Highlights from the Dialogue on October 19, 2012
Museum of American Finance Thought Symposium:
Restoring the Faith of Investors

The nearly 100 senior executives, financial services firm CEOs and other participants at this historic event did not always agree with each other, but their suggestions are a useful starting point toward restoring the faith of investors, a goal unanimously embraced by those in attendance.

In their answers to questions posed by Consuelo Mack, Maria Bartiromo and Jason Zweig, John Bogle, Roger Ferguson and Duncan Niederauer shared insights and even a few controversial suggestions that provoked a lively discussion. Highlights are grouped by topic.

Governance, Fiduciary Standard & Incentives

1. Institutional investors should play larger role in corporate governance, act like owners; institutional investors should insist on direct communications with Board Chair, audit and compensation committees.
2. Use original fiduciary standard for individual investor; identify brokers as brokers, not advisors
3. Re-emphasize the fiduciary responsibility on pensions – corporations/plans when they administer these plans
4. Compensation with stock options infects the system, need reform in compensation (must be driven by the Board of Directors)
5. Recalculate stock options to a 10-year average

Investors

1. Institutions should emphasize and articulate their fiduciary duty to investors and be more proactive in proxy/governance
2. Improve financial literacy, financial education; very important throughout people's lives; start in schools
3. Information needs to be put forth to emphasize safety to investors - they don't like jargon; messages should be clear and then individual investor needs to take more responsibility
4. Investment in education is really the best solution; more regulation won't help
5. Barrier to entry for retail investors is too low; they don't often know what they're doing; better information flow to investors
6. A contrarian view: disagreed that investors were uninformed, rather due to the Internet they know it all and left the market because they were informed; investors feel that it is a rigged game and not a level playing field - we need to fix this

Markets

1. Address complexity; Duncan Niederauer used analogy of the car dashboard remaining relatively simple in the face of the entire engine being computerized and radically different from years ago
2. Embrace technology because it is here to stay; can't roll back technology of high-speed trading, but need to get out the glitches that occasionally plague the markets and turn off investors, e.g., "dark" pools; reinstate "speed bumps;" Niederauer used analogy of driving 100 MPH without a driver or a plane flying on autopilot without a pilot
3. Implement kill switches, speed bumps, wholesale simplification
4. Undo decimalization because it has sped up trading perhaps too much and too unfairly to smaller investors and smaller public companies who are "orphaned" by current system
5. More transparency; use dark pools for blocks only; less opacity in the markets

Tax Code, Legislation & Regulation

1. Increase the tax rates on short-term gains - e.g., if the gain occurs in less than one minute, maybe a 50% tax rate should apply
2. Remove interest payment deduction so debt and equity raising on equal footing
3. Overturn Citizens United, which created a highly-destructive lack of alignment
4. Enforce Dodd-Frank
5. More enlightened regulation, through a set of principles, not more or less regulation