FOIA Marker

This is not a textual record. This FOIA Marker indicates that material has been removed during FOIA processing by George W. Bush Presidential Library staff.

Records Management, White House Office of

Subject Files - ME001 (Messages Sent to Individuals)

Stack:	Row:	Sect.:	Shelf:	Pos.:	FRC ID:	Location or Hollinger ID:	NARA Number:	OA Number:
W	11	18	7	6	12773	60798	12531	12422

Folder Title:

567009

LB

THE PRESIDENT

June 20, 2003

567009
ME001

Dear Bill,

I read the Business Week article "SEC Cop Means Business". The article confirmed the wisdom of your selection.

The Honorable Bill Donaldson
Chairman
Securities and Exchange Commission
SEC Headquarters
450 Fifth Street, N.W.
Washington, D.C. 20549

You are doing a great job. I hope your spirits are high because you are making a significant contribution to our nation.

With respect and best wishes

George Bush

Preservation Copy - George W. Bush Handwriting

Bill Donaldson
SEC

President's
Handwriting

'03 JUN 19 PM4:02

THE WHITE HOUSE

WASHINGTON

June 19, 2003

INFORMATION

MEMORANDUM FOR THE PRESIDENT

THROUGH: Harriet Miers

FROM: Dina Powell, Assistant to the President for Presidential Personnel

SUBJECT: Article on SEC Chairman William Donaldson

Purpose

To provide you information on Chairman Donaldson and current reforms at the Securities and Exchange Commission.

6/20/03
THE PRESIDENT HAS SEEN

Business Week
June 13, 2003

6/20/03
THE PRESIDENT HAS SEEN

This SEC Cop Means Business;
New chief Bill Donaldson has an ambitious agenda to restore public faith in Big Business. And he's wasting no time in getting started
By: Amy Borrus, Mike McNamee, and Paula Dwyer in Washington

Securities & Exchange Commission Chairman William H. Donaldson rose at 4:30 a.m. on a recent Saturday to fly from New York to San Francisco. By lunchtime, he was discussing economics with Nobel laureate Milton Friedman at former Secretary of State George P. Shultz's home in Palo Alto. Then it was on to a two-hour meeting to debate a dozen high-tech executives over Donaldson's insistence that their companies should deduct the cost of employee stock options from earnings. The next day, he spoke at Stanford Law School about restoring business integrity. After taking the red-eye flight back to New York, Donaldson spent Monday, June 2, plowing through paperwork before his wife, Jane, surprised him with a party for his 72nd birthday at Manhattan's River Club.

The clear message: The SEC isn't Bill Donaldson's retirement home. When the former Wall Streeter and lifelong friend of the Bush family took over on Feb. 18, the betting was that he'd be a caretaker, put in to clean up the mess left by former Chairman Harvey L. Pitt and get corporate scandals off the front page long before the 2004 elections. Instead, Donaldson has turned up the heat on wrongdoers, increased penalties for financial fraud, and named a hard-line critic to police accountants.

A caretaker would have stopped pressing Wall Street about its conflicts of interest once state regulators and the SEC had won a $1.4 billion settlement from the 10 biggest investment banks. Donaldson publicly slapped former Street peers who downplayed the charges -- and ordered a new probe of analysts' bosses to find out why they had allowed such abuses. His tough activism has energized the dispirited SEC. Says former Federal Reserve Chairman Paul A. Volcker, a strong backer of accounting reform: "The signs are very good. He's off to a good start."

BETTER INFO. Now, with his own management troika in place and plenty of new funding and staff, Donaldson is charting a bold course aimed at extending the post-Enron reform drive. He has ordered a review of corporate proxy rules that could empower shareholders in fights with management. He's determined to bring the unfettered hedge-fund industry, and its $600 billion in assets, under SEC scrutiny.

In a June 9 SEC report to the House Financial Services Committee, Donaldson signaled that he wants mutual funds to give investors better information about fees, trading costs, and how they pay managers. He's also targeting the aggressive sales practices of brokers and their sweet deals with fund companies.

Donaldson won't always please reformers. He thrilled critics of the accounting profession by picking New York Fed President William J. McDonough to chair the Public Company Accounting Oversight Board. But then his heavy-handed move to force the board to make

McDonough its CEO as well fanned fears that the SEC would erode the board's independence. In other areas, notably the future of stock exchanges, Donaldson's conservative leanings could lead to tinkering, rather than fundamental change.

TOUGH COP. Still, his strokes are bold enough to shock traditional Republican constituents -- and create political risks. Big GOP donors on Wall Street could find themselves targets of SEC subpoenas. Donaldson's use of the bully pulpit to push better corporate governance could rile CEOs, as would any SEC attempt to open boardroom doors to dissidents. And accountants and tech executives are drumming up opposition on Capitol Hill to auditing and stock-option changes.

"He's going to have to fight those fights, because there's a lot of congressional backing for those constituencies," says Felix G. Rohatyn, who runs financial advisory firm Rohatyn Associates LLC.

For now, with investors still angry over Enron, WorldCom, and a host of other frauds, White House officials are pleased with their tough cop on the business beat. Many on Capitol Hill agree: "He is showing the kind of leadership we expect of him," purrs Senate Banking Committee Chairman Richard C. Shelby (R-Ala.). But that mood could change as markets recover and the elections draw near. When the White House wants to assure voters that the scandals are over, Donaldson could run afoul of the politicians if, as he vows, the SEC keeps airing Corporate America's dirty laundry.

BRINGING INTEGRITY BACK. Donaldson is used to rattling the Establishment. He got his start at G.H. Walker & Co., the white-shoe bank run by President George H.W. Bush's uncle. But in 1970, he made waves by defying New York Stock Exchange rules to take his brokerage firm, Donaldson, Lufkin & Jenrette Inc., public -- an NYSE first.

Now, Donaldson's push is rooted in deep personal outrage. He's angry that stock research, DLJ's specialty, has turned into a mere selling tool for investment banking. As former chairman and CEO of the NYSE, he was so troubled by conflicts of interest among the Big Board's directors -- and the rich salaries that have proliferated since he left in 1995 -- that on June 4 he lobbied Chairman and CEO Richard A. Grasso to strengthen a reform package before the NYSE board.

And the one-time U.S. Marine rifle-platoon commander demands that business embrace good governance. "We're at a pivotal point in the reestablishment of faith in the business and financial communities," Donaldson told BusinessWeek. "I would like to be remembered for bringing everybody back to a sense of business integrity." (For more of his comments, see "A Conversation with Bill Donaldson".)

HEDGE TRIMMER. One way to do that: Make CEOs and directors more accountable by giving shareholders more power. Donaldson startled governance gurus by ordering a review of the barriers that investors face in putting resolutions or board candidates on proxy ballots. Current rules make it prohibitively expensive for investors to campaign for dissident directors, protecting CEOs' cherished power to hand-pick directors.

"It takes serious backbone just to address this issue," says Sarah B. Teslik, executive director of the Council of Institutional Investors. To knock down the roadblocks that keep shareholders from communicating directly with each other, for example, the SEC might let board candidates campaign on the Internet.

Hedge funds may never be the same again once Donaldson is done with them. "It's just too much money for us to know as little as we do," he says. Just as worrisome: These lightly regulated private-investment pools are increasingly accessible to unsophisticated retail investors. Donaldson is likely to require hedge managers to register as investment advisers, forcing them to spell out to the SEC and investors their trading strategies and holdings. He also may restrict access to the funds by raising the $1 million wealth threshold for investors.

SOFT BULLETIN. But even as he cracks down, Donaldson says he's "quite sympathetic" to the idea of letting better-regulated mutual funds adopt some hedging strategies, such as selling stocks short. That could boost returns, but also risk.

Mutual funds may expand their trading power, but Donaldson is in no mood to give them free rein. In the June 9 report to Congress, he steers a middle course between critics, such as Vanguard Group Inc. founder John C. Bogle, who contend that funds are overcharging investors, and fund-industry executives, who insist they're offering a bargain. Donaldson wants funds to spell out fees and expenses more clearly. He may insist that they highlight how rapidly they turn over stocks in their portfolios, since active trading drives up costs and can depress returns.

Donaldson may also ask Congress to curb so-called soft dollars. Funds overpay brokers for trading, and brokers use the excess, or soft, dollars to pay for research and other services that fund managers want. The deal moves the cost of research from fees, which investors see, to commissions, which they don't.

CORE FAILURE? "I've always had reservations" about soft dollars, says Donaldson. And he's crusading to force brokers to reveal how they are paid to sell certain funds. "We want to make sure that somebody buying a mutual fund knows why the broker is recommending it."

Still, critics say Donaldson isn't attacking the root cause of fund problems: conflicted boards. The SEC report advocates narrowing the definition of independent fund directors, which now includes recently retired fund-company execs and managers' relatives. A stricter standard would help, but the SEC should press boards to strike tougher deals with managers on costs and fees, says former Treasury Dept. official Gary Gensler, co-author of The Great Mutual Fund Trap. "The SEC still fails to address the core governance issue: fund directors' obligation to investors to get the best services at the best price," he says.

On June 11, House Capital Markets Subcommittee Chairman Richard H. Baker (R-La.) gave the critics a boost, introducing legislation that would require two-thirds of a mutual fund's board, including the chairman, to be independent.

CONSERVATIVE STREAK. For the longer term, the biggest issues facing Donaldson surround stock markets. His first venture into that terrain -- suggesting that the SEC reexamine its 2001 move to price stocks in pennies -- was a flop. Retail investors gained when the minimum price move was cut from 6.25 cents to a penny, because the gap between buy and sell prices narrowed for small lots. But some studies show that costs rose for pensions and mutual funds, which found it tougher to trade large orders.

By questioning pennies, Donaldson set off a furious debate -- and angered some White House aides. He insists now that he's agnostic: "Let's look at what the impact has been."

This same conservative streak is seen in his views on other market issues. He favors the centralized trading that's still prevalent at the NYSE -- 80% of trades in Big Board-listed shares are conducted at the exchange -- over the welter of competing trading platforms in Nasdaq stocks. "Competition between buyers and sellers is the essential competition, not the competition between market centers," he says.

LIGHTER HAND. The SEC chief also frets about the stock exchanges' ability to police themselves as they morph from member-owned clubs to for-profit, shareholder-owned businesses. Aides say he was burned by his NYSE experience: After he cut regulatory spending, floor traders got away with front-running orders for years. Pressure to cut corners would be even greater, he says, if "every time you spend a dollar on regulation, it's a dollar out of stockholders' pockets."

Donaldson's caution on fragmented trading and self-policing could spell trouble for Nasdaq, which wants its decentralized, for-profit market recognized as an independent exchange.

Such knotty questions lend themselves to Donaldson's methodical style. "He won't be rushed," says Richard H. Jenrette, who co-founded DLJ with Donaldson in 1959. Deliberation is welcome at the SEC. Donaldson "is terrifically collegial: On everything of real consequence, he asks our views," says Democratic Commissioner Harvey J. Goldschmid. That's a big change from Pitt's heavy hand.

MAKING HIS MARK. There may be less combat in the SEC's halls. But Donaldson envisions an agency modeled on the Marine Corps, capable of responding rapidly to crises. The SEC's 2004 budget will nearly double, to $842 million, compared with 2002, and it will add 710 lawyers and accountants. Donaldson wants to deploy those new troops to achieve maximum striking power. "We need to look around corners and forecast what may be about to happen in the future," he says.

Instead of having a single chief of staff, Donaldson has hired a triumvirate picked for management skills, not political credentials. Lawyer Patrick Von Bargen, a student in the first class after Donaldson founded the Yale School of Management, coordinates policy. Banker Peter Derby is loosening the paperwork logjam that kept the SEC's accountants from reviewing Enron Corp.'s filings for years. Laura Cox, a Treasury and Hill veteran, handles relations with Congress and the press.

Friends say Donaldson didn't stump for the SEC job. He was enjoying a comfortable semiretirement serving on corporate and civic boards. But once called into service, he seized the

U.S. Securities and Exchange Commission

SEC Addresses: Headquarters, Regional, and District Offices

Pacific Region
San Francisco District

Alaska, Arizona, California, Guam, Hawaii, Idaho, Montana, Nevada, Oregon, Washington

Central Region
Fort Worth District, Salt Lake District

Arkansas, Colorado, Kansas, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wyoming

Midwest Region

Kentucky, Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, Wisconsin

Northeast Region
Boston District, Philadelphia District

Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia

Southeast Region
Atlanta District

Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee, Virgin Islands

The Securities and Exchange Commission has twelve offices across the country:

SEC Headquarters
450 Fifth Street, NW
Washington, DC 20549
Office of Investor Education and Assistance
(202) 942-7040
e-mail: help@sec.gov

Northeast Regional Office
Wayne M. Carlin, Regional Director
233 Broadway
New York, NY 10279
(646) 428-1500
e-mail: newyork@sec.gov

Boston District Office
Juan M. Marcelino, District Administrator
73 Tremont Street, Suite 600
Boston, MA 02108-3912
(617) 424-5900
e-mail: boston@sec.gov

Philadelphia District Office
Arthur S. Gabinet, District Administrator
The Curtis Center
Suite 1120 East

601 Walnut Street
Philadelphia, PA 19106-3322
(215) 597-3100
e-mail: philadelphia@sec.gov

Southeast Regional Office
David Nelson, Regional Director
801 Brickell Ave., Suite 1800
Miami, FL 33131
(305) 982-6300
e-mail: miami@sec.gov

Atlanta District Office
Richard P. Wessel, District Administrator
3475 Lenox Road, N.E., Suite 1000
Atlanta, GA 30326-1232
(404) 842-7600
e-mail: atlanta@sec.gov

Midwest Regional Office
Emlee Hilliard-Smith, Senior Counsel/WEBMRO
175 W. Jackson Boulevard
Suite 900
Chicago, IL 60604
(312) 353-7390
e-mail: chicago@sec.gov

Central Regional Office
Randall J. Fons, Regional Director
1801 California Street, Suite 4800
Denver, CO 80202-2648
(303) 844-1000
e-mail: denver@sec.gov

Fort Worth District Office
Harold F. Degenhardt, District Administrator
801 Cherry Street, 19th Floor
Fort Worth, TX 76102
(817) 978-3821
e-mail: dfw@sec.gov

Salt Lake District Office
Kenneth D. Israel, Jr., District Administrator
500 Key Bank Tower, Suite 500
50 South Main Street
Salt Lake City, UT 84144-0402
(801) 524-5796
e-mail: saltlake@sec.gov

Pacific Regional Office
Randall R. Lee, Regional Director
5670 Wilshire Boulevard, 11th Floor
Los Angeles, CA 90036-3648
(323) 965-3998
e-mail: losangeles@sec.gov

San Francisco District Office
Helane Morrison, District Administrator
44 Montgomery Street, Suite 1100
San Francisco, CA 94104
(415) 705-2500
e-mail: sanfrancisco@sec.gov

NOTE: A number of offices within the SEC can also be contacted via electronic mail.

http://www.sec.gov/contact/addresses.htm

Home | Previous Page Modified: 03/18/2003