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P R O C E E D I N G S

MR. ELLIOTT: Okay. We seem to be settling in pretty well, so why don't we go ahead and start not too late.

Welcome, everyone. And thank you for joining us today.

For anyone who doesn't know me, I'm Doug Elliott here at Brookings in the Economic Studies program. I'll be running today's event, along with Martin Baily, who you'll see shortly. He was my colleague from Economic Studies. He'll be moderating two of the three panels, and I'll moderate the other panel. Both of our bios are in your packets if you're curious about us.

In a moment, I will walk you through some slides to explain what capital markets are, why we care about them, and some important information about their size and composition. The rest of the morning then will be devoted to hearing from people who represent the key players in the capital markets. I'd say the three most important groups are those who use the money supplied by the capital markets, those who supply that money, and the regulators who watch out for the public interest.

So after my opening remarks, I'll turn the stage over to Martin and he'll moderate the first panel.

Today's event constitutes the launch of a series of events and papers in which Martin and I and colleagues of yours will be focusing on important aspects of the capital markets and how they are regulated, so we thought it would be useful to start out with an overview of those markets before continuing with those events.

Our view is that relatively little attention has been paid to capital markets compared to the banking industry, which in a sense is odd because capital markets actually supply considerable more funds to U.S. companies and households than banks do. So today's event is part of our attempt to rebalance the discussions in Washington and around the world.

So for those of you who aren't already immensely familiar with it, I'm going to go through the basics, and I will do it fairly quickly.

I was looking for a good definition of the capital markets, but there actually isn't an immensely good one. It seems to boil down to it's the market for securities that are issued by people who need the money and bought by people who want to invest their money. And the main types of securities are stocks and bonds. I'll get more into all those aspects there.

So the so-called primary market is where the people who need the money issue directly to the people who have the money, the investor community. The secondary market is then where investors trade among themselves those securities for as long as the securities continue to exist. Some securities, like bonds, have fixed maturities, and therefore, go away at a certain point.

Sorry. I should have let you briefly see that one.

So why do we care about them? Well, markets actually provide most of the external funds that companies in the U.S. use to grow. To give you a comparison, there's about $8 trillion of corporate debt outstanding in the U.S. At the most, bank loans to corporations are a bit under $3 trillion. So you're talking about eight versus three and three may even exaggerate a little bit.

Capital markets also are important funders indirectly of most mortgages. Markets also fund our national and state and local governments. In fact, there is $18 trillion of debt outstanding from the national government and state and local. They also provide an opportunity for investors to put their money someplace useful. So households in particular, need to save for college or retirement or other needs, and these markets provide a $38 trillion opportunity to invest money in the U.S.

The markets also give the U.S. a diversification of funding sources that is not available to nearly the same extent in most of the rest of the world. Europe and most of the world is bank dominated, so that's one reason they've had more troubles after the financial crisis. We've benefitted from having markets as well as banks as potential sources of funds. And for that reason, as many of you are aware, the European Union, and other economies, like China, are looking to build up their capital markets. In the case of the EU, a fairly explicit attempt to emulate the U.S. approach, though obviously not in every detail.

Markets are also a more efficient intermediary for many types of funding needs than banks are. So more straightforward things, like lending money to a well-known, large, credit-worthy corporation. It's just more efficient to do that in markets. And of course, as we've seen, markets impact financial stability in many different ways. So that's why we should care.

Who are the main issuers? And there would be some others I don't have listed here, but there's corporations, important users of the capital markets. Financial institutions, which are also corporations but it's useful because of their separate role to look at them separation. Our national government and national governments around the world, and subnational governments. Regional and local governments are important borrowers. And then we have packagers of securitizations. So people who pull together packages of home loans, for example, and then issue them out to the market.

And what is it that issuers want? Well, I'm going to go over this briefly, because have a whole panel in which some issuers and those who work closely with them are going to talk to you about what issuers want. But so you have a little preview here, my own short list, is first, they're looking for the ability to issue a range of instruments that meet their particular needs. They don't want to be limited to a couple instruments that don't cover what they want. They want to sell to a wide range of borrowers so they can get the best possible deal. They want their issues to be priced fairly, or honestly, they probably want them to be priced unfairly in their favor, but that just doesn't work in the long run, so they'll settle for fairly. They'd like low transaction costs. They want the simplest and fastest reasonable ways of doing issuances. And they want a good secondary market because it's rare that an issuer only issues once. So they want whoever buys into their first issuance to have a good experience, and part of that is the liquidity of the secondary markets.

Okay. So what are the types of securities? The two broad categories that are most important is there's equity -- what we call stock -- and that represents an ownership stake in a company, or sometimes in a set of projects or a pool of home loans or something. So you share proportionately in the gains and losses of that entity.

A still larger category are bonds or fixed-income instruments. So these are IOUs that promise a fixed set of payments in the future. Corporate bonds are a key part of that. There's commercial paper, which is really a corporate bond that's of quite short maturity. Preferred stock is a form of equity that has the economic characteristics of a bond in that you get fixed payments. There's some minor differences between all these things or they wouldn't exist as separate instruments, but I won't go into all that. And, of course, there are government bonds, including what we call municipals, even though they're not all issued by municipalities. So anything that's at the state or local government level in the U.S. we call a municipal bond.

There are also convertible bonds of preferred stocks which are essentially bonds or preferred stock the way you receive a fixed payment, but you also share in the upside in that you, as the investor, have the ability at your choice, to convert it into stock under certain terms. And then there's securitizations which are packaging of large groups of loans.

So who are the investors? The main categories I've got listed here. There's individual investors. There's mutual funds, or so-called registered investment companies. They are other types of managed funds, like hedge funds or separate accounts that aren't mutual funds. There are financial institutions. Banks and insurers in particular are big securities buyers. Pension funds. Governments actually buy securities. Central banks, as you may have noticed lately, are buying a lot of securities. And corporations often need to own some securities, particularly money market-type securities.

So what is it investors want? Again, they look for a wide-range of instruments that are suited to what they want in terms of maturity and the type of risk that they're looking for. They want to avoid unnecessary complexity. They may live with complexity, but they don't want it if it's unnecessary and it's a negative even when it is necessary. They want transparency from the issuers so that they know what's going on. They obviously want to avoid being defrauded or misinformed. They, too, want low transaction costs for buying and selling of securities. And the larger players want the ability to buy and sell quite large amounts without moving the markets too much.

And then you'll notice on the last bullet point I use careful wording to say "appropriate transparency of market transactions." This turns out to be a much trickier issue than you might think. In general, we always like transparency, but if you're a large buyer or seller and you can't get it all done in the first minute, you don't particularly want to have to tell everyone, "I'm buying a lot more, so feel free to push the price up." So you end up with a number of issues about how you have a level of transparency appropriate for the market while still allowing large transactions.

So how big are the U.S. markets? And to put it in technical terms, it's really, really big. The outstanding issues out there right now are something like $38 trillion in the U.S. Now, a significant amount of that as you'll see on this chart is U.S. Treasury bonds. Our government turns out to need a lot of money. But if you can see -- oh, what shade is that? It's a nice sort of aqua shade. The corporate debt part in about the middle, that's $7.8 trillion. We're talking about a lot of money. And if you compare that to bank loans to corporates, there's only $1. Trillion of commercial and industrial loans, and then commercial real estate, which would also be equivalent to some of the mortgage things that are shown here, so it's not a pure comparison, but there's another 1.1 trillion of that. So you have less than $3 trillion compared to at least $8 trillion. So corporates are big borrowers from the markets. And in issuance terms you have -- what is that, about $6 trillion in 2014 of issuance, of which about corporate portion is about a trillion and a half.

Now, how does that compare to foreign markets? I'm going to show you fixed income here, so corporate debt securities, and then I'm going to show you corporate equity security, stock. The overriding point here to realize is that the U.S. has the largest and most advanced corporate markets, both in terms of equities and in terms of debt. And so if you look at -- I deliberately put the nonfinancial part on the bottom even though it's smaller because from a policy point of view, we tend to care more about the so-called real economy, the nonfinancial institutions, than we do about the financial institutions. So you can see that U.S. has corporate debt outstanding that's in the range of 30 percent of the size of our economy in terms of gross domestic product. That's a big higher than the United Kingdom, substantially higher than Japan, and way higher than Germany. And Germany is relatively typical for middle Europe, though it's on the low side probably. And China, of course, is also pretty low at this point. So there are reasons why many of these economies are trying to move in our direction on these things.

I also showed the financial institution borrowing here because you can see that markets are also an important way in which we get money to banks and insurance companies at other financial institutions who then put the money into the economy. And taking all that together, we in the United Kingdom are way up there compared with the rest of the world.

And finally, one of the main ways of measuring how big stock markets are is to look at what's the total value of all the companies out there that are listed on these stock exchanges, so-called market capitalization. And you see the U.S. is at 140 percent of our gross domestic product. UK is not wildly behind, and then most of the rest of the world is significantly lower than that.

Now, this depends partly on whether y9u're in a boom or not. If you're in a bubble, it artificially inflates the apparent size of your stock market, but I think this is a relatively fair measure of the key point, which is simply the stock market here is substantially larger and also substantially more active than in the rest of the world.

So with all that, let me turn it over to Martin Baily to introduce the first panel. Thank you.

MR. BAILY: Thank you, Doug.

Thank you, and welcome, everybody, to Brookings, and to this discussion.

Our first panel is on the issuers of capital, and we have a very distinguished group. I'm going to give a very quick introduction since you all have the information in front of you. I guess we'll go in alphabetical order.

So our first speaker will be Jim Angel. He specializes in the structure and regulation of financial markets. He's visited over 70 financial exchanges around the world, and his current research focuses on financial market structure and regulation. He's an associate professor of Finance at the McDonough School of Business at Georgetown University.

I'm going to do all three here so that we don't interrupt -- we have more of a continuous flow.

Our second speaker is David Hirschmann, who has been a friend of Brookings for a while. He's president and CEO of the U.S. Chamber of Commerce Center for Capital Markets Competitiveness (CCMC). He leads the Chamber's initiative dedicated to making U.S. capital markets the most fair, efficient, transparent, and attractive in the world.

And then the third person is Huw Richards. Huw is managing director and co-head of Investment Grade Finance at J.P. Morgan. The group has responsibility for J.P. Morgan's Global Investment Grade Finance business, including the origination of loans, bonds, and acquisition financing. He's worked at J.P. Morgan in different capacities for 16 years.

Okay. Thank you very much. Let's start with Jim Angel.

MR. ANGEL: Thank you. Good morning. It is an honor to be here.

I want to start my prepared remarks on the crisis in capital formation that we have in this country. America, we've got a problem. Think about the Apollo 13 disaster when they said, "Houston, we've got a problem." Well, it turns out our public capital markets are shrinking steadily. Despite the fact that we now have record-high stock prices, we have roughly half as many public companies listed on our exchanges as we had back in 1997. The reality is our public capital markets no longer welcome small companies the way they once did.

Here's a graph that shows you the steady decline from nearly 8,000 to under 4,000 public companies listed on our exchanges.

Here's a fun trivia question for you. How many of you have heard of the Wilshire 5000 Index? It's an index that basically tries to cover all U.S. common stocks. Not the exchange-traded funds or the foreign stocks that trade here, but basically, all U.S. common stocks. There used to be nearly 8,000 constituents in the index. Does anybody know what the most recent number is? I see one person smiling there who probably knows. Thirty-five. Close. Actually, as of March 31st, it's 3,700. So this is symptomatic where the 5,000 are no longer 5,000.

Now, you may be wondering, why is this a problem? There are those in this town who would say, oh, little companies like that shouldn't go public anyways. They're risky. Investors might lose money on them. But guess what? The public capital markets provide capital for economic growth. They provide capital for companies to expand, and they provide liquidity opportunities for earlier investors. That's really important because no investor wants a roach motel investment. No investor wants an investment where they can get in but they can't get out. Would you put your money in a bank if you couldn't get your money out? No. So having the opportunity for earlier investors to cash out when they need to is actually a very important part of the capital markets.

What happens when we close off the public capital markets for smaller companies? Well, that means smaller companies can't get the capital to grow into bigger ones. It means that, well, fewer people bidding for smaller companies. That means less rewards for entrepreneurship, less of an incentive to start smaller companies. And this is where economic growth comes from. It's from the entrepreneurs who start the new companies that provide the economic growth and the jobs.

So what this means is by closing off the capital markets for smaller companies, in the long run what are we going to see? We're going to see less economic growth, fewer jobs, and in this town, that means less tax revenue. Now, what's going on? What is the cause of this decline? And there are numerous causes. And I only have 10 minutes, not 10 hours, so I can't go into all of them, but there are three big drivers here. For one thing, we've raised the fixed cost of being a public company. That we have this "one size fits all" mentality in our regulation. That if you're a public company, you've got to do all the same things Exxon does. Hmm. Well, if you raise the fixed cost, a lot of companies say, hey, it's not worth it. It's not worth paying a couple million dollars a year in compliance costs for a company as small as mine.

The second major problem, the litigation environment. As one CEO of a nonpublic company told me, "Hey, if I go public, I get sued. End of story."

And the third area is that of market structure, the technical details of how we organize the market for smaller companies. Twenty-five years ago we had a very different market structure in the old NASDAQ for smaller companies than the old NYSE. We now have a more "one size fits all" mentality towards how markets are organized, and we no longer have those differences in structure. Oh, and yes, there are other factors going on. Some people might say the dotcom bubble. That's less than a fourth of the decline. General economic conditions. We've had downs as well as ups. Rise of foreign markets, well, we're not talking about foreign companies not listing here. We're talking about U.S. companies not listing here.

And then we get, you know, private equity. What about private equity? Well, it's really not a complete solution. I see the rise of private equity as a reaction to the closing of our small cap markets, not the cause. Private equity is more expensive than public equity, and when you think about it, if the only people who are bidding for small companies are the private equity and you take away the bidder of the public markets, that means they are going to be paying less for those smaller companies. And furthermore, private equity is not available to most retail investors, either through individual stocks or through the mutual funds that most retail investors invest through.

Well, some people might say, well, wait a minute. Didn't Congress fix this a couple years ago with the Jobs Act? Well, they tried. It was well meaning, but when you look at the details of the Jobs Act, most of what it did is it made it easier for companies not to go public. They relaxed -- I hope I'm not getting too far into the weeds here -- they relaxed rules on private offerings. They increased the threshold at which you're actually required to file financial statements with the SEC. They gave a statutory mandate for crowdfunding but they weighed it down with so many regulations that it hasn't gotten off the ground. And yes, they do give an exemption for some regulatory requirements for smaller emerging growth companies but they put a five-year limit on it.

Now, so where we're headed in this country is towards two-tier capital markets where we have the public markets and then we have the private markets. We have the so-called 144A markets, the Accredited Investor Markets, the A+ Markets, in which basically a fairly low degree of liquidity. So what's going to happen is the well-connected friends of the better private equity firms get all the good deals -- the Facebooks, the Ubers, et cetera. The mutual funds that the general public invest in, we don't have access to those. The public markets and the public investors get the exhaust from all of these deals, so the result is the general public gets mediocre returns, and what that means, if you're worried about inequality, increasing inequality in this country.

So to summarize, we've got a problem here. There's a crisis in capital formation that threatens U.S. economic growth. Now, what's the solution here? Again, I only have 10 minutes, not 10 hours. We basically need to rethink the public market for small cap firms. The "one size fits all" mentality of our regulatory system does not work. We need litigation reform. We need to make sure that we reduce the cost and the risk of litigation. I'm not against litigation, but we need to reduce the cost. We need a fair dispute resolution system that is not nearly as risky and expensive as we have now. We need to right size the regulatory burdens for smaller companies. We should not take a nanny state of you and say, "Now, little companies should not go public because investors might lose money." No. We need to make sure that the regulatory burdens are appropriate to the size of the company. So things like conflict minerals, Sarbanes-Oxley, other very expensive mandates probably should not apply to very small companies. And we also need a regulatory attitude of diversity in market structure, an idea that we allow different types of markets for smaller companies. One size does not fit all.

And with that, I will turn it back over to our host and the next speaker. Thank you.

(Applause)

MR. HIRSCHMANN: Well, thanks to Brookings, and thanks to Martin and Doug. I think the leadership you have provided here and are providing on these full range of issues really is not just important, it's urgent. So much of the conversation around financial regulation tends to be a bit of a shouting match with two extremes -- repeal versus don't change at all. I think -- and it's almost understandable in a way that the debate over the last five years has been focused entirely on systemic stability with that kind of a conversation.

But really, one of the most challenging things for us from our perspective is that so many of the fundamental questions around how best to organize our capital markets, how best to incentivize capital formation have not yet been answered, even fully debated, and yet we're busy implementing solutions without a way to measure whether we're making the overall system better and whether this will all work.

So I think the leadership that Brookings is providing that Doug and Martin specifically are providing is very important. If we can expand the thoughtful conversation, we may not get it all right but I'm sure we will make our capital markets healthier. So thank you for including me.

If I had to simplify my message, it is that we all benefit from systemic stability, and we should do everything we can to prevent the next crisis, ensure we have a stable system, and that our capital markets are robust, liquid, transparent, and well regulated. But we also need growth, and we don't believe those are binary choices where you pick a little of one or the other. We think there's a way to achieve both, and what we put a lot of thought into is how you do that.

I'd like to refer to our system maybe using a different -- same description but maybe different terminology. What has made this country great is that more than any other country on earth, we have had what I like to call the Baskin-Robbins of flavors of capital. Now, for those of you who don't know the history of Baskin-Robbins, there was a time when even though you might know the 31 flavors sign on the door, and 31 is certainly enough when you go in, especially since most people buy chocolate, vanilla, and strawberry, but what gets you in the door is the 31; right? Well, it turns out the dirty little secret about Baskin-Robbins is that when they were in deep financial trouble a few years ago, the real asset, what remained, what actually created valuation for that company was not the 31 flavors but the fact that they have over 3,000 recipes for different flavors of ice cream. So maybe 31 at the store you go to when you got, but it's really the breadth.

And the same is true with our sources of capital. It's the diversity of our system, the fact that every kind of business at every stage in development can access capital and an ecosystem that's all tied to our public capital markets is what's important.

So let me give you three examples just to give you a way to think of this. I like to think of the lawn service, maybe because I'm too lazy, although I probably should mow my own lawn. But think of what it takes to start and run a small lawn service. You probably don't think of the capital markets, certainly as described today when you think of the lawn service, but the guy or gal who starts that business needs to buy some equipment. Probably needs to buy the gas for their truck and certainly for the lawnmower. May even need to put some cash up front to buy the mulch in the spring and, you know, that person is at the mercy of when I pay the bill. And I pay my bills relatively on time, but certainly, there's a period there between when that service is provided and when I get the cash.

How does that business manage that? Well, it turns out for most small businesses, and lawn service is certainly an example, accessing their personal lines of credit, their personal is the way they do that. Now, you know, it would be great if our country could exist on the rich uncle way of starting small businesses. Unfortunately, most of America doesn't have a rich uncle that can help them start a small business, so we need those markets to work. We need both the 40 percent that is the personal wealth and ability to access through credit card and home equity loans money to start business as well as the other 60 percent. So example number one.

Example number two, now, let's take a mid-size business; right? A mid-size business maybe doesn't need to issue a lot of debt, but they certainly need loans and they certainly need other ways of accessing the capital markets. And I can tell you, I've been to three regional banks recently, all of whom told me some version of they were thinking of getting out of the commercial lending business either all together or selectively. That has implications. Nobody is going to put out a press release when they do this; right? No institution. And some of it will be substituted outside the banking system. We already have a very healthy nonbanking system. It's 80 percent of our market. But not all of it will. And certainly not as efficiently and as low cost as the alternative. So maybe one bank was saying, well, maybe we'll just keep the customers with whom we have the entire banking relationship and those that we do just loans just simply aren't profitable and aren't likely to ever be profitable again for us so we won't do that business. Well, the problem if you're a mid-size business is when you then go to get a loan or to find some additional capital, your choices are pretty reduced to the one institution you do business with rather than to having a full choice.

Let me give you a third example, and this is now a larger manufacturer, a global manufacturer is a real example. I remember the CFO told me, look, it was Thanksgiving week and we got a major order for equipment out of Southeast Asia, and we needed to issue some debt in order to be able to begin quickly to make that. They pride themselves on "just in time" manufacturing, so they needed to be able to get the raw materials, and begin the process, and deliver on the schedule. But that customer wasn't going to pay until delivery. We issued a bunch of debt on the Friday after Thanksgiving and I like the fact that I had a number of choices of where I could do that. And furthermore, that I knew that the institution I was dealing with might not be able to place all of it that day in the markets, but might be willing to hold 20 percent of it. Say if it's a $4 million issuance, maybe they find willing customers on the Friday after Thanksgiving for 300 but 100 they keep over the weekend. Things like the Volcker Rule make it really hard and really difficult to understand from a regulatory perspective whether you can do that. So again, going back to my Baskin-Robbins, it's really the diversity of that ecosystem and it's all interrelated.

So what do companies need? They need choices. We've done multiple surveys of companies of all sizes, and what they tell us is they want choice. They want a variety of -- they want to be able to find the most -- and I think the description that was given was right on, and your list of what they need was the spot-on list. They want efficient, low cost, ease of transaction choices. And they want clear rules of the road. They want to know that in managing their financial risk, they're not creating risk to the nonfinancial company. And so much of what we've done is really to make it harder for nonfinancials to manage all those financial needs.

Commercial paper is a good example. Not every company issues commercial paper. But for those companies that are significant issuers of commercial paper, money market mutual fund rules are going to have a significant impact on that ability. And what they -- when we talk to regulators about that, it's not that they didn't understand it, or they didn't know the importance of the commercial paper market, or didn't understand that in the future, as the economy grows, the commercial paper market could be even more important. The point is, aren't your members happy that we're making the system more stable? And yes, it'll be much more expensive to finance yourself in the short term, but the benefit of that, we won't have another crisis like the one we just went through. That's a fair debate, but we should be having that debate. And if we keep answering the question every time, stability over commercial paper, I think we're going to get it wrong and we will jeopardize that ecosystem. We'll make it harder for companies to manage risk, to manage liquidity, to access credit, to raise capital, and to otherwise access every flavor of what they need.

So one of the things that worries us is there's nobody in charge of looking at the cumulative impact of this and looking at all the collateral implications and making sure that we achieve those dual goals. We do a stress test on the banks and we do lots to check the stability of individual institutions, but we do very little to assess the entire system. And Dodd-Frank really doesn't have a way to do that.

So let me end with just four things and we can talk about it more in the panel that I believe are the biggest regulatory threats here, the biggest issues we should think about. Again, it's not any one single rule; it's the totality. It's all the things that were done out of the basal suite of rules are in concept good things. We believe in more capital. We believe in greater liquidity. But the combination of them are discouraging people from staying in markets. We cannot have "one size fits all" when it comes to systemic risk management. That's a term that maybe we overuse a little bit but I think it's right.

We have to look at how our consumer protection efforts impact the ability of small business to access credit going back to my example from the lawn service, and we need to make sure that we look at -- we don't use enforcement as an alternative to sound regulation; that when it comes to enforcement, everybody is for a level playing field and tough but fair enforcement. And all too often, the litigation environment and the enforcement environment creates another level of jeopardy, increasingly where institutions are lending to the test or lending to what regulators might perceive down the road, rather than navigating in clear rules.

So thank you very much, and I look forward to our conversation.

(Applause)

MR. RICHARDS: Good morning everyone. And again, thank you for the invitation to come and speak today.

I hate to disappoint people, but I have to take a small detour through the bank market. So sorry about that, but as you heard in the beginning from Martin, the interplay of bank capital and capital markets is absolutely critical in terms of how money issuers, which are basically nonfinancial corporations globally, think about their access to liquidity. So we'll just take a moment to talk about what's going on with banks right now, and the first observation I'd make is that it is extraordinarily hard to generalize. The phrase that you're going to hear more and more and more around banking is multiple binding constraints. This is the new trendy phrase that is being used a lot in terms of how banks are trying to navigate the new environment, and these multiple binding constraints that have been imposed are different for everyone. Individual banks are finding that they are bound by a different constraint depending on where they are globally, regionally, or how big they are in a particular region. And so one bank may be bound by CCR. One bank may be bound by GSIB. It all depends on an individual's perspective.

But the one thing we can say today is that currently, the bank market in the U.S. is extraordinarily healthy. When I think about what my treasurers need banks for, they need them for their daily liquidity, and we have a very well-functioning daily liquidity market of people's revolving credit facilities at the corporate level that have been rolled over with no issues for multiple years. Yes, there are exits. For every exit where a European bank or a U.S. bank may reduce, there are four non-U.S. banks willing to come in and take their place.

And then the second place where my treasurers need liquidity is for large strategic M&A transactions. They need $10 billion to go and buy another company. They need $50 billion to go and buy -- Verizon needs $50 billion to go and buy Vodafone. The availability of that capital globally is extremely healthy, probably more so than the daily liquidity market we talked about before.

So as we see the market today, and I would stress today currently the bank market is in good shape, where are we seeing some dislocations, which again is where we look for the capital markets to provide some solutions. The first area I would say is highly leveraged transactions. There's been a lot of focus on the origination and distribution into the market of higher risk transactions, leveraged buyouts, and other highly-leveraged corporate credits. It's still unclear as to where that's going to go. Are there going to be new intermediaries that are going to step in and take advantage of that? I know there are some unintended consequences of this in terms of where you have a company that is under some financial distress but it's not totally distressed. Are you able to step in as a bank before complete distress or do you have to wait? And some of these things are beginning to sort of try and resolve themselves, and I think we'll see some changes there.

There are also some parts of the bank of lending that don't fit banks anymore just fundamentally. One of those you'll be hearing a lot about is infrastructure. There's a constant drumbeat in the paper of infrastructure, infrastructure, infrastructure. Who's going to finance it globally? Those assets or those debt assets to finance those projects don't really belong on bank balance sheets anymore. For capital rules, for liquidity rules, the ability to lend for 10, 15, 20 years to a construction project is something that just is not -- is economically extremely unattractive for a bank. We'll be looking for other capital market providers to step in there.

And then there's a third part of the market where banks are struggling, which is where regulation has specifically targeted to size or systemic issues. So, for example, if you are asked by a client who is a financial institution located outside of the United States and rated below investment grade, that is the trifecta of horror for a bank lending officer right now. The amount of capital, the amount of liquidity that you have to hold against that makes it almost impossible for you to do that. So again, we're definitely seeing some certain areas of distress -- or not distress but complications that are going to have to be resolved over a period of time, but generally taken very healthily.

I would stress Doug's very important point at the beginning, having worked both in Europe and in the U.S. We still look globally and we look at the fact that nonfinancial corporations still have way too much bank debt outside of the United States. We use the number in Europe of somewhere in the region of 50 percent of corporate financing liquidity is still provided by bank markets. We compare that to the U.S. at around 20 percent. In some regions within Europe, as the European market as a whole, if you take Spain, Italy, other places, that number is well above 50 percent, and at some point there will have to be some transition of that debt from the bank market into the public capital markets.

I would say that there's been a huge move in that direction. If you look at the growth of the European high-yield market over the past five years, it has increased exponentially. If you look at the depth -- the breadth and depth of the Eurobond markets has increased exponentially. I'd also -- we'll talk about this in a little bit in more depth. The increasing number of non-U.S. clients that are accessing pools of U.S. capital.

I was going to spend a little bit of time transitioning from the bank markets to the public markets via the private placement market, but we have one of the most influential private placement investors in the room, Robert, who represents The Prudential, one of the largest players in this market. But I want to bring this up, and I'm sure he'll elaborate on it later, but this is a pretty unique capital market.

I do want to bring this up because it is somewhat the envy of a lot of other people in the world as they look at our capital markets. When we talk about the private placement market, it's the market where corporations execute long-term financing directly with insurance companies, where banks act as agent rather than underwriter, and it's provided -- it's about outstanding about $3 billion of capital in the U.S. market today, issues about $50 plus billion a year. Again, a great source of capital, because the insurance companies are willing to transact with smaller companies. They're willing to trade their credit expertise for a premium price for security that doesn't trade as liquidly. When I talk to a lot of people around the world that are trying to develop new markets in the UK, why can't we have something like the U.S. private placement market for our UK corporations? They look to that as a lending model for companies that are transitioning from the bank market but not yet big enough to access the global capital markets. So we can answer more questions as people are interested in that.

Let's turn to the public markets for a moment. And again, I want to reiterate Doug's point. We have the most outstanding liquid market in this country. He mentioned the numbers outstanding -- $8 trillion outstanding, $1.5 trillion issued every year, about $20-25 billion changes hands every day in the corporate bond market. And that liquidity has expanded globally. The Euromarkets are much more liquid than they were before, and now we have a raft of ancillary regional markets -- the Sterling Market, the Swiss-French Market, the Canadian Dollar Market, the Australian Dollar Market, all offering fairly good -- not like the U.S. but good global liquidity to people.

What does that mean for some of our corporate treasurers? If we think about the U.S. market, two years ago we raised $50 billion in two days for Verizon from public market investors. Two days. Two weeks ago, we raised $17.5 billion for AT&T in about five hours. Yesterday, we raised $10 billion for Oracle. These numbers are becoming like quicker and easier for everyone to actually digest. The concept of a $50 billion bond transaction 10 years ago would have been unfathomable. Definitely, there's an impact of what the central banks have done around the world in terms of flooding the market with liquidity.

I'm just looking at my timer here, not checking my email.

But I think we're looking at unprecedented access, unprecedented liquidity in the market.

James, I think, raised a very important point. This is not accessible to everyone. The cost of this is incredibly expensive. Ratings, documentation, SEC registration, and then what makes our market great is the amount of diligence and the amount of legal process that goes into underwriting these securities. Protection for investors. The cost of diligence. The cost of having an attorney provide you with a 10b-5 opinion on your disclosure. All those things that have made the market so great, so transparent, so healthy, also have raised cost to this market to make it somewhat expensive.

So I'm going to spend my last minute here talking about what's wrong with our market, because there's a lot of stuff. When you open the paper you're going to think what's he talking about? All I read about is the crisis in the corporate bond market. And what it really revolves around is liquidity in the secondary market, and this one statistic that everyone holds onto which is dealer positions have decreased. James and Doug mentioned investors want transparency. They want transparency in secondary markets. Secondary markets are broken because banks have to call too much capital. They have to call more capital now but they can't trade as many bonds.

A couple of observations from my perspective. I'll be interested on the perspective of the investor community on this, but let's face it. Any market where everyone is leaning one way is going to be untidy when it unwinds. And we all know there's a global bull market in credit right now. That will reverse at some point. Right now, markets are very liquid and they're in great shape. Why are they liquid? Well, because I'm very unwilling to sell bonds to anyone right now because I know I can't buy them back. So that situation may well be reversed on the other side.

The other point I want to bring up is this market has never been particularly liquid anyway. We have one big problem. We have -- if you trade equity, if you trade J.P. Morgan equity, there is one J.P. Morgan security. There is one IBM security. At last count, J.P. Morgan had something like six and a half thousand securities in the fixed income market. We have a heterogeneous market versus a homogeneous market which we have in equity, which again makes it inherently illiquid.

Where should we be concerned? And I'll end on this point because I've run out of time. Where we should be concerned is there's one part of the market which would be struggling in terms of how we're going to resolve this. Credit and fixed income was designed for long-term buy and hold investors, who may need liquidity at some point. But if they can't get the liquidity at that second, they may be able to wait a day. They may be able to wait two days. One of the big issues that we're concerned about right now is the growth in funds that have guaranteed daily liquidity to their holders, and they hold fixed income securities. When it comes time for those investors to have to liquidate because their investors are demanding daily liquidity, how is the market going to react to providing that liquidity in instruments that are not necessarily designed to operate that way? And I think we'll spend a lot of time and we'll see a lot of that dialogue playing out over the next couple of years in terms of how do ATFs and high yields and corporate bonds, how are they going to resolve themselves in a more difficult environment?

I think I'll end there because I think I'm out of time. Thanks so much.

(Applause)

MR. BAILY: If you all want to come up on the panel.

Testing. Are we on? Yes, excellent.

Thank you all for terrific presentations, and I think we have quite a bit to talk about.

Jim, I'm going to start with you. You were the first speaker. You presented a rather gloomy view of capital markets, and in particular, the sort of inequality that was occurring in capital markets, hard for small companies to participate in the capital markets, hard for small investors to get the kind of returns that large investors, P investors can get.

Now, let me ask you one specific question. You mention that small companies are having trouble going public. Now, one suggestion about that -- and that's reflected in the fact that we don't see as many startups. We don't see as many companies going public. One explanation I heard for that is that we now have a different business model. So a small company will start, grow a little bit, and then when it reaches a certain size, it's bought out by Microsoft or Google or somebody else, and so really we have a changed way of smaller companies growing.

Do you think that's what's going on? It doesn't sound like it, but --

MR. ANGEL: Well, I think that's partly a reaction rather than a cause of the drop in number of public listings. If it's no longer feasible to go public because of the cost, because of the burdens, well, when it's time to liquidate, who do you sell to? Well, in that case, you sell out to another large corporation, like a Google or a Microsoft, and of course, this brings up all kinds of issues about concentration, about the size of corporations. So I think there are a lot of public policy issues there as well.

MR. HIRSCHMANN: I'll just add something on that.

MR. BAILY: Please do.

MR. HIRSCHMANN: I think again, the answer is you need both. For many companies, even those that choose to be acquired or not go public, having that public opinion increases their valuation. So even if the right answer is to be acquired by somebody else, it's also true if you look back through our history that the companies that really made the giant leapfrogs have usually done so by accessing the public markets. It's very difficult to go into another company and get the level of tension and investment to really take you to that next level. That's why you see so many of the biotech companies going public, even if their end goal is to be acquired by a larger pharmaceutical company.

MR. BAILY: Okay. Just for the sake of argument though, if you look at some of these small companies that get bought by a Facebook or a Google, and then it seems like they're a few years old and they get sold for about $5 billion, is it really true they're not getting a high enough price? Or are these the exceptions rather than the rule?

MR. HIRSCHMANN: Yeah, I think in some cases the exception, but even if you get an extraordinary valuation when you first well, the issue that we should think of in the long term is for the broader economy investors is will you get the follow-on investment? Will Facebook then -- and they probably will, so not to pick on Facebook -- but will there be the investment to build that out to the next level?

MR. ANGEL: Right. And I think the very important thing is when you have only a small number of potential bidders, if the only people who can take you out are Google and Microsoft, they're going to be willing to pay less than if there are additional bidders. So having the public market as an option increases the expected returns even to people who eventually sell out to private investors.

MR. BAILY: Okay. So what would you guys -- and I'm going to come back to you in a second, Huw, but what would you guys like to see? What's the key thing that's holding back this process or making the two-tier capital markets or the regulation that's standing in the way of greater growth or greater small business? What's the most important or the couple of most important things that would change?

MR. HIRSCHMANN: The team I run at the Chamber was created because we saw the need to study this post Sarbanes-Oxley pre-crisis. And what we discovered at the time was that it's really easy to oversimplify and to say its one thing or two things or three things. Maybe we can come up with --

MR. BAILY: I shouldn't have asked the question --

MR. HIRSCHMANN: Jim did a nice job -- I think Jim did a nice job kind of listing some of the higher order thing, our litigation environment, but really it's a variety. It's good to summarize it as the overall costs of being public, but when you break it down there's lots of them. It's the role of -- you could have a whole conference, and I hope Brookings will just on what -- on what drives that decision-making.

MR. ANGEL: I would say the most important thing is a change in attitude; that we have to understand --

MR. BAILY: That's tough to do though. How are you going to do that?

MR. ANGEL: Well, by having conferences.

MR. BAILY: Okay, good.

MR. ANGEL: By getting the message out that we've got a problem here. That it isn't just, oh, companies are getting bigger. It's like, oh, these smaller companies are the canaries in the coal mine, and those canaries are basically not there. That is a symptom that the atmosphere in the coal mine is turning toxic. And I think the first step is understanding, admitting we've got a problem here. And then we realize, oh, there's a whole confluence of things that have come together to cause this toxic situation. And we need to address all of them. We need to understand that small companies -- excuse me, new companies really are our future. That's what we do well -- that's what we have done well in this country. It's what we need to continue to do well. And then we need to say, okay, how can we facilitate them getting capital. Not just public capital but private capital as well. And we need to realize that the regulatory and legal environment that is appropriate for a trillion dollar company is not appropriate for a million dollar company. So we need to understand that one size does not fit all. We need to stay away from the temptation to load more and more burdens on public companies but not private companies. So there are a number of things we can do but the very first step is to understand that we've got a problem here.

MR. BAILY: Well, I would say having -- I'll ask you a couple questions. I am on the board of a small company and our compliance costs are very large relative to the size of the company, so I think that is something clearly I would point to as needing to be adjusted.

Let me come to you though, Huw. You painted a much more positive view of capital markets. Obviously, you talked a lot about the bank lending the role of banks like J.P. Morgan. But do you have a response to what's going on? Do you agree that this difficulty of access to capital for small companies is a really pressing problem? Is that something that the J.P. Morgans of the world are doing something about?

MR. RICHARDS: Well, I think from my perspective, I am fortunate that most of my client base resides in sort of the mega cap multinational companies who have their own challenges but they do have a lot of competition for their business, whether it's from banks or whether it's from investors globally.

I come back to the competition point. We're talking about the IPO path versus public equity market path versus do you sell yourself to a Google. One of the things that we're seeing introduced more and more into our market as fund flows have increased globally is once upon a time if you were a U.S. company and you had a captive investor base of 4 or 5 -- well, slight exaggeration, but 5 to 15 major U.S. companies, now when you run a debt auction for a U.S. company you have Japanese life insurance investors trying to get involved. You have European asset managers trying to get involved. And I think the focus of my clients is actually how do you develop more competition for what people are viewing as an incredibly scarce asset. And I think it's somewhat different as you move down the company size where things are getting more complicated.

I do think one thing I have seen, which I think is very encouraging, is the rise of the ability of intermediaries to fund themselves in the capital markets. And I think the BDCs, for example, are a fantastic example of this, where we, as a high-grade person who runs an investment-grade business, I didn't know what a BDC was. We're now raising billions of dollars for BDCs from public market investors who are then using those funds, plus their equity, to lend onto smaller companies.

MR. BAILY: Make sure everyone knows what a BDC is.

MR. RICHARDS: BDC, business development company.

And so, again, what is encouraging for me is to see people take advantage of the liquidity that is offered to be able to create other liquidity pools for companies that can't access that directly.

MR. BAILY: You mentioned the private placement market, which I'm somewhat familiar with and have been struck by, which you say is quite large, 300 billion, which is not trillions but is relatively large. Why is that so hard for other people to get started, and are there reasons why you couldn't expand more in the U.S.?

MR. HIRSCHMANN: Part of it is I think we have a -- we've just had historically a long history of having developed it, and it's a time and labor-intensive business. It's very much like running a bank portfolio in terms of its high credit intensive. You can't necessarily rely on all the public market information. You have to assign a team of credit analysts who actually work and do the credit analysis as you would do with a bank credit office, and the infrastructure costs are high. I think what's interesting though, and I'm sure others from the investor side (inaudible) is a lot of these companies are now looking to take on and start managing third-party assets in this type of investment. So if I'm a European money manager or European insurance company, I don't have a team of 50-60 credit analysts. I have three. How can I get involved? Well, one of the ways I can try to get involved is by outsourcing some of this money to someone who does have that expertise, and I think that's something that we're certainly seeing globally.

MR. BAILY: Now, I'm going to come back to you in just a second. Let me ask Huw one more question, and that is on this lack of liquidity in secondary markets which a lot of people have talked about and Goldman Sachs has written some statistical analyses saying this is raising the cost of capital for small business, but you didn't seem to feel -- you felt this was sort of being overplayed in some way, or maybe I misunderstood you.

MR. RICHARDS: No. We've had a one way market in credit globally for the past -- well, since 2007, essentially, give or take a few speed bumps. And we've had a largely supportive macro environment. Securities have been removed from the market by the central banks. They've created a scarcity of supply. They've created a massive demand for yield by pushing interest rates almost too negative in certain parts of the world. So yes, there's a macro and supportive environment for what's happened. So we haven't seen any of this liquidity. Everyone is obsessed with what is going to happen when the exit happens, which everyone thinks it has to at some point. And the big argument just all around is dealers -- investment banks, dealers, the dealer community no longer has the capital ability to act as a buffer, to act as an intermediary. That's essentially the simple argument that everyone has, which I don't think is wrong.

How it plays out I think is to be seen. I think though the good things in the markets which I operate in is that there is a natural buyer for these instruments. It's not as though we're going to go into this black hole where all of a sudden something is going to be worth 100 one day and then it's going to be worth 20 the next. There are plenty of intermediaries that will step in in that process, the natural buyers of these securities -- life insurance companies, pension funds. Yes, there will be a price. When people sell, prices go down. That is the fact of life. The question is how quickly they do. And in fixed income, there is actually the ability I think of more intermediaries to step in and take advantage, view that as an opportunity rather than an impediment to doing more business.

MR. BAILY: David, you had a comment, maybe on this or on something earlier.

MR. HIRSCHMANN: I just want to emphasize. I remember talking to a CFO of a Fortune 50 company who said, "Look, I'm going to get banked. I'm not worried about me. But I worry about the guys half my size or the future mess." And even the BDC example is a good example. That's an important growth area, right. And it shows you how nimble, how much of the positives of our 31 flavors of our capital system are still working.

But I can tell you of an example of a couple of those BDC firms that needed more investment to meet the demand on the BDC space, went public, and discovered that because our rules are antiquated, they couldn't get liquidity in their stock because it turns out that indexes can't invest in companies that are BDCs. And the regulatory answer was, well, we can't fix that. It's too toxic an environment to make any regulatory changes. And so it really has impeded the growth even in that space. So all of these dots are interconnected and we need a regulatory system that encourages innovation, encourages new ways to get capital in the hands of capital, and we simply don't have that today because regulators are afraid of looking weak or being accused of looking weak.

MR. BAILY: What about crowdsourcing? Somebody mentioned the Jobs Act and whether it's working or not working. To what extent is the new big data analyses and crowdsourcing, are they going to solve some of this problem? For example, companies like Lending Club arbitraging a little bit some of the high rates that consumers pay for credit card debt? Are we going to see more of that, or do you see this as a solution or as increasing more dangers in providing capital for small companies?

MR. ANGEL: I see it as adding another flavor to the sources of capital.

MR. BAILY: The Baskin-Robbins.

MR. ANGEL: Exactly. I don't see it as a panacea, but we need to make sure that our regulatory systems appreciate the possibilities here, and unfortunately, our regulators have very skewed incentives. If they block an innovation, very few people notice. But if they let something through and five years later a problem emerges, everybody looks at the regulator and says, "Why didn't you catch this?"

So regulators are naturally very risk averse. And I can't blame them for that. I'd be very risk adverse if I were in their shoes, too. So what we need to do is make sure that we restructure the regulator system and rethink it, which is badly antiquated. That is an area where I think we need structural reform.

MR. BAILY: Is it badly antiquated or it's become more difficult? Is it the legacy of the past we've got or is it Dodd-Frank that's caused the problem?

MR. ANGEL: A little of both. But the problem with Dodd-Frank is they didn't use the opportunity to do a systematic and thorough rethink of our fragmented regulatory structure. We have hundreds of different financial regulatory agencies at the state and federal level, and they don't always play nicely together. Our regulatory system was fundamentally designed in the Great Depression, and at that time, the decision was made to have an intentionally fragmented financial system. That really didn't make long run economic sense. It may have made sense in 1933, but in this century, financial services are too broad to really have a fragmented system. Okay. Well, Congress has gradually let go of that fragmentation, but they never dealt with the fragmentation of the regulatory agencies. To have a different agency for commodities versus securities, for example, is just absurd.

MR. HIRSCHMAN: Dodd-Frank said let's make these regulators stronger, more independent, give them more authority, and then we're wondering why it's hard to make them collaborate and work together and come up with common solutions. That's some of the problems we know we're going to face in implementation of the Volcker Rule, for example. You know, five regulators with very fundamentally different approaches to how to implement it.

MR. BAILY: Well, Chris Dodd did try in his first draft of consolidating regulatory agencies but that didn't go down too well. Paul Volcker of the Volcker Alliance has just proposed a more consolidated structure. It's going to be a tough sell, I think, in this or any more any perspective. Who knows after the next presidential election, but it's going to be a tough sled.

Now, there's a view here that's sort -- of a lot of which is that regulation is the problem, but I want to ask the audience for questions, and I suspect we may get some slightly different perspectives. So let's get some audience questions.

Yes?

Please identify yourself and a fairly brief question.

MR. DILLON: Ken Dillon, Scientia Press. For Dr. Angel.

For Dr. Angel. Could you please give us an example of a measure that would make being a private company less attractive?

MR. ANGEL: So the question is can I give an example of a measure that would make being a private company less attractive. Well, it is sort of a level of relative attractiveness and let me jump on one of my favorite examples which is conflict minerals. Nobody disagrees that there are horrible human rights abuses that have occurred in the Congo. So some very well-meaning people have said, "Why don't we make public companies tell us about their use of conflict minerals?" Sounds, yeah, why not shine some light on this. Okay, makes sense. But do you really know where the rare minerals that are inside your cellphone come from? So at what level do you have to go and go through your entire supply chain to figure out where everything came from?

But this only applies to public companies. So if you're a private company doing business in the dark, you know, with all kinds of nasty people, you're totally unaffected by that. But if you are a little public company trying your best to comply with the laws, you have a very expensive mandate. So the relative balance of do you want to be private or do you want to be public, regulations like that that only apply to public companies --

MR. BAILY: So what should you do? So do you tell public companies you don't have to worry about this? Or should we tell private companies we do have to worry about it?

MR. ANGEL: Well, that is a good debate.

MR. BAILY: That's not the one you want to --

MR. ANGEL: Right. I don't want to get into that one, but whatever should be done should be done equally across both. And you can get into the argument as to whether it makes sense at all and whether that disclosure is doing any good.

MR. HIRSCHMANN: You should certainly start by looking at whether the provision of putting it on public companies produced the desired impact. The Washington Post found that, in fact, the easiest way to comply with that rule was to stop buying conflict minerals from the entire region, which actually caused more people to go into the militias and actually produced the opposite of the desirable effect. So, you know, if something is good enough that it meets the cost-benefit test, then you might apply it across the entire economy. But you start by making sure that it's achieving the purpose. And in Dr. Angel's example, it's questionable whether that achieved any useful purpose.

MR. BAILY: Did you want to add to this or should we --

MR. RICHARDS: I'm not touching conflict minerals.

MR. BAILY: You're not touching conflict minerals.

MR. ANGEL: So to give you a short answer --

MR. BAILY: You're a public company and you're not going to do it.

MR. ANGEL: So to give you a short answer, taking away some of the useless burdens on public companies will make it more attractive to be a public company and less attractive to be a private company.

MR. BAILY: Okay. I agree with that. We should not get into conflict minerals. So is there a question there?

MR. MCGUIRE: Sorry. She gave me the mic. If I could.

Matthew McGuire. And I want to ask a rather simplistic macro question, which is as Huw mentioned, we're in a very odd situation where Switzerland is issuing negative yield bonds. A lot of the euro sovereign debt is trading at negative yields and so on. So it's rather bizarre. I'm just wondering how much of the issues that you raise go away when rates go up? So if borrowing costs increase, does that incentivize more small companies not to use the debt markets and to go public? Does that incentivize some of the regional banks to get back into commercial lending in a bigger way? How much of this that you're talking about is really just about this rather odd situation where money is essentially free?

MR. BAILY: Do you want to?

MR. RICHARDS: Yeah. The one things I would say, and I'll talk maybe a little bit about bank lending. One of the things that we're wresting with is fundamentally a balance sheet is cost of goods sold, and our cost of goods sold has gone up dramatically. Because of the environment that we're in right now, we have not been able -- the market has not been able to adjust its revenue line or its cost to maintain margin. So there's definitely that aspect. I think the issue that we're going to deal with to a certain degree is can you increase your pricing of your products in response to macro changes? Will you be able to cover your cost of goods sold; right? Because what is fundamentally changed is that yes, you have this macro environment and the positive macro environment for everyone back that's increasing regulatory burden has pushed everyone's cost up -- balance sheet cost, et cetera. And I think that is sort of to be determined whether you're going to be able to, as you said, adjust pricing to get back into the business, or is the business fundamentally changed that no interest rate increase will make it attractive again?

MR. BAILY: Okay. We're going to have, I think, one more question.

MR. KIRSCH: Hi, Michael Kirsch, U.S. Econ Solutions. My question is directed to David Hirschmann.

Your description of the current environment for small business access to banks was reflected yesterday by Senator Shelby at an event saying similar remarks. It really sounds a lot like the 1930s where there was too much regulation on banks and they weren't able to lend to small business. How do you see changes in the structure of the banking system? In the '30s it was the fed discount window. Which changes to the structure of the banking system to make it more easy for banks to lend for working capital loans to small business would you recommend? You mentioned commercial paper, overregulation on that, but I'd like you to expand more on how you think that capital formation could be made available for small business.

MR. BAILY: Okay. David?

MR. HIRSCHMANN: There's a study out yesterday by the Goldman Sachs Institute that they called the Two Speed Economy, in which they found that relative to prior economic recoveries, there are 600,000 fewer small business startups in this recovery than in prior recoveries. It's the first economic recovery where small business has really not led the way. And there are many factors going into that but regulation plays a role. So it's everything from securitization of credit card debt to the fact that the cumulative impact of the site of basal rules is making it harder for retail banking generally, and therefore, for that presence to be there. Community banks and mid-size banks that traditionally have been significant players in this space face a disproportionate burden on the compliance side. Not that it's easy for larger banks to absorb that. So there's no one simple answer, but I think we need to, you know, what we're trying to do is at least start a conversation that says let's look at whether we right size these rules in a way that achieves both systematic stability and enables economic growth.

MR. BAILY: Any last comments?

Yes? Fairly brief if you would.

MR. ANGEL: Well, I would like to add one last plug for public capital markets in that when you talk about systemic risk, which is something we haven't discussed yet this morning, the capital markets provide a means to connect the suppliers of capital almost directly with the users of capital. And the advantage of that is you can bypass highly leveraged intermediaries in between. Because when you look at financial crises, when you look at systemic risk, standing there at the scene of every crime is a highly leveraged financial institution with properly functioning capital markets where we can connect the users directly with the suppliers of capital.

MR. BAILY: We thought securitization of mortgages was going to do that though, so I think we need to have some steps along the way, but I'm slowing the process down.

MR. ANGEL: Yes. Properly functioning. You're right. And the problem there is many of those securities were held by highly leveraged institutions that blew up. That was the problem. And our new capital requirements are providing even more incentives for our banks to become hedge funds and not lending institutions.

MR. BAILY: Thank you very much. I thought this was a terrific discussion. And we're onto the next panel.

(Applause)

MR. ELLIOTT: In the interest of time, I'll just move ahead while we are switching the panels here. Hello again, everyone. Now that we have heard some of the viewpoints of those who focus on the users of the capital markets, we are going to turn in the second panel to the viewpoints of those who supply the funds.

As I explained in my introduction, there is a broad array of investors represented in the capital markets. We have chosen three of the most important investor constituencies for this panel.

The Pension Funds, who will be represented by Eric Bendickson, who is Co-Chief Investment Officer of Strategic Investment Group. Mutual Funds, represented by David Blass, who is General Counsel of the Investment Company Institute, and insurers, represented by Robert Tipp, Chief Investment Strategist and Managing Director at Prudential Insurance in their Fixed Income Unit.

You have their bio's. I will not talk further about their backgrounds. Instead, I will turn it over to each of them for 10 minutes of opening remarks, a time limit which I and Sara will be strictly enforcing. She is very fearsome, by the way. Please do keep it to 10.

After that, I will gather up all the panelists up front, as Martin did, and ask a few questions before turning them over to your tender mercies for more questions.

We will do it in alphabetical order, and therefore start with Eric.

MR. BENDICKSON: Good morning, everyone, and thank you very much for including me in this important discussion.

I do want to represent Pension Funds this morning and talk about the investor community there. Just to describe the size of this community, I thought I'd put some numbers on the board.

Pensions and Investments annually does a survey. They take the 1,000 largest pensions in the United States, this includes state and municipals, this includes corporate pensions, and Taft-Hartley Union pensions as well. That totals around $9 trillion for institutional Pension Funds in that group of 1,000.

As you can see, the defined benefit plans are about two-thirds of that, and defined contribution, about one-third of that. That number is slowly evolving but now getting quite significant in the shift from defined benefit to defined contribution.

If we extend retirement assets beyond this and include IRAs, a very broad group, that $9 trillion almost doubles, so after we go outside the institutional group, we get to about $18 trillion. If we looked internationally, capital markets are certainly global, that number can exceed $30 trillion, although very hard to calculate. So, a very large community that I'm part of.

What are we trying to do? We have liabilities. We accrue these liabilities by making promises to our employees to pay their income in retirement, referring to defined benefit in my remarks from here on out.

Depending on how long they work, how much they are paid, what their service is, and how long they live, we can try to estimate our obligation to these employees, what it is we are going to try to have to pay for in the future, and we enlist actuaries to help us do that, but we get streams of benefits that will extend out 70 years, so a mature plan paying benefits now has a benefit profile that will go out 70 years.

Our job is to take those assets that we are accumulating against that promise and invest them in such a way that it is very productive to outperform that and meet that obligation over that long term time horizon.

You can see from the chart on the right the asset allocation, the two left-hand bars are equity allocations, about 40 percent of the assets allocated there, both domestically and internationally. These are really growth assets. We are trying to outperform those liabilities. We are trying to make up for funding over what is a very long time horizon that we have available to us.

For diversification, there is quite an allocation to fixed income, and for other purposes that I will get back to in a minute. On the right, additional diversification, but into alternatives, such as hedge funds, private equity, real estate, other, a bucket that could catch almost anything that could provide a productive return to us and diversify the portfolio.

One other element in pursuing these returns is not just access to the capital markets, but active management. Often a pension fund will hire outside managers not just to participate in those capital markets but to outperform. Particularly on those right-hand side columns, that's where the most active management is available in those asset classes.

Lastly, liquidity. We have a very long term horizon, and we can afford to put some of our assets in illiquid investments, so private equity and real estate can tie up capital easily for 10 years, diversified return seeking assets.

If we look again at the bond portfolio, not only are we seeking different returns from the capital markets in the alternatives, private market, and real estate, but fixed income for a pension fund is actually very different from the broad fixed income market as well.

I said that we had liabilities. In 50 to 70 years, we want to match our holdings of those fixed incomes to reduce our risk against those liabilities by holding long duration fixed income assets as well. Again, in a very specific corner for a core part of that fixed income portfolio versus the broad investment market.

When we think about the evaluation of liabilities, they are discounted back, that long stream of benefits, to today's values, or assets against that liability number, that discounting rate is taken from the bond market and as interest rates change, so do our liabilities, so we want to try to hedge that, a very different point in pension management and one that has evolved quite significantly since 2006 in the Pension Protection Act.

An allocation of 40 percent fixed income gone up about 15 percent, and as interest rates increase over time, we expect that funded status will follow, improve, and you will see even higher allocations to fixed income in pension assets going forward.

Now, what do we require besides returns from these capital markets? We also need liquidity. As a pension investor, we obviously have to make benefit payments very regularly. That can be a very small amount of liquidity. Any mature pension fund could pay up to eight percent but typically it is around four or even as low as one percent in an annual payout of the funded assets, but it is significant that we always make those checks, people are counting on it.

More importantly, when we think about how we are managing our risk, we have to be able to move the assets to the right risk profile, the right asset allocation that we are seeking, and in doing that, we need to shift assets in much greater size.

Right now, the Japanese Government Pension Fund is reallocating their assets, it is a $1.1 trillion Fund, maybe a little larger now, and they are moving almost 25 percent of their assets out of Japanese Government bonds into global equities, so that is $250 billion they are trying to move.

These large amounts of money that were discussed earlier, markets are very open for business. We certainly think there is a footprint there, but it is being done very effectively.

On the other hand, to the other end of the spectrum, when we go back to 2008, we know there was a period in which capital markets shut down completely, and particularly in fixed income markets and high grade fixed income, so a core part of that 40 percent at the worse of it, it was very difficult to make a $20 million liquidation.

If you are a very large pension fund, that's one month's worth of benefits, so to get money out of those markets was extremely difficult, and at times went from three or four basis points of transactions costs to upwards of five percentage points.

The breakdown, the seize up of those markets is very important. Markets certainly open for business now. One of the concerns we certainly have going forward as we shift to more fixed income focused asset allocation is just what Huw mentioned. There are certain elements of the fixed income market not coming to bear right now but in the event of an episode could be significant in terms of getting that liquidity.

I'm not here to tell war stories but just to highlight as fixed income in general is -- I'm sorry -- pensions in general are moving to a more fixed income oriented asset allocation and a higher level of understanding of risk and management of risk, all very good things, we see these markets have to cooperate in providing those tools very efficiently.

Thank you. (Applause)

MR. BLASS: Good morning. I'm David Blass. I'm the General Counsel of the Investment Company Institute. Doug, thank you very much, and Martin, for having me here. I wanted to add my voice to David's and thank you for the leadership you all have shown in promoting a dialogue about capital markets, especially in the debate about financial stability.

I thought I would spend a little bit of time talking about the ICI and the industry we represent, and then pivoting to what funds and other types of investors look for in the capital markets, and some of the benefits of the capital markets.

I'd like to touch on one of the themes that have emerged so far in the morning, and that is the difference between capital markets and banks' provision of assets to businesses, and the role of banking regulation and the difference with the capital markets.

Just to start on the Investment Company Institute, we are a leading trade association, global trade association, for funds that are highly regulated, and they are offered to the public in jurisdictions all over the world.

In the U.S., I'm talking about mutual funds, open- end investment companies, exchange traded funds, unit investment trusts and closed-end funds. The ICI does not represent hedge funds, private equity funds, other non-publicly traded funds.

Our mission is to encourage high ethical standards in the fund business. We promote education about funds in general and fund investing, and we work to advance the interest of our regulated funds, shareholders, directors, and advisors.

As it happens, this year is our 75th anniversary, both for the ICI and for the modern fund industry, since 1940, when the Investment Company Act of 1940 was enacted. That is the foundational document for our industry.

We have had a fairly successful run of it. I think earlier we talked about a difficult regulatory environment. We actually over the 75 years have benefitted from a very strong regulatory and legal framework that has really promoted orderly growth and innovation in the regulated fund industry. That might be because it's not been a particularly fragmented regulatory system. We have benefitted from oversight by the Securities and Exchange Commission over that time, and they have done an absolutely admirable job regulating our space.

Now, that may change going forward. We certainly are seeing a host of other regulators express interest in the regulated fund space, and I'll talk a little bit about that.

Over time, U.S. funds have become the primary vehicle in the U.S. for investors, in particular, retail investors, who want to participate in the stock and bond markets.

Today, more than 90 million U.S. investors own shares in mutual funds. That is open-end investment companies. They have a wealth of choice and strategies to choose from.

It's a highly competitive market. We have 800 fund sponsors and about 16,000 different types of funds in the regulated fund space, so plenty to choose from.

In 1940, the assets in regulated funds were about $1 billion in 1940. Today, we have hit over $18 trillion, so tremendous growth over those 75 years.

What has contributed to the growth? I have mentioned it already, a very strong legal and regulatory framework, but also the development in the U.S. of very strong and robust capital markets.

That brings me to the theme of the panel we are going to have, which is what do investors look for in the capital markets, what do they benefit from them.

I thought I'd share a few common building blocks for robust capital markets. There are many others, I'm sure, that people could come up with, but these are really foundational in my opinion for what leads to a strong capital market system and what we have here in the U.S.

That starts with a sound legal system, one that has strong property rights. That is essential to any capital markets and it promotes the trust in investing. In other words, there has to be legal certainty attached to investment opportunities.

The legal system has to be based on principles of fairness to market participants, the perception that some market participants may have an unfair benefit certainly leads to a lack of credibility and reliance on the markets.

Sound regulation is crucial. I already mentioned that a few times. Exchanges and clearing and settlement systems have to be organized and supervised to help markets run efficiently and provide equity for trading. I think we will hear a little bit about that in the next panel when we hear from the regulators.

Regulators for their part have to be transparent as well. The market can function under a number of sets of rules, but if nobody knows what the rules are or what they are meant to address, it becomes very hard to do that.

Corporate governance in particular needs to be oriented towards protecting investors, the owners of companies, not the management of the companies themselves, and market information needs to be reliable. Issuers of stocks and bonds need to be subject to generally accepted accounting principles, and information that is provided to the markets needs to be robust and reliable.

On tax policies and other incentives that are designed to achieve societal goals, they should be transparent, not designed to promote parochial interests, and importantly, don't change over time in a way that surprises investors so they don't understand the deal they have struck.

If you have these foundational building blocks, what is the evidence of robust capital markets? I think we have that in the U.S. We have a host of products and investments that meet investment objectives and investor needs, a wide range of market participants to take the other side of a purchase or sale, a particularly deep and resilient market, one that can accommodate large trades without disrupting the markets is particularly beneficial, and we have that certainly in the U.S. in many pockets.

With those benefits, we have others, benefit to the economy as a whole. What do robust capital markets bring to us as an economy, as a nation? I thought I'd flag three. They bring efficiency, economic stability, and economic flexibility.

Here, I'd like to pause and return to the discussion about the role of banks versus the capital markets. They provide very different services. Banks are obviously a very important player in the U.S. economy, but the capital markets are an extremely important player, but they function differently.

I want to pause on that and come back to that because we have a debate in the U.S. right now about whether or not bank regulation or bank like regulation should be extended into the capital markets, which frankly fundamentally would change how capital markets operate today.

On the benefits of our capital markets, capital markets are just more efficient than banks. The historical provider of credit to companies, to borrowers, is banks. Investors who provide capital to businesses, enterprises, and households that need funding are increasingly relying on the capital markets.

Just one example. Capital markets distribute risk more efficiently. Each issuer of a stock or bond has a unique characteristic of risks and rewards associated to them. Likewise, each investor has his or her own unique risk profile looking to match up their tolerance for risk for their desire for a reward.

Just a simple example of this, younger savers tend to invest more heavily in equity securities. They are more tolerant. They have more time to tolerate down markets and the volatility that comes along with equity type investments than older investors who generally invest more heavily in fixed income.

Developed markets promote economic stability. They provide immediate feedback both to corporate issuers and policy makers. There have been some studies that have shown
-- coming back to a discussion earlier -- that had the economy relied even more heavily on capital markets, it may have withstood the financial crisis of 2008 more steadily.

Alan Greenspan, of all people, said the toxic assets of the financial crisis - mortgages and mortgage-backed securities, if they had been held in mutual funds, it may not have led to what we experienced in that financial crisis.

The third factor that I thought I would mention is economic flexibility. We have heard another theme emerge today, which is do small businesses have the access they need to the capital markets, are they able to rely on the capital markets sufficiently.

I don't think it's a debate or a controversial statement to say that risk tolerant equity investors are better equipped than risk adverse banks to finance groundbreaking new ideas that lead to innovation in our real economy.

From our perspective, greater efficiency, economic stability, and economic flexibility are real advantages of the capital markets. We see that all over the world. As Doug mentioned, the EU is promoting a capital markets union just to realize some of those benefits.

We do have a real debate, and it is a debate that Huw referred to earlier, about the role of financial stability regulators in our capital markets. We welcome a discussion about the asset management industry, particularly the regulated fund industry, and whether or not there is systemic risk there.

From our perspective, we are of the strong view that if you look at the data, and we actually have a historical record to review, including in fixed income high yield bond areas, if you look at the historical record and the structure of regulated funds and managers, you will come to the conclusion that there is no need for designation of systemically important financial institutions for those regulated funds and managers.

I hope we can have a little bit of a discussion about that in our panel. Thank you very much. (Applause)

MR. TIPP: Good morning. I'm Robert Tipp with Prudential Fixed Incomes, so the insurance company. I'm in the investment management part of the insurance company, and more specifically, the public fixed income area. We invest in bonds for a range of investors, as I'll discuss, and people in bonds also do currencies.

I'll go through my materials fairly quickly. As somebody in the markets, a market participant for the last 30 years, I'm happy to reflect on any of the crises, because I think in some respects with markets going back over what happened in the most recent financial crisis, Enron, WorldCom, the near freeze up of financial markets with long term capital in 1998, as well as the stock market crash back in 1987, those were the things, I think, that really offer a lot of opportunity for learning about markets, when they function well, what the problems are.

At the end of the day, there's going to be an element, these are people trading, and sometimes the risks end up in the wrong places, people get over their skis, but there is also an element of human nature and a certain amount of volatility that is not avoidable.

In terms of the scope of a bond investor's world, as we have discussed, basically everybody ends up in the bond market. Whether it is the State of California, the U.S. Government, hospitals, schools, all consumer credit, whether you are talking about auto loans, mortgages, end up being securitized and pushed down into the markets, and bond investors trade these, corporations of all ilk's.

When people go to the banks and get a loan at the bank, the bank ends up in the market funding those investments of theirs.

Issuers are from a range of countries and currencies. You will have Portugal come and issue in dollars. You have Greek securities that are denominated in Yen. You have U.S. corporations issuing in Euros. You have multinational, you have super nationals issuing in Australian dollars. These issuers are going all over the world to try to get access to capital, diversify their sources to capital, and minimize their costs over the long run of raising that capital.

People that invest in bonds then need to do currency transactions to effect those trades, and then there are derivatives on every aspect of this.

There are interest rate swaps. There are credit default swaps. There are futures contracts. There are options on all of those derivatives. There are portfolios of derivatives made out of those derivatives.

I have an admission to make. I am an user of derivatives and have been involved with them, and there is a comfort factor that people either have or they don't have, a familiarity that they have or don't have, and correct usage, and awareness of the risks involved or not, but they are very helpful as markets have evolved, and there are pockets of illiquidity for institutional, for the appropriate investors to have access to these to hedge the portfolios that they are managing.

I am not a normative person by nature. I'm not a policy guy. Doing the investing is more of a hypothesis testing exercise, but in watching over time, you do get some notions about these things.

Hopefully what you take away from this is markets are incredibly deep, they are very arcane, the bond markets are incredibly complex.

Our customers and people who end up in the bond markets are retail investors, they are pension funds, defined benefit, defined contribution savings, sovereign wealth funds, corporate cash, central bank reserves, financial institutions. Basically, as the wealth has built up around the world, the markets in those countries have not developed to the same extent, so there are multi-hundred billion dollar portfolios across not just China or Japan but across Southeast Asia in those central banks, and in central banks of emerging market countries around the world that hold dollar investments in order to defend their currencies in times of stress, and also to be able to provide hard currency to their corporations and financial institutions that may need them in times of stress. Of course, financial institutions like the insurance company, Prudential, invest in their funds.

The role of fixed income, as we discussed, diversification, income stability, investing relative to liabilities. What we are trying to do is ultimately a competitive exercise, so people hire us to be the benchmark in many cases, whether it is the U.S. bond market, an international bond market index, sometimes it will be the index inclusive of currency risks, sometimes it could be a currency hedged benchmark, and in other instances it could be a pension liability that they want us to fund but they may have a return benchmark for that liability.

This is a competitive exercise, and with interest rates very low, which is a topic that people may want to come back and ask me questions about, there are also return type strategies in fixed income. I will comment briefly on the level of rates a bit later.

How do we do this? We are trying to get a research edge. We do all kinds of quantitative and qualitative research on the investment outlook for the individual companies, for the individual countries, that we are investing in, and we are looking effectively for mispricing in some respects.

We are looking for securities that are undervalued to purchase into the portfolio's at a micro level, so when we are looking at J.P. Morgan bonds of the 6,000 bonds, we want to own the cheapest ones in order to outperform the market.

When we are looking at a more macro level in sectors, if corporations are pounding the market with very large issues, we may want to overweigh corporate bonds relative to mortgage bonds, or if there is a crisis in a country, it may be time to get out, but it also may be time to go overweigh on individual countries in our portfolio's relative to others in order to outperform the market or the benchmark. In order to do these, obviously we need markets, we need to be able to move.

In terms of the risks in fixed income that investors are aware of, the interest rate risk, bond prices fluctuate as interest rates go up and down, individual issuers fluctuate as the credit risk of the issuers changes, inflation impacts bond prices, some are callable, reinvestment risk, if they change their capital structure, and then liquidity risk of getting stuck in the markets as things freeze up.

It is always easy to forget about some of the aspects of markets. When people talk about the stock market and they talk about trading in the stock market and efficiency in the stock market, you have to talk about people that buy on margin, and you have to talk about short sellers.

There are a lot of investors that buy, but you also need to have a liquid functioning market, and you need to have people say that one is too expensive, I'm going to go short it, and in order to short a security, they have to borrow it from somebody that leaves it in a lendable format, borrow it and go and sell it.

In the bond market, we are completely full of that. Dealers borrow and lend bonds. There is a whole reverse side of their business. Hedge funds lend out the bonds that they own in order to finance them. The Fed uses borrowing and lending, all collateralized for the most part, borrowing and lending to operate in the money markets. That is a part of the market that people don't focus on but is very important.

In order for markets to work, you need the counterparties and exchanges to be reliable. You need them to be well capitalized. They have to have the appropriate degree of regulation, and things have changed in the last several years post Dodd-Frank. A lot of good things have happened, as well as some that people are not as pleased about.

Obviously, the flow of information needs to be reliable, and the transmission of that needs to be fair to create a level playing field.

I am happy to take questions later. Thank you very much. (Applause)

MR. ELLIOTT: I still haven't figured out how to fill the dead time, by the way. I'm open to suggestions. I've threatened to sing before. I might try comedy. Let me know. Hopefully, we are within seconds of being past that.

MR. TIPP: I think a little music is always good.

MR. ELLIOTT: That could be good. Did anybody bring any music with them?

With that all said, I'll just go through in the same order that each of you spoke originally. Eric, one thing I'm interested in is one of the broader regulatory trends all across the world is trying to discourage pretty much every financial institution from taking much in the way of maturity risk.

We are all kind of hoping that pension funds will be willing to invest very long term in very illiquid things, like infrastructure, because nobody else is getting a lot of incentives to do that.

I was wondering what are your thoughts about whether there is a capability for pension funds to step up more in that direction?

MR. BENDICKSON: They have always played a role in very long term investments. Infrastructure is a good example. Private equity is a good example. It is a captive amount of assets that have very long horizons. It's a natural offset.

I think the important thing is to understand the risks and return associated with that. It certainly is a pension fund's desire to be paid for that illiquidity, so they should come at a premium, but it's a very good fit.

I think one of the other points, too, and this goes beyond pension funds, is the more banks specifically are taken out of a central role of holding and inventorying assets, that it is intermediated by the broad market. It is very diversified across holders, so in terms of systemic risk, that diversification is very beneficial to have thousands of participants holding a security that is going through a dislocation rather than centrally basing balance sheets on the number of very large banks.

MR. ELLIOTT: Following on the same thought, one of the nice things about pension funds is you don't need to worry a lot about liquidity. As you said, you do occasionally need the cash, so you do worry about that. Also, you will buy and sell in order to rebalance your portfolio, so you care about the ability to do that.

A two part question. Are you worried about the level of liquidity today in the markets, and (b) do you worry that when interest rates change and when the full force of regulations come into effect that maybe in two or three years, there might be issues, or is this relatively low on the things you worry about at night?

MR. BENDICKSON: We have been through a number of crises, so providing for liquidity in pension funds and other institutional investments is really part of the job. We go through different scenario's, the Monte Carlo analysis, to make sure we have that kind of liquidity to withstand those shocks.

It is not just a question of withstanding the shocks and having the liquidity to make benefit payments and perhaps to meet private equity calls, that is really one of the greatest opportunities in capital markets, those kinds of dislocations. Having the liquidity in dry powder to be able to participate when prices are very low is exactly what pension funds and other long term investors should be doing.

In terms of the path of renormalization of interest rates, it certainly is inevitable. It is certainly going to be debated in the markets every minute of every day between now and when we achieve it. I think your comments will probably be more beneficial in that regard. It's necessary.

You have to remember the pension funds are in an unique situation, at the same time we hold fixed income assets, rates go up, they are worth less, our liabilities are probably two to three to four times the amount of interest rate sensitivity in that regard as our assets.

Interest rates going up, our funded status, all else equal, will improve quite dramatically, providing higher rates then to make that shift into fixed income assets.

2013 was the version where this happens in a very good way. Equity markets were going up. There was a recovery unfolding in the world that was being re-priced into most risk assets. Interest rates went up about 100 basis points. You had very good returns on the return generating side of your portfolio, and those liabilities went down at the same time.

MR. ELLIOTT: Thank you. David, there was at least by implication in Huw Richards' remarks a potential concern that perhaps investors in mutual funds or in ETFs expect a level of liquidity from underlying corporate bond investments that doesn't really exist or at least in more stressed periods would certainly not exist.

You have also alluded to the financial stability concerns that a number of regulators other than the SEC have been raising of late, the Fed and at the international level.

Do you think there is a risk that there is a significant misperception of the level of liquidity truly available to retail investors when they go through funds?

MR. BLASS: A couple of responses. First of all, there have been a number of questions about this very topic, so mutual funds are subject to daily redeemability, as you all know if you have invested in mutual funds.

You can put in a redemption request. The regulations that apply to mutual funds require that you receive your proceeds back within seven days of your redemption request. The 1940 Act and the regulations under the 1940 Act have a number of constraints on how mutual funds are operated to protect investors.

One is there is no leverage to speak of, so there is no debt borrowing to speak of for mutual funds, so they are pretty much 100 percent capitalized. The second is they have to invest in largely liquid assets, so there has to be a determination that the vast majority of the investments in a mutual fund are liquid.

Putting all that aside, yes, mutual funds invest in the fixed income markets, high yield markets. There are concerns about raising interest rates. We have been through this before. This is not the first time this has happened. We have had a number of stressed environments before.

We actually can look back at a pretty robust record and observe behavior over the course of those prior events, so 2007 and 2008.

In a recent letter to the Financial Stability Oversight Council in response to a series of questions about the asset management industry went back to 2000 and looked at the experience specifically with high yield bond funds for meeting redemption requests.

There really weren't challenges during those events for meeting redemption requests. There are a number of factors why. Some of them are due to the regulations that I just mentioned. A few others are structural in nature. One is because mutual funds are not leveraged, they are valued on a daily basis, as prices in the instruments underlying the funds decline, the percentage of cash holdings as a percentage of the funds' assets actually increases.

One of the challenges that fund managers have is staying with their stated investment objectives because in declining asset prices, they become a little cash heavy.

To your earlier point, those events actually offer opportunities for investing, so what we see are funds not just selling securities at any point in time but also buying, and during those stressed environments, 2007 and 2008, there were actually fairly strong purchases by the funds matching magic sales.

For a combination of factors, the fund industry has been able to weather really stressed environments, including rapidly raising interest rate environments and meeting redemption requests without a problem.

MR. TIPP: A couple of thoughts on the liquidity. I would point out that the volume in the bond market is a multiple of the volume that transacts every day in the stock market, and the volume in the fixed income derivative markets and foreign exchange derivative markets are a multiple of what is transacted in the bond market.

The underlying capability to push volume to the bond market is higher than stocks, and the transaction costs are generally lower than on stocks, but they can expand.

I would point out that we have a couple of recent examples of how much liquidity can go through in 2013 with the taper tantrum. A lot of liquidity went out of the market in a reasonably orderly way. More recently, there was a turnover of a very illustrative portfolio manager, one of our competitors on the West Coast that has resulted in tens of billions of dollars of redemptions from their funds that have gone into other places. Effectively, we see tens of billions of dollars of liquidations from a single portfolio manager, so another example.

I think the test will come when you get the confluence of other build up's of leverage in the system, a shock event, and then you will really crash test the system when you have a whole range of things going wrong.

I think you need to have the diversification so that the people are diversified, but they also have to have the right temporal and liquidity mix in their portfolio's. If they have all their assets in stocks, which lost half their value two times in the last 16 years, the liquidity and volatility, you are not sure what you are going to have in a pinch, and the same is true of some of the riskier or even longer maturity bond markets that fluctuate more.

I think that is the ultimate defense, but at the fund level -- this is my last comment on this -- some tweaks could be done to at least isolate the transactions costs of leaving a fund to the people that are either coming in or going out, and some fund complexes have done that. That may be a next step, to at least isolate the transactions costs to those that are moving.

MR. BLASS: The SEC is looking at equity management. As you know, that is part of their rulemaking, and I certainly want to be supportive of that, and information we can provide to them in their efforts.

I did want to pause and say I agree entirely, the use of leverage is really key because with leverage comes along the potential for real financial distress for a company, without leverage, it's hard to understand how a fund or another company could come under financial distress.

This debate assumes some hypotheticals. The debate assumes that you will have all investors looking to flee a particular type of fund all at the same time, which is an interesting academic debate, but it is not based on any real world experience, and there are a lot of reasons, one is individual's portfolio diversification, people want access to different asset segments, so they don't with a down market on a particular segment flee that segment entirely because they want that diversification.

We have a lot of target date funds which automatically migrate from an equity heavier portfolio to a more fixed income portfolio that tends to be a fairly steady base of investment in fixed income instruments in our bond funds.

Largely in the regulated funds, largely retail investor base, that really hasn't shown a historical trend towards fleeing in times of distress. They tend to ride it out. The benefit to investors who did that during the financial crisis, they say tremendous gains after the financial crisis.

MR. ELLIOTT: I will say while I agree with much of what you said, you have had a little bit of a tendency today to caricature how regulators are looking at things. Let me just make clear, they are certainly not solely worried about everybody fleeing something. They are worried about say 20 percent of the investors trying to flee from a sector at one time, and all trying to get through one narrow door, or even 10 percent.

I don't think it is quite as simple.

MR. BLASS: Fair enough. I guess my point is we actually have a track record to look back on, and if you're going to stress test, it's important to look back at the historical record.

MR. ELLIOTT: I do understand that, and that was going to be my second point. Again, I have a lot of sympathy for what you are saying. In the financial crisis, we experienced a number of things which had never previously happened or had not previously happened in any period for which we had collected the data.

I do understand why regulators want to be sure they understand what the set of risks are, and careful not to simply assume that because a particular risk hasn't come out over the last couple of decades, that it will therefore not come out in the future.

MR. BLASS: Like I said, we welcome debate on this. We do think it is important to bring data to the debate. It is an important discussion to have. We think the Financial Stability Oversight Council and their request for information about the asset management industry asked the right kind of questions, and it was helpful for them to put out some hypothetical scenarios that we could respond to on the industry in general. I think it was a helpful debate.

MR. ELLIOTT: Thank you. Robert, I wanted to follow up with one other question for you. If I understand you correctly, you look across global markets. Can you talk a little bit about the differences you see between capital markets here and elsewhere in the world?

MR. TIPP: The markets here are the most developed in terms of breadth and depth of types of securities, liquidity. It's pretty stark. Literally, U.S. Treasuries begin trading Sunday night here and they go until Friday. That's not true of the European markets. They are open during their business hours. That is true of most emerging markets. It's true of Japan. They are not truly 24 hour markets. The only one that immediately comes to mind that really is is Australia, some of their markets.

That explains why in times of crisis, especially in recent years, the dollar has been a flight to quality currency. The one thing you can move in reasonably large size even in times of crisis are U.S. Treasuries and U.S. Treasury bills, and they trade in very large size.

The derivatives markets are very important. There are scads of U.S. Treasury bonds, but there are futures contracts that trade versus those, and they create a situation where it is very hard to squeeze an individual issue.

These things are very rare. The German market has a few futures contracts, but most places might have one point of the curve where they have a futures contract, so the comparison in liquidity is very different.

Some of that is for reasons you may not want to have, and the U.S. is a very large issuer, so they have to have the most articulated, predictable, regular issuance schedule, and it develops all of this infrastructure with it, but that ends up generating some public good, namely a backbone in terms of pricing that literally the whole world comes and uses in order to price and issue their securities.

If you went back 150 to 200 years ago, that would have been the sterling market, it was all centered there in sterling. Now, the dollar is really the predominate market. Europe is the next biggest one that is rising. As we heard earlier, it is very heavily banked, so there is less activity in corporate bonds, although that is all improving. It goes down pretty steeply from there.

MR. ELLIOTT: Thank you. I want to give a chance for the audience to ask some questions. As before, please identify yourself and your affiliation. Please make sure it is an actual question. Let's proceed from there.

QUESTIONER: Thank you. My name is Jim Angel from Georgetown University. Several speakers have mentioned the vulcanization of corporate bonds and there are so many different issues, even from the same issuer.

What can be done to reduce that? What can be done to standardize bonds so that there are less details of stuff that might be hidden deep in the documentation, or what can be done to standardize issuance, for example, reopening old issues rather than coming up with a brand new separate issue?

What can be done? Thank you.

MR. TIPP: Are you looking at me? (Laughter)

MR. ELLIOTT: Obviously, there are questions from the issuer side as well, but it would be interesting to hear the investor perspective.

MR. TIPP: I don't see it as a problem per se. The issuers are looking at the best way to issue, and in the long run, that requires a certain amount of liquidity in their names, but there is also a certain opportunistic element that they want to issue where they can get the cheapest money.

On the one hand, I wouldn't look for any particular way to drive issuers to create more liquidity in their bonds. The one thing that I expected to happen that hasn't happened, and this is going to be a little difficult to follow, in the corporate bond market, is for that to develop along the same lines as the Treasury bond futures market.

The Treasury bond futures market, if there is a bond future, there is a set of Treasuries that can trade versus that. If I'm a Treasury trader and somebody comes in and hits me or wants to bid on a big block of Treasuries, I can trade the basis between that bond and the futures contract.

That gives me the entire liquidity of the futures market as well as whatever I'm seeing on the broker screen for the Treasury bonds in order to effect my transactions, what I would have expected to happen with the advent of the credit default swap market.

While there are all these bonds and J.P. Morgan has 600 bonds, I can trade the risk of J.P. Morgan defaulting as a single entity, which is one of the main risks in a corporate bond, the default risk. That trade is a different term, so I can buy protection or sell protection on J.P. Morgan for 1, 2, 5, 10, 20, 30 years.

If liquidity became very high in the CDS, it would be possible when anybody came in for a bid or offer to buy or sell a given corporate bond, for there to be a basis market between the CDS protection and the corporate bonds, but the problem is that there are a lot of moving parts here.

The financial institutions that previously have been inventorying bonds, the banks, and for corporate debt, obviously that is a new exercise. When I started in the business, the banks were not inventorying corporate bonds, it was not as heavily an inventoried market.

The liquidity in the market is going end user to end user, and the derivatives, the individual CDS, credit default swap market, became incredibly illiquid in 2008, and people are really afraid to trade that.

In Europe, there are rules against shorting credits. As I mentioned, you need to have both sides in the market, but with the European sovereign crisis, they made it illegal to short European bonds directly or through credit protection, but if that market developed into a very liquid one, I think that would increase the liquidity, but I would leave it to the markets for people to figure out what is the best way because it is in the interest of the issuers really to optimize that.

QUESTIONER: Thank you. Donald Meyers. This is a question for Eric. As you know, there has been major changes in the structure of pension plans and the makeover of the pension market over the years, and a large decline in defined benefit plans, very few being formed, companies continuing to terminate or freeze their defined benefit plans, and at the same time, a huge increase in 401(k) plans.

In the last few years, a substantial rise in IRAs, and it will continue at a higher rate with the baby boomers retiring.

The IRA market is to a large extent a retail market. To what extent are these changes affecting the capital markets and the general view of pension plans as long term investors?

MR. BENDICKSON: You're right about that. Certainly, regulation -- some of the risks I talked about in my remarks are what is motivating that and the isolation of those risks very publicly into financial statements, corporations are stepping back from that liability, so we do see this very slow migration.

It will take some time for this happen, and through that migration plans are choosing to offer defined contribution pensions rather than defined benefit. I think it is going to be very slow, but it's an one way trip, as you have said.

In terms of the capital markets, I think there are two ways to answer this. One, defined contribution is limited to what they can access, and so when we talk about more peripheral markets, I think the capital by migrating to defined contribution, is migrating away from those peripheral markets as well. I think you would agree with that.

When we look at private equity, what hedge funds do and the ability to actually put that kind of investment technique into a registered mutual fund, it just doesn't exist.

There is still plenty of capital out there to fill gaps, so we are not seeing anything material in terms of pricing or the way markets are moving, in my mind.

I also think there is a strong impact on the ultimate decision maker, and as defined benefit plans do migrate to defined contribution, we are pushing a governance structure that is held to a very high fiduciary standard, still through those corporations having to bring some of that governance to defined contribution, but ultimately a lot of individuals with a lot less financial expertise making more decisions and having more risk on their own longevity as opposed to large pools of shared longevity risks, which exists in defined benefit schemes.

MR. ELLIOTT: You wouldn't happen to be a proponent of defined benefit plans, would you? (Laughter)

MR. BENDICKSON: There are a lot of benefits.

MR. ELLIOTT: There are a lot of benefits, I would agree with that.

QUESTIONER: Thank you. Larry Jecho. It seems like a lot of the discussion is focused around growth versus consumer protection. I guess I would be more in favor of growth if it was being distributed a little bit more evenly. I think what we have seen in the past is that without the regulation, we have powered out a good portion of the American middle class, and we can't afford to do that again.

I understand the fact about having a bit in your mouth, nobody likes a bit in your mouth. If the capital markets are going to run wild with derivatives and other stuff, my question is should we be more concerned about the viability of these markets and institutions versus their impact on people?

MR. TIPP: The bond market, one thing I should mention is it is a completely institutional market, and individuals should not go into the bond market, the transactions costs are very high, and you need a huge infrastructure in order to just have the transparency and know where things trade.

I think what you want to have and what you have is effective regulation of the mutual funds, let's say, and then those guide what somebody like myself is doing with the investments in the mutual funds, and the Board supervises to make sure that you are delivering the objectives of those funds in a safe way.

In my opinion, for retail investors, that system is there. In the wake of Dodd-Frank, there is a lot more transparency in terms of the few markets where they had doubts about whether swaps were collateralized, for example, those have been put into a format like the futures markets. There have been reporting requirements put on bond trades so in 15 minutes, people see where things have traded.

The thing that created the problems in 2008 of the banks having all the risk and things freezing up in terms of trading has changed, so I can't go to the banks, they can't take all of that risk, it goes from end user to end user, which can create short term volatility, but at the end of the day, you are going to end up with one real money investor, you know, transferring risk to another real money investor.

There clearly are individual points that people could make against what has happened in the last several years, but here have been a lot of good things that have come about, and protections are there for end user investors, I think.

MR. BLASS: The mutual fund market, the regulated fund market really is a retail market, so it's pretty much there for the middle class, and investor protections are core to the governance structure in regulation there, so we promote that approach.

MR. ELLIOTT: Since you both mentioned that, I'm curious, what are your feelings about how effective mutual fund boards are? Of course, there are some people that are concerned that they really don't have much effect on anything.

MR. BLASS: From our experience, every board is different, speaking in terms of generality, they provide a critical function overseeing the conflicts of interest between a manager and the fund, and generally giving guidance to the manager in terms of strategy.

We think they are very critical as an oversight mechanism. They do have a lot of what are frankly compliance responsibilities, they kind of deviate them a little bit from their core functions. As a mechanism, we think they are very effective. I don't know if you have a different perspective.

MR. TIPP: I think they are as well. We manage money for the insurance company, for outside pension clients, all kinds of outside entities, and the mutual fund boards.

I feel very responsible to them, and I think probably the best thing I could say is as an institution, on the management side, sometimes we are happy with the decisions they make about what managers they go with, and sometimes we are not, which suggests they are being discerning and they are making the tough calls.

MR. ELLIOTT: One final question, and then we are going to give you guys a break actually.

QUESTIONER: Ken Dillon, Scientia Press. Could I ask what do you see as the future of robo investing, robotic investing, and how might that impact on the mutual funds industry?

MR. BLASS: The question is about so-called “robo advisors,” kind of automated providers of investment advice. Look, it’s an increasingly prevalent technique for providing advice, so it seems like it is a trend that is going to continue.

If you look over in the U.K., a lot of growth in so-called “robo advisors,” that has a little bit to do with some regulations they have done there that have made providing advice a little more difficult for non-robo advisors.

We will see it going forward. In terms of its impact on mutual fund investing, hard to predict, but I think mutual funds will continue to be the “go to” investment vehicle for retail America, for retirement savings, college savings. My personal expectation is that will continue.

MR. ELLIOTT: We are going to take about a 15 minutes break. Please be back here at five after. Then we will have the panel of regulators. Do come back. (Applause)

MR. BAILY: While everybody is settling in with this age of smart phones, I don’t need to tell you probably, but GDP grew at two-tenths of a percent the first quarter which was at least 1 percent below where most forecasts were. Quite a bit of this as business structures, which I think were affected by the weather, as well as other things.

Consumption, I think was pretty much where it was expected. Government spending was quite a bit lower than had been predicted. The market seems to have taken this in stride, I guess illustrating the stability and response to the small shocks.

All right. So, welcome to our third Panel, we are very pleased to have a great set of Regulators, Former Regulators to talk about the regulatory environment, and how it affects capital markets.

We are going to start with Paul Atkins. Paul is currently the Chief Executive of Patomak Global Partners. From 2002 to 2008 he served as a Commissioner in the U.S. Securities and Exchange Commission, and during his two terms he advocated better transparency and consistency in the SEC's decision-making and enforcement activities, and smarter regulation that considers costs and benefits.

Our second speaker will be Gregg Berman. Gregg is currently the Associate Director of the Office of Analytics and Research in the Division of trading and Markets at the SEC. Mr. Berman covers a wide array of areas including equity market structure, clearinghouse risks, derivatives, transparency broker-dealer capital. Before joining that Division he was Co-Deputy Director of the Division of Risk Strategy and Financial Innovation, where he also worked with the SEC's Financial Economists.

Last, but not least, we are pleased to welcome Kathleen Weiss Hanley. Kathleen is currently a Visiting Associate Professor of Finance and Senior Academic Advisor to the Center for Financial Policy at the Smith School of Business, at the University of Maryland. From 2011 to 2013 she was the Deputy Chief Economist at the SEC.

So we have some pretty good representation of the SEC, so I would like to turn it over to Paul. Thank you.

MR. ATKINS: Thank you very much, Martin. And thanks for the kind introduction. It's great to be able to be here today at this conference, and to speak to you all. You know, being at the Government now for about five years, and the last two I was here with the Congressional Oversight Panel for the TARP Program, so it's been, you know, ensconced in Dodd-Frank and other things now for the last few years.

And so I really think this is a timely conference, and there are many challenges that face our capital markets in the current environment. I only have 10 minutes here, and so it's quite a challenge for me to cover all the things that face the market so I can only paint, of course, with broad strokes. But the markets, I'll say, I think, are resilient, and mainly because we are made up of human beings ultimately. At the same time it's not a grand machine, it's not impervious to outside forces.

And why is that? It's because human beings ultimately make up the markets, even if we have machines that also are involved to facilitate trade and communications and other functions. But market participants, as well as regulators, act on imperfect information and make many mistakes. The regulators challenge those to set appropriate rules of the road, but to get out of the way, and allow savers and investors to do what they need to do.

Government, of course, has the necessary police role to ferret out criminality, people who would steal from others, but government must do its work through due process and the rule of law, adding as little friction as possible, and it is cost that -- make sure the costs do not outweigh benefits. Else, investors ultimately pay the consequences over the long term and sometimes not so long term with their results from investments.

Congress, I think, got it right in 1996 when it passed the National Securities Improvements Act, and it added two prongs to the SEC's Traditional Admission of Investor Protection. First, maintaining fair, orderly and efficient markets, and secondly, to facilitate capital formation. Other regulators have different missions, and I think it shows in their activities.

The Federal Reserve Board and other banking regulators' mission, is safety and soundness of the banking system and the financial system. Sometimes this veers off into coddling and protection of the regulated industry, as we saw with the Federal Home Loan Bank

Board and its fanciful treatment of regulatory capital that led to the S&L crisis back in the 1980s, because right now, we do not have true transparency with the bank regulators, including a real audit. We will never exactly know what goes on with bank regulation until, as in 2008, it's too late.

So in my time with you today, I want to focus on two huge challenges that face the markets today, the first is growth of legislation and consequent regulation from Washington, that's not grounded in the causes of the financial crisis, and it is not predicated on valid cost benefit analysis.

Second, is the politicization of the regulators, powered by a false narrative of the causes of the 2008 financial crisis, and outside political interest groups that feed off of that narrative. The consequent growth of regulatory costs, the uncertainty in the business and investor world over the path of future regulation, and the inhibition of innovation, retired growth in the markets and in investments.

So first, let's talk about the growth of regulation, the seminal event of course, was the passage in 2010 of the 2003 119-page-long Dodd-Frank Act. But Dodd-Frank was not subject to what regulators or legislators called regular order. A few substantive hearings were held, even on its major provisions, such as the Volcker Ruler was which was thrown in at the last minute, more or less.

Not to mention, supposedly, minor provisions which have turned out to be major headaches because of poor drafting. I think it was truly a travesty of the Democratic Legislative process. And no wonder Chris Dodd famously said about his own Bill, "No one will ever know until this is actually in place how it works." But the only thing well-planned about Dodd-Frank was his focus-group tested name, a Wall Street Reform and Consumer Protection Act of 2010.

No one light motif that permeates Dodd-Frank is found right from the beginning, the notion that government can make financial markets stable, I call it stability (inaudible). The world is never seen as stable markets, one could point to totalitarian states like Cuba and the Old Soviet Union, but active black markets belie that supposed facility. China is hardly stable; maybe North Korea.

The conceit of authors or Dodd-Frank which has carried on to this day; is that if you get enough smart people in the room, and enough data, that they can bring stability to the marketplace. But just as human beings are hardly stable, those of us who are market participants know that the markets are not always stable. So, Title I of Dodd-Frank is called Financial Stability, no accident, and it created the Financial Stability Oversight Council, or FSOC.

It has the authority to designate entities within the financial services industry as systemically important financial institutions, abbreviated SIFI. Now, Former Congressman Barney Frank once quipped that SIFI, as some pronounced it, sounds like a venereal disease. I think that’s probably right, but I would argue that a more accurate and appropriate pronunciation rhymes with Hi-Fi, and Wi-Fi, so thus, SIFI, and it is -- it has a homonym of course, no accident, also appropriate, in the shorthand that we use to describe science fiction.

So far, FSOC is designated four non-bank financial companies, and eight financial market utilities of SIFIs, subjecting them to the Fed's prudential supervision. During the past 18 months or so, the FSOC has turned to so-called shadow banking to look for systemic risk. In September of 2013 the FSOC's handmaiden, the Office of Financial Research, issued a poorly-conceived, even more poorly executed report on the asset management industry.

It lacked meaningful and was replete with inaccurate -- really inexcusable, inaccurate data and unsupported assumptions. It even got basic concepts fundamental to the law and a function of the management industry wrong, including a seemingly lack of distinction between funds and their managers. It's disturbing to me that such shoddy scholarship informs FSOC decision-making.

FSOC is not the only actor in this space, and even more non-transparent and non-accountable group of regulators is the Financial Stability Board. A creature of no statute or treaty, it's a club of regulators that claims its remit from the meetings of the Heads of State at the G20, through those meetings and policy pronouncements that evidently drives policy decisions on the United States.

So, contemporaneously with events in the United States, with FSB has been studying the asset management industry. It issued a consultation on potentially significant mutual funds, and the only mutual funds that met the materiality threshold in a consultation were American; basically because Europe does not have capital markets to the same scale as the United States. There's no transparency or accountability with respect to the official American participation in the FSP process, these meetings and activities are closed.

In fact, and American Governor of the Federal Reserve sits on the FSP, and even Chairs its Working Group, that’s focused on the asset management industry. So from my experience with bodies of international regulators, there is no way that the FSP would be doing any of its activity, especially calling out American firms and practices without the acquiescence of the Federal Reserve.

Thus, the widespread suspicion is that the Federal Reserve is using the FSP as a bootstrap to build a framework in momentum to get done through an even more opaque backroom process that it's not able to accomplish in the United States.

With the two-minute warning there, let me skip four to the other growing threat I view from the politicization of regulators, and especially of the SEC in particular. And one reason, of course, is the Dodd-Frank Act itself, and what else would one expect from a huge Bill, with so many flaws, that was pushed through Congress on essentially a party-line vote.

Thus the rules spawned from the poison tree, will themselves be hard to find compromises. So, compare the Sarbanes-Oxley Act of 2002, not that I hold that statute as a pinnacle of legislation -- legislative accomplishment, but it passed with huge majorities in each

House, and the SEC under Harvey Pitt who was the Chairman while I was there, was able to find common ground among Commissioners who were, in fact, mere wallflowers on either side.

The rules adopted including defining financial expert, and recording (inaudible) by insiders who were subject to a lot of internal debate and compromise. Today though, that seems not to be the case. Believe it or not, there were no 3 to 2 votes along partisan lines from 2,000 until -- through 2009. There were 3 to 2 votes but Commissioners were split, but other than party lines.

Since 2009, the beginning of this administration, there have been about 20 3:2 party line votes; so rulemakings from Dodd-Frank, I think, are the culprit, but also there's a lot of outside agitation, and so I ascribe a lot of the current situation to outside politically-motivated groups; and one example is a push by politicized advocacy groups, to try to pressure the SEC into adopting a rule requiring corporations to disclose their so-called political expenditures on trade associations and lobbying.

Federal and state election laws already cover this, and this information is not material to shareholders, and shareholders in fact, overwhelmingly, vote down these sorts of proposals, but the pressure groups have nonetheless, you know, tried to continue their agitation. But this just one example where Dodd-Frank itself has many examples, and other things that Congress has foisted on the SEC that are not material, and in fact didn't respond to the financial crisis of 2008 which I think is our number one goal. So I'll end with that. Thank you. (Applause)

MR. BERMAN: Good afternoon. My name is Gregg Berman from the Securities and Exchange Commission. I hate to start off with an apology, but I will. I do need to, unfortunately, leave right after this. I have an unmovable commitment, so I won't be around for questions, but if you do have questions about anything I'd say, please free to email them to me directly.

Normally when I start out, and as I said, I'm from the SEC, I'm also required to, now, make sure everybody knows these are my own views and now the views of Commission or any of my colleagues at the Commission. And that's important, because certainly on my own views, and I have a lot of views, a lot of views about markets, a lot of views about capital formation, and in fact, a lot of views just based on what we heard at the first two Panels.

But given we only have about five or so minutes, I'm going to try to focus on exactly one very, very precise view. I was here last year, I think Doug we -- it was in January of last year, that we had a small panel on market structure. And that's most of what I tend to focus on, the division of trading markets is our market structure. I'm not a lawyer, so when I first got to the SEC, I had to learn about the different rules and regulations, but also it took a lot (inaudible) to the fact that the way that we are structured, and the way that the entire dialogue tends to get structured, has to do with the Acts that were passed in Congress.

So we have the Primary Act in -- about the primary markets in 1933; and then we have Trading and Secondary Markets in 1934, and then of course in 1940 you have a paradox like, go to investment, advisory investment companies. And everything tends to flow from that, including much of the dialogue about capital formation, and capital markets.

What do I mean by that? Well, there have been an accountable number of conferences over the past 24 months on market structure. And you will generally find a bifurcation in -- about who is at the conferences, and with the nature of the adversary relationships between different parties are. And it normally goes like this, it's the buy side on one side, and the sell side on the other. And there are buy side conferences and there are sell side conferences.

And there are conferences where everybody gets together and they want to talk about what does the buy side needs from the secondary markets, so from the broker-dealers and from the exchanges, from off exchange trading. And then there is, what information does the broker-dealers need from asset management committee? And I think that's a very healthy distinction, and it certainly fits in line with the difference between the 1940 Act, and the 1934 Act.

But when I take a step back, and as Paul mentioned, one of the things that were added to our mandate is capital formation. So when I take a step back and I look at capital formation, I'm not sure that that framework of bifurcation between the asset management community and the sell side community is particularly instructive. In fact, I actually think that it might be more harmful than instructive when thinking about the real aspects of markets in capital formation.

So I have a very, very simplistic view of role of capital formation in the framework. On the one side, you have natural persons, people who work, they have some money, they have access to free money, enough that they are willing to lose a significant amount of that, and with that, they would like to buy a business, and instead of giving to their brother-n-law start up a used-book store, or something like that, they find that, maybe I want to reach out broader, I want to give it to large companies, to small companies. It's their money and they would like to invest it directly.

On the other side of that spectrum, you have companies that need to bring that money in, and a lot of the focus tends to be on how do they bring the money in, I think we should keep more on that. That’s called capital raising capital is not the same? It's capital formation, so it would have to have that next step with the companies that need to do something with that money, that actually creates new capital, and certainly if you get money from a bond, we call that debt, that’s not even actual capital, that wouldn't go into capital account, that goes into the debt side of the ledger.

So it's really around the capital formation, and that brackets -- Now, when I look on the inside, I think about the secondary markets, and what's the point of the secondary markets. I think we've heard a lot about that today, and the secondary markets play a critical role, that they can never be compromised, because without the secondary markets, that chain between the individual investors and between corporations doesn’t work.

But what sits in between that chain, are a host of intermediaries, very, very broadly, I think that that concludes both the buy side and the sell side. Because both are trying to service both sides of that spectrum, and when I look at the detailed data that we have produced at the SEC over the past three or four years, and talked with so many different asset management and so many different broker-dealers, and the exchanges, and what asset managers are trying to do on the exchanges, I find very little difference between the spectrum of people who say, I need to trade very quickly, maybe n the second, or half-a-second, or the millisecond, in order to create an execution algo to buy and sell very -- in a more efficient manner.

Or to provide liquidity, versus people who say, I'm a long-term investor, I only need to rebalance my portfolio once an hour, or once a day, or once a week, because I have a mandate that says, I have to be better than all my other asset management competitors, and therefore I have to trade. Because if I can't trade, then I lose my competitive advantage to attract clients who themselves are the end investors.

So when think about capital formation, I take a really far step backwards, and recognize that the asset management can come in on the buy side or the sell side, or collectively it can be viewed as the intermediaries between those two brackets. And when you start to think about the nature of the debate in secondary markets, having those two things bifurcated, I think really belies what some of the real key issues are.

Everybody needs secondary liquidity, but they need them for very, very different reasons. For capital formation purposes, what you really should be looking at is, what are the secondary liquidity requirements of investors, here natural persons who have the dollars of their money? And what are the liquidity requirements of the issuers?

The liquidity requirement of everybody else in the middle is there, pretty much to serve those in brackets. Sometimes and at large conferences we spend a lot of time considering what are the needs of everybody who is in the middle? And that's a healthy discussion, it's a great discussion, but it's not the same, necessarily, as thinking about where the needs for the people on the end of the brackets that are really responsibility for capital formation. Thank you. (Applause)

MS. HANLEY: Thank you, as well, for inviting me. So I have had a career as both a Regulator at the SEC and the Fed, as well as in academic, and my research has focused on this intersection of capital formation, and investor protection. And in particular, I'm very interested in how regulations affect decisions by corporations, or by investors to invest in companies.

So, in fact today, and this I think is a nice segue from what Gregg as talking about, these end users, for us to take a little bit of a closer look at the JOBS Act which Jim raised, and which others have raised here, but also has an impact on how capital formation occurs, but it needs to balance the investor protection mandate. So I have some research in this particular area that might be useful in framing some of the discussion.

So as has been pointed out that smaller public companies have not been going to our capital markets as frequently as they have had in the past. Now this is not a world-wide phenomenon, it is generally a U.S.-based phenomenon, so this is some statistics from Jay Ritter who looks at very small firms, those that raise 50 million -- or revenue of 50 million or less. And as you can see after the tech bubble first the number of smaller public companies has gone down quite a bit.

And of course there are many, many reasons why this might occur, many of which were teed up. I'm only going to tee up one, because we are talking about the JOBS Act, and they only are really addressed one channel by which -- generally one channel by which they could remedy the situation, and that's the high cost of, not only going public, but staying a public company. And in particular, issuers can spend up to a quarter of their proceeds in both direct cost, those costs of legal fees, accounting fees and underwriters, and the first day return that they have.

So many, as you know, IPO has come to the market, everyone is very excited about them because they have a return on the first day, and so that's really exciting, except it's not so exciting for an issuer, right, because that is a cost of capital for that issuer, that they could have had, had the price been raised been a little bit higher. Now, I'm not saying that all prices could have gone higher, I have a broad research agenda that suggests not, but it is a high cost of accessing the capital markets and one firms have to be aware of.

And then once you get there, you have these compliance costs, whether it's Sarbanes-Oxley, which many, many, many studies have shown, it's quite expensive, or you have ongoing compliance cost to your periodic reporting and insider trading. So it's not a cheap mechanism by which to raise capital but it has many, many benefits, and there have been a number of mentions today. So, what did the JOBS Act do, the JOBS Act did many things, and thanks, Jim, for teeing up some of the private issues that the JOBS Act raise, but it also try to provide a public on ramp from emerging growth companies, which I'll mention in a moment, to reduce the regulatory burden of going public.

And so we have a paper with Susan Chaplinsky at the University of Virginia, and Katie Moon at the University of Southern California, that tries to examine whether the JOBS Act were successful in lowering the cost of going public for these firms that have just started to access the capital markets after the passage of the Act. So this specific Act specifically targets the IPO processes -- the IPO process, and it allows companies that have a billion dollars or less, there are a couple other factors, but the primary one is $1 billion or less in revenue, to qualify as an emerging growth company.

So if you looked, before my slides went up, was the little bird of the top of the screen, Twitter was considered an emerging growth company. There's been a lot of debate on whether $1 billion is a smaller public company. One might argue that we would all like to own a company that has $1 billion in revenue, and that's going to play, I think, into some of the findings that we have with respect to do the regulations that have been put into place for these larger companies.

So they are reduced disclosure requirements that firms may have on their prospectus and ongoing, and you are allowed to confidentially file your registration statement with the SEC, and to test the waters before going public. So the intended benefits is obviously to reduce the cost of going public for smaller companies, so you can both have reduced financial disclosure, executive compensation disclosure and you can also not have to comply with Sarbanes-Oxley 44(b), as well as some of the DFA Say-On-Payrolls.

You can minimize the probability of a withdrawn offering by confidentially filing with the SEC, and that draft registration statement doesn't come to the public unless you choose to move forward. If you choose to withdraw you don't have to make that known to anyone, and these lower disclosures maybe could allow firms with high preparatory cost of information to reduce that disclosure and keep it private from competitors.

This gives you a sense of sort of the increasing willingness of firms to adopt some of these lower disclosure regulations on going public. So this is a timeline of filings of the number of firms that said yes, to the exemptions that were given. So this is, in the bar, the blue is confidential filing, the red is testing the waters, and the green are reduced financial statement disclosure. And as you can see through time, particularly for confidential filing and testing the waters, all of these provisions are being used more and more by companies.

We don't see any increase in the usage of -- or the taking of the SOX and Dodd-Frank Executive Comp Rules, as well as delay of accounting standards. So there is an increased willingness for these companies to determine to use the benefits of the Act.

Now part of the problem is, is that a broad set of research and the Commission itself has studied the fact that disclosure generally provides valuable information to investors, and that if you want to increase transparency in the market, disclosure can be a powerful tool in which to do that. And generally security regulators have focused increasing information to market participants, not necessarily decreasing it.

And so one of the potential costs of this Act will be to actually increase the cost of going public for certain issuers, in which the information that they choose not to provide would be valuable to an investor in an investment decision.

And so what do we find? We have a very short period of time, so I can't tell you everything, but we look at what the Act does. So the Act gives two larger, much, much large companies. In fact, if the JOBS Act were in place, prior to 2012, 85 percent of all companies who went public would be eligible for the provisions of the JOBS Act. So essentially the JOBS Act has changed the entire criteria of what it means to go public as far as disclosure is concerned.

In addition, every company, but three, in our sample was -- who were eligible to use the JOBS Act, chose to do so. So companies are taking advantage of many of the provisions of the Act. In addition, when we look at what the JOBS Act did, it took scaled disclosure that the SEC had for smaller reporting companies, those companies that had $75 million or less in float, and gave them to very, very large companies.

So, the SEC has, in its wisdom, thought very carefully about scaled disclosure for small companies, and what should be different types of disclosure for larger companies, the JOBS Act, decided that even very large companies should be able to avail themselves of the smaller reporting company disclosure reductions.

So, what do we find? We find that smaller reporting companies are generally not affected by the Act, either through their direct costs, or through that initial pop on the first day, right. So, smaller reporting companies had many of the provisions of the Act prior to the Act, and they do not seem to be very affected by the passage of the Act. If you look at larger companies, those above $75 million in offering, we find that not only has their direct costs in some instances have actually gone up, but their under-pricing has gone up as well, so that initial return is higher.

We interpret this to mean that the cost of capital for larger companies under a lower disclosure regime may have actually increased, rather than decrease. And so at the end of the day our findings provide some evidence on how regulation needs to right-size its requirements to meet the demands, not only of issuers, but also of investors. Thank you. (Applause)

MR. BAILY: Okay, let me start with you, Paul. That was a pretty stiff broad side against Dodd-Frank. So let me just separate a couple of the issues out that you raised. One was with respect to process. And you described the Dodd-Frank Act as sort of being rammed through as a -- not a bipartisan, but on a Democratic vote only.

Why do you think that was? I mean you could argue that the reason that happened, I mean, there was a lot of effort to try to get a bipartisan Bill, but don't you think at some point the Republicans said, we don't want to give Obama a victory, so we are not going to take part in this. I mean, who was really responsible for --

MR. ATKINS: Well, I mean, it's longer than we can treat here I think, but I do blame it on the administration actually. I think there was a decision made to make this the test and to have something to stand on, but which -- and I think I think if you lack at the lack of real hearings, and if you talk to folks on Staff, and Senators as well, about how it was crafted.

I mean, it basically had people like Gary Gensler sitting on the floor outside of the conference committee room, writing in longhand, things that have been passed in to be inserted into the master of what people were going to vote on, and so truly nobody had any idea what they were voting on, at the last point, and so it came down to real party-line vote. So I think it was meant to try to draw a line in the sand to call out, I suppose the differences.

MR. BAILY: But if we look now at some of the fights over financial institutions or over the markets, that actually is somewhat bipartisan, in the sense that you folks on the left and on the right that are both, you know, making common cause on some of these issues, so how do you view process?

MR. ATKINS: That's a great point. And we've seen that unfold over the last, you know, year or so, especially with respect to -- as the FSOC has looked at asset management, and I think there are people on both sides of the aisle who have realized that what this portends as far as the ability of the Federal Reserve and the FSOC to dictate activities of participants in the capital markets.

For example, to like -- if there will be instability in the marketplace, if they have gone ahead and designated activities they could ask people to forebear in selling particular instruments, or what not, and despite what they think their fiduciary duty is, or what their one interest, personal interest are, and so I think that’s a very disturbing, you know, prospect for the markets.

MR. BAILY: Let's focus specifically on capital markets, which is of course the topic of what we are talking about here. So, what would you see as being the most problematic things in Dodd-Frank, or in the subsequent implementation of Dodd-Frank, in terms of how it's impacting capital markets? What are the things that are the biggest challenges that need to be dealt with? And obviously you’ve talked about this, but it was fairly broad terms, can we focus on what might -- what you think is creating the biggest problems?

MR. ATKINS: Well, I think -- I mean go back to the uncertainty. So we have mandated out of Dodd-Frank, depending on how you count between 250 and 500-some-odd rules. And CFTC for example, takes pride, it says, in having met its obligations to adopt various rules, but it did so, I'd say, in some cases, not under normal ways of due process or compliance with the Administrative Procedure Act, and so now it finds itself having to go back and actually look at what has been adopted to try to figure it out.

The SEC is taking a more deliberative road, it has done maybe about half of the mandated rules, but unfortunately, I think the Chairman or two ago, took more of a political line, and went after rules such as conflict minerals, you know, extractive disclosure, that sort of thing, that has very little to do with the financial crisis of 2008, but more of a political sort of bend.

So, again, going back to what is -- you know, the problem in the marketplace is, I think this uncertainty that’s overhanging as to what actually the rules are going to be, even if one things that something, for example, with respect to swaps, or SEFs, or whatever, is the Final Rule of CFTC that might not be so final because the people are reviewing them again, position limits, things like that are subject to a challenge in the court, so that even makes more uncertainty out there. So, it's hard run a business, it's hard to look in the future, people demand, then, a risk premium, being that -- to get into the market that way.

MR. BAILY: Okay. Let me give you one more question, and then I'll turn to Kathleen. You had also criticized the Financial Stability Board. When I talk to financial institutions and other people I know, I've echoed this, there's great concern that we get -- we don’t want financial market regulation to vary across country, because that’s too confusing, and I've heard a lot of bankers say, we want to -- first of all we want to know what the rules are, so I agree with you on the uncertainty.

But we would also like them to be sort of the same, because a lot of these financial products are essentially global products, and they are sold globally, and the institutions, I mean, securities are sold globally, and so on. So, okay, you don’t like the FSP, how do you think we are going to get that convergence, or do you think we need to have that convergence?

MR. ATKINS: Well, I think there's -- you need to have convergence, and so

FSP, if you look around the table, it's mostly bank regulators, central bankers.

MR. BAILY: Right.

MR. ATKINS: And so with respect to capital and other things we are talking competitiveness issues, cross border, and so depending on, you know, it's better to have consistent rules, but what we are seeing now, with respect to, you know, what the FSOC is talking about, and the FSP is talking with respect to the capital markets, that's actually going into new territory altogether and especially with respect to jurisdiction, authority of, you know, the various entities on a national level, it's very much questionable I think.

So that's not necessarily a level playing field, that's now trying to aggrandize either authority, you know, onto particular institutions, or you know, get to perceived advantages by various international participants.

MR. BAILY: I'm guessing you wouldn't be too enthusiastic about putting financial services into the transatlantic trade negotiations?

MR. ATKINS: Well, that's a totally -- yeah, that's a bigger issue altogether. You know, I think that they are probably --

MR. BAILY: Well, it's another way that you might get more uniformity.

MR. ATKINS: There could be a place for that but, you know, there are a lot of competing interests to take care of there.

MR. BAILY: Okay. So, let me turn to you, Kathleen. And thank you for your presentation on the results of some of your studies. So, let me ask you then, we talked earlier today about small companies going public, and that their regulatory structure is making that difficult, or it's making that costly. You mentioned Jay Ritter's findings, although I think it was Jay that I quoted in the earlier Panel who thinks it's more a change in the business model. So, do you think this decline in the number of IPOs, what would be your explanation of that, and do you think it's problems in the capital markets that's causing that?

MS. HANLEY: Well, I do tend to agree that there are market structure issues, with smaller public companies, that could potentially be changed. I mean, if you look at the number of investment banks that used to bring these smaller companies to market, there are very few of them existing today, so I think that can be an issue. I don't think, again, you know, like the first panel mentioned, that there is one particular focus.

Certainly the technology I tend to agree with Jay, to some extent that, you know, many of the companies that went public had poor earnings over the next few years, and if you look at the companies that are going public after the JOBS Act, the vast majority of them are unprofitable, and most of them VC backed. So that begs the question of why --

MR. BAILY: When you say unprofitable, if they are on a very sharp growth trajectory, there may be an investing a lot. I mean does that necessarily mean that they are bad companies?

MS. HANLEY: No. Of course not, of course not, but it does mean they are, potentially, riskier company, right?

MR. BAILY: Yes.

MS. HANLEY: So they have negative net income, and so it is the case that, you know, it is very difficult to, you know, determine the one reason, and then they things it's the same thing, when you are looking at things like crises, and other things, it's a combination of things. I don't think there is a panacea, however, to getting smaller public companies interested in the public markets. Where I would like to see research, which is hard to do because we don't have the data is, what is the trajectory of a company that remains private today, right?

So what is -- we know those that are sold, or we know those that get venture capital money, but we don't always know the outcome of having private firms, and maybe that's a better use at this point of some of these companies' capital.

MR. BAILY: Now when the JOBS Act came out, I support it. Bob Litan and I wrote an Op-Ed supporting it although we put some caveats in there, that we needed or a lot of research, and this is that research that you've been doing. So what's your verdict then? Do you think it was a mistake? Do you think it needs to be modified? Or do you think it will work itself out and turn out to be a benefit? Your results you presented looked -- to me looked to be fairly negative towards it.

MS. HANLEY: I think it's negative toward very large companies. For the smaller companies I think --

MR. BAILY: Okay. Maybe I misunderstood.

MS. HANLEY: -- companies were filing, testing the waters, are all potential benefits for them, but so --

MR. BAILY: But I thought I understood you saying that it actually turned out to be more costly to go public.

MS. HANLEY: If you are a large -- if you are a large company --

MR. BAILY: Okay, then I (inaudible)?

MS. HANLEY: -- who are newly eligible for these.

MR. BAILY: I misunderstood.

MS. HANLEY: Right. So there is a group of companies that have always had the reduced disclosure, these are smaller reporting companies that have always had the reduced disclosure, and they were unaffected by the Act. But these larger companies that now are availing themselves of what used to be smaller-reporting-company regulations, are having higher cost of capital when they enter the public market.

Now, the Act is only a few years, and so that's not to say that in time these companies will not -- or the market will not adjust to this, but initially taking advantage of those reduced disclosure requirements, at the end of the day may not have helped capital formation at that end of the market.

MR. ATKINS: Well to think -- just as you (inaudible) --

MR. BAILY: Yes. I'm interested, because was a bipartisan measure of the JOBS Act, there was a lot of enthusiasm for it, so I'm interested in your reaction.

MR. ATKINS: Well also, so my view of it also kind of spans a broader timeframe. When I was, you know, a young lawyer, I was Chief of Staff to Richard Breeden in the early '90s, and in 1992, we came out with new rules for a small company to try to encourage more free writing by a company management -- described their business, tried to lessen the burdens of small businesses, you know, the costs, lawyers and accountants, and everything else, but then trying to balance, you know, the fear of fraud, and what not.

So, you know, I think the JOBS Act, you know, was motivated by what I think Jim Angel pointed out earlier today is, you know, the precipitous drop of companies going to market, when then affects of course, private equity, VCs, because they want an exit strategy and if the public markets are not there, as Gregg Berman pointed out, you know, the market serve many different participants.

So, you know, that’s why I think your research is very interesting to show that, you know, the JOBS Act was a response to this precipitous fall, which had its basis in Sarbanes-Oxley, as you pointed out, in the financial crisis. So there were many different influences to it, but I think this is part of a long-term trend of people trying to figure out, how can we make the capital markets work for all sorts of different participants.

MR. BAILY: Let me ask -- I'm going to open this up for question, but I'm going to just make an observation, and then ask if you have any comments. Josh Lerner from the Harvard Business School, and I, co-hosted a conference in Silicon Valley recently, among venture capital folks, and it really was quite staggering. First of all, when you are in California, especially in Silicon Valley, how optimistic everyone is. I mean it's really, you know, things are gang-busters.

MR. ATKINS: It's part of Washington (inaudible).

MR. BAILY: And I heard the comments, you know, innovation has never been more rapid, there has never been more innovation taking place. So there was a tremendous amount of optimism, and the other thing that struck me was the huge amounts of money, that now sort of available in venture leads, it's hard to find a place to put it. And some of the venture capital funds were saying, you know, we get visited by foreign sovereign wealth funds who have, you know, a trillion dollars to deploy, and they are trying to figure out where to put it.

So somehow, there's lots of money out there, apparently there are lots of opportunities for innovation out there. Are capital markets -- are capacity markets doing the job? Or, is because of Dodd-Frank? What's the prognosis here? Are you going to bring the capacity markets and the opportunities together in some way? Or are you pessimistic about that.

MR. ATKINS: I'm optimistic.

MR. BAILY: Good.

MR. ATKINS: I think as more people study the effects of, you know, the various things that have happened, and part of the JOBS Act too, is not just for the capacity markets, you have to look at RegD 506.

MR. BAILY: Right. Right.

MR. ATKINS: You know, that the attempt to open that up, and then Rule 144(a) which was adopted back in the late '80s, mid-'80s, which really opened up the world for institutions, to buy and sell securities in a private marketplace, and that provided a lot more liquidity outside of the public market markets. So I think all of those things are cause for optimism.

And when you look at the resiliency of the American capacity markets versus in Europe, where, because they lack optimism, they lack an investor culture, everything is basically centered around the big banks, and now the European Union is trying desperately to figure out how do we support capacity markets. It's trying to push on a string, I think, until they really build an investor culture, where people do have optimism and future growth, like what you are describing in Silicon Valley. I think that is what we need to try to find.

The downside of course, is the regulatory beast that I was talking about, and then the propensity of central bankers now, to try to get their claws into the capital markets, and then to import like Governor Tarullo has been talking about, he's coined the term, prudential market regulations. So that's what I was trying to say, but didn't really have time to get into it, but the prospect, again, of the Central Bank being able to order market participants to forebear, not to be able to sell their securities that they think they need to, and basically take one for the team.

When I talk about this, and people say, oh, that could never happen that's crazy. It is crazy, it could happen, and all I have to do is point to the TARP Program, where sound banks were forced to take TARP money just so that the bad banks would not be called out. So in order for the -- you know, just supposedly to maintain civility in marketplace, stranger things could happen.

MR. BAILY: We could have an interesting discussion on that, and whether that was, overall, a success or a failure. But, you know, I was a member of -- not of this Administration -- but a previous Democratic Administration, so I have to restrain myself occasionally on your comments. But Kathleen, so do you see the regulatory beast preventing this -- I'm not trying to put you on the spot but --

MS. HANLEY: I would like to -- I mean, I think regulation needs to always be very cognizant of its unintended consequences, but I do think that what's missing, a little bit in this discussion today, is the evolution of public markets, so I -- you know, taking off what you said, private markets have become much more available to investors with trading and other things that used to be the purview of public markets.

And so I think that the type of landscape that we have is not as bifurcated as perhaps it used to be between public and private, that now there's more of a continuum where issuers can choose to be -- and sometimes they are in both, and so they offer advantages and certain context that used to be registered as a public company traded on an exchange, and now those two things don't always have to go hand-in-hand, and they can be actually split apart.

And I think that -- watch where that goes in the future, I think we are going to see a very different landscape than we have seen in the past.

MR. BAILY: I'm going to look for some questions from the audience. Yes? Please identify yourself and --

MR. KATZ: My name is Jack Katz, and I'm a retired faceless bureaucrat. And my question actually is for you Mr. Baily, and it's a comment you made --

MR. BAILY: Oh, goodness.

MR. KATZ: -- that it is a desirable outcome to have uniformed global regulation. And my question to you is, earlier today somebody mentioned how fundamentally different the U.S. financial sector is from the rest of the world. I mean, that ours is a financial sector dominated by the capacity markets, not the banking sector. Europe, and much of the rest of the world, is fundamentally a financial sector dominated by banks. Why would you want a uniformed regulatory system for two fundamentally different structures?

MR. BAILY: It's a good question, and remember; as the moderator here, I'm trying to be a devil's advocate, but I own up to the fact that I would like to see some greater uniformity to the extent it's possible, because our banks operate overseas, foreign banks operated in the U.S. A lot of these financial products are global, so I don't think has to be exactly the same by any means, and I realize that it is a somewhat different system, although, as Paul said, they are trying to converge a little bit more towards our system.

So I think it's finding the right the mean between not putting institutions or markets in a position where they have to try to figure out what is U.S. person as defined by the U.S., as opposed to defined by someone else, that there's greater uniformity there. But let me throw it back to you, Paul. What do you think is the right balance between having, you know, a reasonable match in regulation, or preserving regulatory structures that are suited to our system?

MR. ATKINS: Well, as the French say, (speaking French) so, you know, I think you know, that’s what makes competition and experimentation, really makes a huge difference, and if you have a stultified atmosphere, like I would argue one has in Europe, you get the results of stagnation and lack of growth, lack of innovation, and in the United States because of how big the country is, our traditions of federalism and things like that.

You know, I think we can lie with our differences now that -- you whether it's to be -- if you had exactly the same institution and, you know, one is treated differently than another, you know, with expect to, say, banks and capital, then I think that’s a problem then to try to have a level playing field, so people can compete, that’s okay. But where that then kind of dissolves, you know, at the margins, I think is the real problem.

But I would point out that with the banking regulatory system that we have, again, which is completely non-transparent, you have the prospect of the bank regulators treating different market participants, even under their own Aegis, differently because you have examiners doing something in one respect, and not in another. You have underwriters out there trying to issue securities in the public markets, they don’t really know what's going behind closed doors, and so investors are out buying securities of banks without necessarily the full picture.

So I think the whole regulatory scheme needs to be rethought, and that, I believe is one of the causes of the financial crisis, the lack of transparency with respect to many of these institutions.

MR. BAILY: Do you have a perspective on that?

MS. HANLEY: Well, as a Former Regulator, I mean, one does worry about regulatory arbitrage, and so I --

MR. BAILY: Well, I was going to raise that, yes. That's a good point to talk about.

MS. HANLEY: Right. And so the issue of having some --

MR. BAILY: An activity, some activities have migrated from the U.S., right?

MS. HANLEY: Yes.

MR. BAILY: And HSBC is talking about migrating from London, so it's not a trivial concern.

MS. HANLEY: No, it's not a trivial concern, and it is certainly something that regulators are cognizant about. It is difficult, you know, there can be a race to the bottom, and regulation for counties, they've seen that in the past, and you know, having our best companies want to remain in the U.S. and not be, you know, trying to buy in the -- I mean, look at the amount of cash that's being held overseas because of tax policy, right. So we want to, you know, make sure that we are having the right kind of economic development in the U.S. that fits with the regulatory environment and not have them searching always for ways around it.

MR. BAILY: Right. More questions? But I do want you to keep it fairly short.

SPEAKER: Oh, sure. Sure. Yes. You were the Commissioner, right, for the SEC, Paul Atkins, right? Do you hear me? You know, I've been trying to find the financials for the securities and different exchanges, like the New York Stock Exchange, the NASDAQ, Chicago, and all these exchanges. What are their -- what is their income? Where can you find all this data? And, like, Ms. Kathleen, you did give, you know, the 2 percent proceeds, 7 percent, 15 percent of -- Was it 400 and 500,000 per year?

MR. BAILY: We can't get too much into the weeds. I don't know if you can give a quick answer to that.

MR. ATKINS: If it's going to --

SPEAKER: It's essentially the income of these government entities, really, they are --

MR. ATKINS: They are not government entities, the exchange, they are self-regulatory.

SPEAKER: I mean, as they are under SEC control.

MR. ATKINS: So, to the extent that they are public, then you can find out, you know, their information. NASDAQ is a public company, for example, so there are -- you know, they file annual reports, and quarterly reports, and things like that, so you can find out, you know, what their income is, and expenses, and the outlook of the management, that sort of thing.

MR. BAILY: And SEC does have a budget that's reported.

MR. ATKINS: And the SEC has files in annual reports every year, so you can see what SEC itself, you know, spends. I mean, it doesn't hold any revenues, but.

MR. BAILY: Okay. One last question.

SPEAKER: (off mic)

MR. BAILY: I could answer that one, but I'll let these guys answer it.

MR. ATKINS: It's funny I testified before House Financial Services, and I guess goes back maybe a couple years, and I put in my -- it was about how to approve the SEC, or financial regulation, I can't remember the topic, and so I put in my testimony that ultimately the SEC and CFTC should be merged in certain --

MR. BAILY: Good for you.

MR. ATKINS: So Former Chairman Frank at the time, he had just passed the gavel on Spencer Bachus, but he was looking through the various testimonies, and he said, who was the one who said that SEC and CFTC should be, you know, merged? And so Harvey (inaudible) was there with me, and he said, well, you do you share input; and I said, no, it was I. And so he said; oh, yes, okay. So Commissioner Atkins, I wanted to have that done, but the powers that be, you know, would not -- there were too many political aspects to it, between the various committees of Congress, vested interest of people.

You know, I think even after MF Global if, you know, the two agencies, there's not political impetus to do it. I'm not really sure that will happen, maybe someday, but we will see.

MR. BAILY: The Volcker Alliance is pushing for that among other things, so.

MR. ATKINS: They are pushing for other things, I don't think they had much so --

MR. BAILY: Do you agree that it --

MS. HANLEY: Yes. It's a political -- it's a political history.

MR. BAILY: Okay. On that sort of a positive note, or at least -- Thank you, both, very much; and our absent friend, Gregg. (Applause) And thank you, everybody, for participating.

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