

White House News Summary

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BC-SEC (SCHEDULED FEATURE)

WHITE HOUSE NEARS DECISION ON NEW SEC CHAIRMAN

By Alver Carlson

WASHINGTON, Reuter - The White House has narrowed its choice for a new head of the Securities and Exchange Commission to a few candidates led by presidential aide Richard Breeden, administration sources said.

The search for a successor began this spring when the current chairman of the agency that acts as the Wall Street's watchdog, David Ruder, announced he was returning to teach at Northwestern University.

At one point Federal Reserve Board Vice Chairman Manuel Johnson was on the short list of potential successors to Ruder but sources said he has removed his name. Another candidate being considered is SEC commissioner Edward Fleischman, who has indicated he would like the position.

But Breeden, 39, has made it known he is interested in the job and as an aide to President Bush, he is in an excellent position to get his way, the sources said.

The new SEC chairman will take the helm when the role of the agency, formed after the stock market crash of 1929, is coming under unprecedented pressure for change.

As Wall Street investigations have become vastly more complex, critics say the SEC is underfunded and unable to attract the kind of intellectual muscle needed to monitor highly sophisticated trading in a large array of new products.

In recent years the SEC has focused on insider trading, bringing the landmark case against famed Wall Street speculator Ivan Boesky, who cooperated with the government, and a 98-count indictment against Michael Milken, who helped build the junk bond market for Drexel Burnham Lambert Inc., changing the face of corporate America.

Milken has maintained he is innocent and plans to fight the illegal insider trading charges, among others, brought against him. He has also resigned from Drexel, which has agreed to plead guilty to six felonies and pay a \$650 million fine for insider trading and other securities law violations.

Breeden, a Wall Street attorney, has worked with Bush since he served as vice president and was a member of a task force examining an overhaul of the regulatory system, including the SEC.

Considered a tough fighter when conditions warrant, Breeden was one of the Bush point men on the savings and loan bailout package. Breeden was not available for comment.

Ruder has said he hopes to stay on until his replacement is named. The timing has taken on some importance since the SEC will also be without an enforcement chief, a key position that must have the blessing of the chairman to be filled.

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Gary Lynch, the present enforcement chief, has decided to leave July 28 to become a partner with the New York law firm Davis Polk and Wardwell, and his position could very likely be left unfilled for a time.

"The post will remain open for a bit," Lynch said in an interview, but "the staff is very strong and the department can go on without a director for a while."

The agency is operating in a substantially changed regulatory environment. The Glass Steagall Act, the law separating commercial banking from investment banking that has served as the legal framework of Wall Street since the 1930s, is under severe attack, raising questions on how and by whom the securities industry will be regulated.

The increasingly global aspect of trading has also raised important regulatory questions.

Lynch, the agency's top cop, said the SEC job has become increasingly complex with the move toward international markets. He said the agency needs new resources and to hire more attorneys to investigate cases of wrongdoing.

But on balance, Lynch said, the insider trading cases have sent a message to Wall Street that the agency will not back away from investigating illegal activity, no matter how complex or difficult.

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