's economic freedom as the battles for lower capital gains taxes I fought in the Congress.

That is because increasingly, the world's capital markets are converging. The pace of events in the world's capital markets has placed global consolidation at the top of everyone's list of what is important for the future. The combination of the New York Stock Exchange and Euronext, Nasdaq's bid to acquire the OMX exchange in Stockholm, Borse Dubai's investments in Nasdaq and in the London Stock Exchange, Eurex Frankfurt’s acquisition of the US-based International Securities Exchange, and the London Stock Exchange’s recently completed merger with Borsa Italiana are also significant manifestations of this shrinking world. In the next few years, the world's capital markets will become even more integrated as public companies increasingly raise capital beyond their geographic boundaries.

This accelerating integration of our capital markets nonetheless holds the potential to bring enormous benefits to America's investors. A world of borderless trading would mean more choice than ever before. And investors' transaction costs would be driven lower by the combined forces of competition and technology. They would have more, and better, opportunities to diversify their risk. And by participating in a truly global market that rations capital to its highest and best uses in a genuinely worldwide competition, their investments will be accelerating the pace of economic growth for everyone on the planet. That is why our nation welcomes, and will continue to welcome with open arms, both foreign investment in U.S. capital markets and the opportunity for Americans to invest beyond our borders.

Indeed, that is exactly what is already happening all around us. Investors large and small are increasingly allocating their capital — and their business assets — outside their home countries. But it is notable that even as individuals and firms are doing this, so too are governments. Dissolving borders have inevitably brought us face to face with the fact that many of these governments do not share the same view of the rule of law that undergirds our free enterprise system, nor do they attach similar importance to the leading role of private property and private economic ordering that is so central to our conception of securities markets.

As Lady Margaret Thatcher put it when she delivered the Gauer Lecture 14 years ago, "The Rule of Law as we understand it exists in only a small part of the world, of which your country and mine are the center."

These differences in the way we see the role of government — in America's case, as neutral arbiter and enforcer of the rules of the market, and in many other countries, as both player and referee — can have significant implications for the workings of the free market itself. In order to see how that is so, it will first be useful to scrutinize our conception of just what we understand a "free market" to be.

I have seen no better modern definition than that offered by the Chief Executive of the Hong Kong Monetary Authority, Joseph Yam, in 1999. Two years after the handover to the People's Republic of China, in an address to the Asian Investment Conference in Hong Kong, he described the underpinnings of a free market as follows:

First and foremost, buyers and sellers must be "free to trade on whatever terms they wish without government interference." The importance of keeping government from intervening in the transactions, he said, follows from the conclusions of the "great writers on free markets, from Adam Smith to Milton Friedman," who "argue that free markets and free enterprise, rather than governments or monopolies, are the most efficient means of producing and distributing wealth and, as a consequence, the soundest basis for a just and prosperous society."

"The philosophers," he said, "are agreed that, in general, the less a government has to do with these various functions the more efficiently the market can do its job ... governments should, at most, play a minimal, [but] instrumental role in fostering the conditions in which each individual has the freedom to make his or her own economic choices."

If this accurately states what each of us understands when we use the term "market," then the increasing involvement of governments as both owners of companies and investors in securities can be seen to challenge that understanding at a fundamental level. This is something of particular importance for the SEC, because the protection of fair, orderly, and efficient markets is at the very core of our mission. In order to succeed in that mission, we've got to have a clear conception of what it is exactly that we are to protect. So the question we are now grappling with is, what will be the effect of these new government participants *in* our markets *on* our markets? If the distinction between government and private activity in our capital markets is increasingly blurred, is there a point at which the entire financial activity we today call a free market stops being precisely that, and morphs into something else?

The presumption that markets comprise chiefly the activity of private economic actors is embedded within the DNA of the SEC. When the Securities and Exchange Commission was created in 1934, its purpose was to serve as an independent regulator of the profit-seeking activity of self-interested individuals and firms in the securities markets. It was not, however, to supplant the market or directly participate in it.

Even though government ownership of the economy was an issue in other countries at that time, it was not in America. That very much distinguished us from Europe. In

Germany during the 1930s, the independence of the private sector was a pre-World War I memory. In the Soviet Union, where the Bolshevik Revolution was not yet a generation old, government virtually occupied the field. And in Italy, where Benito Mussolini's Fascist party promoted an economic approach called syndicalism, nominally private property was devoted to state purposes. Even in France at that time, the corporatist spirit was in the ascendancy, and the government controlled many industries.

But for all of the time since America's founding, our country had far less government involvement in the economy than Europe. This was true mostly because we had far less government, period. Federal revenues totaled less than 5% of GDP in the early 1930s. Today, more than 70% of the U.S. economy remains in private hands, with the balance accounted for by federal, state, and all other government.

The clear separation between the public sphere of government and the private character of the economy stems also from the Constitution itself. Among its most fundamental features are its explicit guarantees for private property. Our Constitution has enshrined the right to property in repeated and specific guarantees to the individual, which are simultaneously denied to a central government whose powers are enumerated and strictly limited. This legal arrangement, in turn, reflects the presumptions of the culture and legal traditions from which our Constitution arose.

This is why, in the case of the securities markets, there was never an impulse for the federal government to own the exchanges, the investment banks, or the broker-dealers — or the companies whose securities they traded. The Securities Act of 1933 and the Securities Exchange Act of 1934 marked a deliberate effort to clearly define and separate the role of the national government, on the one hand, and the capital markets, on the other. Henceforth, fraud and unfair dealing in the stock and bond markets would be subjected to external discipline by the federal government. Appropriate standards would be enforced, such as requiring that every investor be told the essential details about the security in which he was investing. Registration of securities, and licensing of broker-dealers, would be required. It was, in short, arms-length regulation of an unabashedly private market, rather than nationalization.

The normative judgment implicit in this legislative and regulatory scheme is that free and private markets are good. So long as they are in fact operating efficiently, competitively, openly, and honestly, they are good for consumers, investors, producers, and our entire economy.

So it is against this backdrop that we now are dealing with the growing phenomenon of the state-owned, but publicly traded, company. This is a trend being driven by the semi-privatization of government enterprises in areas such as banking, oil and gas, infrastructure, transportation, and real estate, among others. The result of several large public offerings of government-owned enterprises outside the United States in recent years is that, post-offering, private investors have purchased a significant amount of stock, but even collectively they still represent a minority. The government, in turn, still owns a majority of the company and controls all of the decision-making — just as it did before the public offering. For example, PetroChina, which recently surpassed ExxonMobil as the world's largest company by market value, has offered just 12% of its shares to the public, according to regulatory filings. The rest of its ownership remains in the hands of the Chinese government.

This phenomenon can be observed in many of the world's countries, and it is both significant and growing. Of the 20 largest publicly traded companies in the world, eight are state-owned sovereign businesses.

A related, and growing, phenomenon is government ownership of large investment funds, or so-called sovereign wealth funds. This phenomenon is not new, but it is a markedly growing trend that raises many of the same issues of government ownership, and others as well. In operation, sovereign wealth funds are simply the investment arms of governments. But while they have existed in one form or another for many years, today they are making an increasingly obvious footprint in the global financial marketplace, growing in size relative to private assets.

Today, the world's sovereign wealth funds are significantly larger than all of the world's hedge funds combined. According to some estimates, they could grow as large as $12 trillion over the next eight years. The Abu Dhabi Investment Authority, Norway's Government Pension Fund, and Saudi Arabia's wealth fund, according to IMF estimates, each currently have more than a quarter of a trillion dollars in assets to invest. Kuwait, Singapore, Russia, and Hong Kong also each have sovereign wealth funds totaling more than $100 billion in assets.

Moreover, not all government-directed investment funds are foreign. For example, the Alaska Permanent Fund (a $40 billion fund) has diversified its oil income into stocks, bonds, and real estate. The permanent funds of Texas were originally oil based (and continue to have income derived from oil royalties from state-owned lands), but are today mostly financial portfolios.

These examples serve to illustrate that the question of state ownership in the economy continues to present itself in a variety of ways, not just in other countries but in our own as well. And they help us to appreciate that the fundamental question presented by state-owned public companies and sovereign wealth funds does not so much concern the advisability of foreign ownership, but rather of government ownership. Precisely because the rise of sovereign wealth funds and publicly traded state-owned corporations portends a greater degree of state ownership in the economy, their new prominence raises many of the same questions that any program of state ownership entails.

The rise of sovereign business also raises several specific issues for the SEC.

One is enforcement. For example, the Commission has the power to pursue sovereign business and sovereign wealth funds for violating U.S. securities laws. Neither international law nor the Foreign Sovereign Immunities Act renders these funds immune from the jurisdiction of U.S. courts in connection with their commercial activity conducted in the United States. Today, when a foreign private issuer is suspected of violating U.S. securities laws, our experience working with our overseas regulatory counterparts indicates that we could almost always expect the full support of the foreign government in investigating the matter. But if the same government from whom we sought assistance were also the controlling person behind the entity under investigation, a considerable conflict of interest would arise.

Another issue is the conflicts of interest that arise when government is both the regulator and the regulated. When the government becomes both referee and player, the game changes rather dramatically for every other participant. Rules that

might be rigorously applied to private sector competitors will not necessarily be applied in the same way to the sovereign who makes the rules.

A corollary of such conflicts of interest is that the opportunity for political corruption increases. Graft, bribery, and other forms of financial corruption by governments and political figures is an unfortunate fact of life throughout the world — as the Commission's enforcement responsibilities under the Foreign Corrupt Practices Act remind us on a daily basis. When individuals with government power also possess enormous commercial power and exercise control over large amounts of investable assets, the risk of misuse of those assets, and of their conversion for personal gain, rises markedly.

Another equally pressing concern is market efficiency. As Harvard economist and former Treasury Secretary Larry Summers recently wrote, "The logic of the capitalist system depends on shareholders causing companies to act so as to maximize the value of their shares. It is far from obvious that this will over time be the only motivation of governments as shareholders." This observation is probably true even if the government we are talking about is our own. Investors and regulators alike have to ask themselves whether government-controlled companies and investment funds will always direct their affairs in furtherance of investment returns, or rather will use business resources in the pursuit of other government interests. And if the latter is the case, what will be the effect on the pricing of assets and the allocation of resources in the domestic economies of other nations? Ultimately, that is a judgment that economists will have to make. But if the trend toward government-owned or controlled enterprise and investment accelerates, as has been forecast, the answer to that question will continue to grow in importance.

A fourth issue is transparency. In many industrial countries today, the ability of journalists and citizens to inquire into government affairs, or to criticize the conduct of government, is severely limited. In some countries, criticism of government policies lands you in jail, or worse. Is it reasonable to expect that these same governments will be magically forthcoming with investors? This raises significant questions for regulators such as the SEC, whose mission includes investor protection. Indeed, when it comes to transparency, the track record to date of most sovereign wealth funds does not inspire confidence.

Because one of the most important byproducts of what the SEC does is the maintenance of investor confidence, we are focused on yet another unique feature of sovereign business, and that is information disparities. If ordinary investors — an estimated 100 million retail customers in America own more than $10 trillion in equities and stock funds in U.S. markets — come to believe that they are at an information disadvantage when they compete head to head in markets with government, confidence in our capital markets could collapse, and along with it, the market itself. That's why so much of our effort is focused on full and fair disclosure to all market participants, and the prevention of fraud and unfair dealing such as insider trading. With the powers of government at our disposal, we can make life difficult for inside traders. But if the powers of government are no longer used solely to police the securities markets at arm's length, but rather are used to ensure the success of the government's commercial or investment activities, not only retail customers but every private institutional investor could be put at a serious disadvantage.

That disadvantage could include significant disparities in the information that is available to government as compared to private marketplace actors. Unlike private investors and businesses, the world's governments have at their disposal the vast amounts of covert information collection that are available through their national intelligence services. Current legal restrictions in some countries on the domestic collection and use of such information might serve to protect the civil liberties of that nation's citizens. But there are normally no concomitant protections for foreign nationals, or for intelligence collection activities conducted in other countries. Unchecked, this would be the ultimate insider trading tool. Think Bill Belichick on a global scale — but with far greater consequence.

A final set of questions concerns the impact on U.S. markets and the U.S. economy from significant new government ownership, if that were to occur. It simply does not do to take a snapshot of this interesting new development, and to observe that as things stand now there is no observable change. The question is where is this trend taking us. What are the logical and likely outcomes of growth in this kind of activity? Could the rise of sovereign business ultimately change the character of U.S. markets? It is an interesting question.

The former Prime Minister of the People's Republic of China, Chou En-Lai, was asked in the early 1970s by an American journalist about his thoughts of the French Revolution of 1789. After a long, contemplative pause he answered: "For me it is too early to have an opinion." Perhaps that is the right frame of mind for assessing the potential impact of other nations' government-owned businesses and investment funds on America's capital markets.

And here, policy makers and defenders of free markets must be on guard. It would be easy, and wrong, to consider restrictions on such investment for the purported reason of protecting the integrity of our free markets. Indeed, one need only consult the ongoing debate in parliaments around the world about sovereign wealth funds and sovereign business to observe that these developments are provoking a new round of protectionism. For America to address one problem — the special concerns that arise from government ownership of business — by creating another one — betraying our commitment to open markets — would only result in more government interference in our own markets. Far better would be to address the underlying issues of transparency, independent regulation, de-politicizing of investment decisions, and conflicts of interest.

Concerns about changing the character of our own free market need also take into account the massive size of the U.S. economy and our securities trading compared to other nations. The United States isn't simply the world's largest and most productive economy; we are vastly bigger than any other nation's economy or capital market. To provide some perspective, the U.S. economy is bigger than the next four largest economies of the world put together. That includes Japan, China, Germany, and the UK — combined. Or consider that the entire economy of Russia is roughly the same size as the gross state product of Texas. Or that California's economy is over twice the size of India's.

Even given the current projections for growth in sovereign business and sovereign wealth funds, it would take far more to exert a dominant influence. Far more likely is that, over time, the markets and market participants in other countries will be influenced by their exposure to America's capital markets.

To begin to enumerate these many questions provoked by the rise of sovereign wealth funds and state-owned public-traded companies, of course, is not to answer them. But systematizing our thoughts about the possible good and ill effects of increased direct participation in the world’s capital markets by governments can help in the process of structuring norms and practices to maximize the potential benefits and minimize the risks. This important analysis is well underway in a number of venues, including the President’s Working Group on Financial Markets, of which the SEC is a member, as well as in the G-7, the World Bank, and the IMF. The outcome of these analyses may well be more generalized agreement about the kinds of strong fiduciary controls, disclosure requirements, professional and independent management, and checks and balances to prevent corruption that will help protect both investors and markets.

From the SEC's standpoint, working to ensure the transparency of sovereign business and investment will be of paramount importance. The mutual trust and investor confidence that this would establish will address many of the special concerns these activities raise. To the extent sovereign investing is conducted through professional management of these funds, this could help to de-politicize the process both in practice and in perception.

Meanwhile, as securities regulators, we will continue to pursue a cooperative and collaborative dialogue with our regulatory counterparts in other nations, and to engage them regarding the best way to apply our regulatory approaches in light of the growing presence of government-owned businesses and investment funds in our markets. And we will continue to vigorously pursue tough, independent regulation, which is the bedrock of investor protection, and the sine qua non of efficient capital markets — because in the end, our entire free enterprise system depends upon the rule of law that the SEC upholds.

America has embraced markets: it is because in doing so, we give substance to our support for individual freedom, our suspicion of government excess and abuse of power, and our skepticism that the few can make wiser choices than the many. And by our commitment to arm’s length regulation of those markets, we have simultaneously acknowledged the need for the policeman and the referee — in other words, for the rule of law, and the role of the SEC.

Our nation’s support for markets, and our commitment to independent regulation, represent a fragile balance — yet one of such enormous strength, it has supported the hopes and dreams of the world’s most powerful and prosperous nation.

The endurance of these principles has ushered in one of the most exciting, hopeful times in history. It is a time when the miracles of science and medicine offer our children the hope of living productive lives for a full generation longer than their grandparents. It's a time when communications technology has connected every nation on the planet, and when the near-complete triumph of markets the world over holds the potential to set billions more of the earth's people free to choose their passions and their destinies.

This is a vision for our capital markets and for our world that I believe we are on the verge of realizing.

So as we gather here in Washington, in a place dedicated to international trade and one its greatest champions, perhaps we can draw inspiration from the example of great leaders before us. They earned their place in history because they had a sweeping vision and never lost sight of it. In that, we could do no better than to look to the example of our Founders, whose dedication to the rule of law upon which our free markets have been built continues to guide us even now.

On a September morning in Philadelphia 220 years ago, when our Constitution was finally completed, the delegates came forward, one at a time, to sign their names. As the last members filed up, Benjamin Franklin pointed out the painting of the sun on the back of the President's chair. He said that he had often wondered during the proceedings whether the sun was rising or setting. "But now at length," he said, "I have the happiness to know that it is a rising and not a setting sun."

As we hammer out and refine our approaches to the growing presence of government in markets, the decisions we make will likely depend upon whether we view the current half-embrace of private enterprise that they represent as a rising or setting sun.

For my part, I believe that these developments are part of a continuing shift away from statism and toward genuinely free markets. In this, I see only a rising sun, a stabilizing and modernizing influence in global finance. And I believe if Ronald Reagan were with us still, he too would view these developments with cautious optimism.

The optimism would be warranted by the extraordinary progress the world has made in recognizing the importance of markets, and in relying upon them for the allocation of society's resources. The caution comes in recognizing that the rising sun, for all its friendly promise, is still a ball of fire. Whether we ultimately bask in its warmth, or blister under its heat will be determined by wise choices made now, and the continued vigilance of all people dedicated to truly free markets.

Ronald Reagan, like Benjamin Franklin, knew full well that the course of future events is determined not by chance, but by the choices that leaders make at critical moments in history.

There is a postscript to the story about Benjamin Franklin. You all know that he had just made an impassioned speech to the delegates, because even at that final moment, many of them had refused to sign. So at the same time that he asked whether the sun was rising or setting on America, he wasn't even yet sure he'd get the necessary signatures on the document to give our nation the chance to succeed. You might imagine that such pressing problems would have weighed heavily on him, General Washington, and the other leaders of the Convention.

But that didn't prevent them from maintaining a healthy perspective. Because here is what happened next: "The business being thus closed," George Washington recorded in his private diary, the delegates proceeded to City Tavern.

And today, faced as we are with weighty problems in the world's capital markets, and the business of my speech thus being closed, so perhaps should we.

Speech by SEC Chairman: 'The Role of Government in Markets' Keynote Address and Robert R. Glauber Lecture at the John F. Kennedy School of Government

by

Chairman Christopher Cox

U.S. Securities and Exchange Commission

Harvard University
Cambridge, Massachusetts
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Thank you, Bob [Glauber], for that kind introduction, and thanks especially for extending to me the honor of delivering the first Robert R. Glauber Lecture. It's particularly nice to combine a visit to my alma mater with the opportunity to pay tribute to someone who has contributed so much to the world's capital markets. Bob Glauber's entire career has been devoted to improving capital formation and the health of our securities markets. I want to take this special occasion to thank you, Bob, in behalf of investors everywhere.

Professor Glauber, of course, served as the CEO of the NASD for five years, and in that capacity was a frontline regulator for broker-dealers in America. He also served as Under Secretary of the Treasury in the first Bush administration. And before that, on October 30, 1987, he was drafted from his Department Chairmanship at Harvard Business School to serve as the Executive Director of the Presidential Task Force on Market Mechanisms — better known as the Brady Commission, which was eponymously named for its Chairman, Secretary of Treasury Nick Brady, who is with us here this evening. That Commission, which as Bob has told you I was involved with as a member of the President's White House staff, provided the definitive autopsy on what happened to the markets 20 years ago this month. So, happy 20th anniversary to both of you, Bob and Nick.

Having served with distinction for so many years at the Business School, Professor Glauber is back at Harvard, but now at the School of Government. That makes him the personification of the two disciplines that are the focus of the Mossavar-Rahmani Center, which is also celebrating an anniversary this evening. Congratulations on a quarter century of exploration of the intersecting roles and responsibilities of business and government.

These are the very two topics that are synthesized in my brief remarks tonight, "The Role of Government in Markets." At Bob's invitation, I've prepared a few thoughts on this subject from my perspective at the Securities and Exchange Commission.

When the SEC was created, its purpose was to serve as an independent regulator of the unbridled profit-seeking activity of self-interested individuals and firms in the securities markets. It was not, however, to supplant the market or directly participate in it. Government ownership of the economy was an issue in other countries at that time, but not in America. In Germany during the 1930s, the

independence of the private sector was a pre-World War I memory. In the Soviet Union, where the Bolshevik Revolution was not yet a generation old, government virtually occupied the field. And in Italy, where Benito Mussolini's Fascist party promoted an economic approach called syndicalism, nominally private property was devoted to state purposes. Even in France at that time, the corporatist spirit was in the ascendancy, and the government controlled many industries.

But for all of the time since America's founding, our country had far less government involvement in the economy than Europe. This was true mostly because we had far less government, period. Federal revenues totaled less than 5% of GDP in the early 1930s. Today, more than 70% of the U.S. economy remains in private hands, with the balance accounted for by federal, state, and all other government.

It is true that during the 1930s, America first experimented seriously with government-owned industry. Since our earliest days, of course, government had carried the mail, but under FDR the United States embarked upon experiments in other federally-owned enterprises, such as energy production. The repeal of Prohibition in 1933 put many states into the retail liquor business, and many were already involved in the ownership of public utilities. But these were exceptions, and the essential approach of the Roosevelt administration was to regulate business, not own it. So, for example, the government did not attempt to acquire ownership of farms (putting aside the question whether that would have been constitutionally permitted), but rather chose to closely regulate production. From minimum wage laws to the abolition of child labor to a National Planning Board that provided production recommendations across many industries, the New Deal aimed to forge all elements of society into a cooperative unit. This was America's response to the more radical integration of business and government that was underway abroad.

In the case of the securities markets, which also came under regulation for the first time in the 1930s, there was never an impulse for the federal government to own the exchanges, the investment banks, or the broker-dealers. The creation of the Securities and Exchange Commission in 1934 marked a deliberate effort to clearly define and separate the role of the national government, on the one hand, and the capital markets, on the other. Henceforth, fraud and unfair dealing in the stock and bond markets would be subjected to external discipline by the federal government. Minimum standards would be enforced, such as requiring that every investor be told the essential details about the security in which he was investing. Registration of securities, and licensing of broker-dealers, would be required. It was, in short, arms-length regulation of an unabashedly private market, rather than nationalization.

Over the years, as the role of the SEC and its relationship to the markets has been refined through experience, the agency has acquired three explicit goals: protecting investors; maintaining fair and orderly markets; and promoting capital formation. These three complementary missions are logically consistent with the original premise of the securities laws, which was that government is an auxiliary to the market, not a substitute for it or a participant in it. Virtually every aspect of the 1933 and 1934 Acts, and the regulations implementing them, follows from the notion that markets should be efficient, competitive, transparent, and free of fraud.

The normative judgment implicit in this legislative and regulatory scheme is that markets are good. So long as they are in fact operating efficiently, competitively,

openly, and honestly, they are good for consumers, investors, producers, and our entire economy.

We do not spend much time justifying this premise. But because the idea of the market is so fundamental to everything that the SEC does, it is now incumbent upon us to remind ourselves exactly why it is we value markets so highly, because the very concept of what constitutes a market is now being reinvented.

Two relatively recent developments in our capital markets, in particular, are challenging our basic approach to regulation. First, the number of government-owned or controlled corporations in our public markets, as well as their size, is growing. Second, the number and size of government-owned commercial investment funds is on the rise.

The phenomenon of the state-owned, but publicly traded, company is being driven by the semi-privatization of government enterprises in areas such as banking, oil and gas, infrastructure, transportation, and real estate, among others. The result of several large public offerings of government-owned enterprises outside the United States in recent years is that, post-offering, private investors have purchased a significant amount of stock, but even collectively they still represent a minority. The government, in turn, still owns a majority of the company and controls all of the decision-making — just as it did before the public offering.

Government ownership of large investment funds, or so-called sovereign wealth funds, is not new, but it is a markedly growing trend that raises many of the same issues of government ownership, and others as well. In operation, sovereign wealth funds are simply the investment arms of governments. But while they have existed in one form or another for many years, today they are making an increasingly obvious footprint in the global financial marketplace, growing in size relative to private assets. Today, the world's sovereign wealth funds are significantly larger than all of the world's hedge funds combined. According to some estimates, they could grow as large as $12 trillion over the next eight years.

Both of these developments — the growing prominence of state-owned but publicly-traded companies, and the rise of sovereign wealth funds — challenge our regulatory model in a number of ways. First, by breaking down the arm's length relationship between government, as the regulator, and business, as the regulated, they call into question the adequacy of our enforcement and regulatory regime. When the government becomes both referee and player, the game changes rather dramatically for every other participant. Rules that might be rigorously applied to private sector competitors will not necessarily be applied in the same way to the sovereign who makes the rules. One need look no further than the environmental degradation within the Soviet Union and the Warsaw Pact countries under Communism to observe this principle in action. When the regulator and the regulated are one and the same, deference to the government-owned industry can all too easily trump vigorous and neutral enforcement.

This poses potential problems. One of our most basic missions is preventing fraud and unfair dealing. Will a U.S. government agency be capable of doing this, if a sovereign foreign government is commercially interested in an entity we have under investigation? Let me offer an example. Today, Internet fraud is on the rise, and the only way that our government or any other can protect its citizens is to cooperate

with other nations. The perpetrators of fraud on the Internet aren't restrained by national boundaries. In just the last few years, as Chairman I have forged new arrangements with our regulatory counterparts overseas precisely so that we can share the information necessary to crack down on cross-border fraud. Will the high level of cooperation that we know from experience is required in international cases be forthcoming if the foreign government or an entity it controls is itself under suspicion?

A corollary of the inherent conflict of interest that arises when government is both the regulator and the regulated is that the opportunity for political corruption increases. Graft, bribery, and other forms of financial corruption by governments and political figures is an unfortunate fact of life throughout the world — as the Commission's enforcement responsibilities under the Foreign Corrupt Practices Act remind us on a daily basis. When individuals with government power also possess enormous commercial power and exercise control over large amounts of investable assets, the risk of misuse of those assets, and of their conversion for personal gain, rises markedly.

Here's another example. One of the most important byproducts of what the SEC does is the maintenance of investor confidence. If ordinary investors — an estimated 100 million retail customers who own more than $10 trillion in equities and stock funds in U.S. markets — come to believe that they are at an information disadvantage, confidence in our capital markets could collapse, and along with it, the market itself. That's why so much of our effort is focused on full and fair disclosure to all market participants, and the prevention of fraud and unfair dealing such as insider trading. With the powers of government at our disposal, we can make life difficult for inside traders. But if the powers of government are no longer used solely to police the securities markets at arm's length, but rather are used to ensure the success of the government's commercial or investment activities, not only retail customers but every private institutional investor could be put at a serious disadvantage.

That disadvantage could include significant disparities in the information that is available to government as compared to private marketplace actors. For instance, unlike private investors and businesses, the world's governments have at their disposal the vast amounts of covert information collection that are available through their national intelligence services. Think Bill Belichick on a global scale — but with far greater consequence. Current legal restrictions in some countries on the domestic collection and use of such information might serve to protect the civil liberties of that nation's citizens. But there are normally no concomitant protections for foreign nationals, or for intelligence collection activities conducted in other countries. Unchecked, this would be the ultimate insider trading tool.

Government ownership potentially threatens transparency, as well. In many industrial countries today, the ability of journalists and citizens to inquire into government affairs, or to criticize the conduct of government, is severely limited. In some countries, criticism of government policies lands you in jail, or worse. Is it reasonable to expect that these same governments will be magically forthcoming with investors?

The fact that minority shareholders in state-owned companies will be dependent on the full disclosure of governments that are not subject to independent regulation

raises significant questions for regulators such as the SEC, whose mission includes investor protection. And when it comes to transparency, the track record to date of most sovereign wealth funds does not inspire confidence.

Even the economic rationale for our legislative and regulatory deference to markets is called into question when the major marketplace participants are not profit-maximizing individuals, but governments with national interests. A nation's interests — and the interests of its government, to the extent they are the same — are certainly legitimate. But by definition, a nation's interests extend beyond simply seeking return on investment through economic gains and the avoidance of economic loss. Investors and regulators alike have to ask themselves whether government-controlled companies and investment funds will always direct their affairs in furtherance of investment returns, or rather will use business resources in the pursuit of other government interests. And if the latter is the case, what will be the effect on the pricing of assets and the allocation of resources in the domestic economies of other nations? Ultimately, that is a judgment that economists will have to make. But if the trend toward government owned or controlled enterprise and investment accelerates, as has been forecast, the answer to that question will continue to grow in importance.

In these and many other ways, government ownership of companies and investment funds poses a fundamental challenge to the market premise upon which the SEC operates. So perhaps we should ask ourselves: is our premise a sound one? Why do we in the United States prefer markets and private ownership to direct government ownership in the economy?

Our emphasis on private ownership is directly tied to America's dedication to individual freedom. It's in our DNA. It's in large part why the United States came to be at all. Our Declaration of Independence is a recitation of the abuses of excessive government power. Our Constitution is a brilliantly crafted system of checks and balances to prevent that abuse by limiting government's authority over individuals — including in the economic realm, where we're guaranteed our constitutional rights to liberty and property, to freedom from expropriation, and to freedom of contract.

But beyond that, beyond ideals of freedom, the national preference for private ownership is also based on the most basic practicality: it works. America's rise from New World outpost to global superpower was fueled by the dramatic growth of our free enterprise economy into the world's largest. Free enterprise has produced spectacular results. Compared to other national economies with substantial government ownership and central planning, America's economy has been more creative, resilient, and dynamic. We've found that decentralized decision-making, in which millions of independent economic actors make judgments using their own money, results in the wisest allocation of scarce resources across our complex society. And we've found the market to be more reliable in heeding price signals and meting out discipline to failing enterprises than government could ever be.

The rise of sovereign wealth funds and state-owned public corporations challenges us to ask whether these many benefits of markets and private ownership will be threatened if government ownership in the economy, manifested in these or other new ways, becomes more significant — or whether alternatively, the world will be better off. It's a question that at least for now is unanswerable empirically, because

we are just now beginning to see the manifestations of what some analysts are predicting will be a significant trend.

But ask these questions we must, because the evidence is all around us that some and possibly many nations will indeed head in these directions. If the dramatic growth in government-owned commercial investment comes to pass as some have forecast, what does this portend for global capital markets? What effect will these new government participants *in* our markets have *on* our markets? At the SEC, our concern is that these activities not harm the investors we work to protect every day, that they promote and not inhibit capital formation, and that they not compromise the maintenance of fair and orderly markets.

One possibility is that as a result of these developments, our markets will be less transparent, less yielding to outside law enforcement, and less able to serve their role of wisely allocating scarce resources. If government-owned investments lack transparency, they could contribute to market volatility stemming from uncertainty about the allocation of their assets. The rise of sovereign wealth funds and state-owned public companies could even provoke a new round of protectionism, in which various national governments erect barriers to foreign investment in what they consider to be strategic sectors of their economies — and in which the lines between restrictions on foreign government ownership and foreign private ownership are dangerously blurred.

Alternatively, these developments could be viewed as a stabilizing and modernizing influence in global finance. The rise of sovereign wealth funds might be seen as a better way for a nation's monetary authority to stand ready to meet its balance of payments needs, through better diversification into a broader range of asset classes and the attainment of higher returns. And the accelerating trend toward privatization of state-owned enterprises, even if the privatization extends to only a minority interest and does not yet eliminate government control, could be interpreted as a positive step along the path to eventual full conversion from government to market ownership. Moreover, sovereign wealth funds could be welcomed as a new source of liquidity for our capital markets, while the fact that U.S. investors can now own minority stakes in state-controlled corporations might be considered simply a new range of investment choices.

Which of these views is the more accurate is not self-evident. It is not simply a question of whether one prefers government or private ownership, since these latest forms of government activity are, strictly speaking, neither one nor the other. They represent any number of variants in the level of government involvement. The more precise question is, as the distinction between government and private activity in our capital markets is blurred, at what point does the private market stop being a private market, and morph into something else? And how can we even begin to answer that question on a global basis when each nation's definitions of the market vary? Whose definitions do we use?

Even in America, where over 70% of the economy is in private hands, there have been sporadic efforts to change Uncle Sam's role from market referee to market player. During the 1970s, for example, the California-based Campaign for Economic Democracy proposed that the U.S. government should own at least one significant competitor in each major industry. From their perspective as individuals who viewed the market with suspicion — and government participation in the economy with

approval — this would serve to keep the competition honest. In more recent years, it has routinely been proposed that the $2.2 trillion Social Security Trust Fund be directly invested in the capital markets by the federal government. This would be investment controlled by the government, not the account holders — in effect creating our own sovereign wealth fund, with a portfolio larger than the combined economies of Russia, India, Canada, and Mexico.

These examples serve to illustrate that the question of state ownership in the economy continues to present itself in a variety of ways, not just in other countries but in our own as well. And they help us to appreciate that the fundamental question presented by state-owned public companies and sovereign wealth funds does not so much concern the advisability of foreign ownership, but rather of government ownership. Precisely because the rise of sovereign wealth funds and publicly traded state owned corporations portends a greater degree of state ownership in the economy, their new prominence raises many of the same questions that any program of state ownership entails.

There is one respect, however, in which it does matter if investments are made by a foreign government rather than one's own government. A reason often advanced in support of state ownership is that it is the responsibility of one's own government to promote the good of the citizenry and put the nation's concerns first. Another reason is that a nation's citizens can influence their own governments, often through democratic means. But if the government in question is a foreign government, neither of these reasons exists. The national interests that the foreign government will presumably advance will be its own. Likewise, the citizens of other nations will have no direct way to influence a foreign government through the democratic process.

From the SEC's standpoint, these differences have practical consequences. For example, the Commission has the power to pursue sovereign wealth funds for violating U.S. securities laws. Neither international law nor the Foreign Sovereign Immunities Act renders these funds immune from the jurisdiction of U. S. courts in connection with their commercial activity conducted in the United States. But a discussion between the SEC and a foreign government might be quite different if, instead of seeking cooperation in an enforcement matter in which we were mutually interested, the SEC were pressing claims of insider trading against that very government. When a foreign private issuer is suspected of violating U.S. securities laws, our experience working with our overseas regulatory counterparts indicates that we could almost always expect the full support of the foreign government in investigating the matter. But if the same government from whom we sought assistance were also the controlling person behind the entity under investigation, a considerable conflict of interest would arise.

Even in the United States, where we have neither federally-owned corporations trading in our public markets, nor U.S.-sponsored sovereign wealth funds — and where the presumption must be that the national government has the best interests of U.S. citizens at heart — our government is sometimes criticized for being insufficiently aggressive when it comes to securities law enforcement. The cause most often cited is that business carries too much influence with government representatives and officials. Straying from the model of arm's length regulation toward one of government-on-government regulation would likely further fuel such suspicions and undermine investor confidence.

To begin to enumerate these many questions provoked by the rise of sovereign wealth funds and state-owned public-traded companies, of course, is not to answer them. But systematizing our thoughts about the possible good and ill effects of increased direct participation in the world's capital markets by governments can help in the process of structuring norms and practices to maximize the potential benefits and minimize the risks. This important analysis is well underway in a number of venues, including the President's Working Group on Capital Markets, of which the SEC is a member, as well as in the G-7, the World Bank, and the IMF. The outcome of these analyses may well be more generalized agreement about the kinds of strong fiduciary controls, disclosure requirements, professional and independent management, and checks and balances to prevent corruption that will help protect both investors and markets.

Meanwhile, as securities regulators, the SEC will continue to treat both state-owned companies in our public markets and sovereign wealth funds as we would any similarly situated private entity. We will continue to pursue a cooperative and collaborative dialogue with our regulatory counterparts in other nations, and to engage them regarding the best way to apply our regulatory approaches in light of the growing presence of government-owned businesses and investment funds in our markets. And we will continue to vigorously pursue tough, independent regulation, which is the bedrock of investor protection, and the *sine qua non* of efficient capital markets — because in the end, our entire free enterprise system depends upon the rule of law that the SEC upholds.

When ultimately policy makers in this country and across the globe refine our approaches to the growing presence of government in markets, the decisions we make will likely depend upon where we think these trends are heading. Do sovereign wealth funds and publicly traded government-owned corporations portend more market discipline of government fiscal management, or instead a detour away from free markets and toward government displacement of the private economy? Much will depend, therefore, on our judgment about what the future holds. No government policymakers can see the future, of course, but appreciating where we have come from — what we lived through, and where we are headed — offers the best hope of wise choices.

This is not only my alma mater, and yours, but also John F. Kennedy's, after whom the School of Government is named. For President Kennedy's Inaugural, Robert Frost wrote a poem entitled Dedication, in which he paid tribute to the wisdom of our founders — Washington, Adams, Jefferson, and Madison — and he attributed their successful leadership to their vision of what the future held for America. He wrote:

> So much they saw as consecrated seers
> They must have seen ahead what not appears

Without question, a firm grasp of history's trends is important for national leaders. But in spite of their uncommon foresight, neither our Founders nor even Robert Frost, who lived so much more recently, could ever have imagined the complex world of electronic global finance that has developed in the 21st century and that today is integrating the economies of every nation on earth. So these choices are ours alone to make. But even though we can't divine the answers to such questions by consulting the wisdom of our Founders, we can lean heavily upon the principles they cherished.

Like Washington, Frost was relentlessly on guard against political ideology, which he regarded as a corruption of philosophy. He warned against the self-delusion that individuals in government possess enough knowledge to regulate human action down to its raw details. In a 1925 letter to his friend Louis Untermeyer, a Marxist, the great poet wrote: "I might sustain the theme indefinitely that [neither] you nor I nor [anybody] knows as much as he doesn't know." Frost put his finger on why America has embraced markets: it is because in doing so, we give substance to our support for individual freedom, our suspicion of government excess and abuse of power, and our skepticism that the few can make wiser choices than the many. And by our commitment to arm's length regulation of those markets, we have simultaneously acknowledged the need for the policeman and the referee — in other words, for the rule of law, and the role of the SEC.

Our nation's support for markets, and our commitment to independent regulation, represent a fragile balance — yet one of such enormous strength, it has supported the hopes, dreams, and wealth creation of the world's most powerful and prosperous nation.

Today, as this approach is under stress because other national governments seek to play a much more active role than just regulator in the world's capital markets, we've got to return once again to first principles and reexamine both our premises and our conclusions. Perhaps with the wisdom of our Founders, the humility counseled by Robert Frost, and the help of all of the bright students and faculty at Harvard University, we can fully appreciate the gravity of these problems. We certainly will need all of the help and analysis we can get — and so, on behalf of all of the professional men and women of the SEC, please know that we are proud to be your partners.