SEC Historical Society
2011 Diane Sanger Memorial Lecture
March 28, 2011

RICHARD NESSON: Good afternoon and welcome to the 2011 Diane Sanger Memorial Lecture, broadcast live from the Georgetown University Law Center, and worldwide on www.sechistorical.org. I am Richard Nesson, President-Elect of the Securities and Exchange Commission Historical Society, the host for today's program. The SEC Historical Society, which is a non-profit organization, entirely independent of the SEC, shares, preserves and advances knowledge of the history of financial regulation through our unique virtual museum and archive located at www.sechistorical.org. The museum provides more than 300,000 visitors each year with access to primary resources showing how the U.S. financial regulatory system has been developed. The museum collection allows you to become an eyewitness to history through the words, voices and images of the people who have built and administer our regulatory system, for, at the end of the day, even the most thoughtful statutes and regulations requires the hard work and dedication of the people involved to make our system of financial regulation effective. Today's lecture recognizes one such person, Diane Sanger.

In her brief life and career, Diane shared her keen intellect, commitment to justice and mentoring spirit to the cause of protecting investors and ensuring fairness in the capital markets. Except for a brief period as visiting staff on the Senate Banking Committee, she devoted her entire professional career to the SEC, rising in the General Counsel's Office to the rank of Associate General Counsel for Counseling and Regulatory Policy. The SEC recognized Diane's accomplishments in 1994 with the Distinguished Service Award, its highest award, recognizing her outstanding contributions to the work of the Commission and the administration of the Federal securities laws.

SEC Commissioner Elisse Walter, a former colleague, has shared this remembrance of Diane. "I had the pleasure of working with Diane for a number of years. For two of them, she worked for me, or more accurately, I worked for her. Diane had rigorous standards and was a tough critic. She was insightful, brilliant and devoted to her work. Perhaps even more important she had a wicked sense of humor and was the most loyal of friends. I miss her very much."

The Diane Sanger Memorial Lecture Series recognizes the values that Diane supported throughout her life and helps attain the goals she sought during her career by offering reasoned discourse on the policies and practices needed to promote regulatory reform and fairness of the capital markets. We would like to thank Georgetown University Law Center for joining with us to present today's program.

Donald Langevoort, Thomas Aquinas Reynolds Professor of Law at Georgetown, and a member of the Society's Board of Advisors, will speak on behalf of the school.

DONALD C. LANGEVOORT: Thank you and I will speak very briefly. It is my privilege and honor to welcome you all here on behalf of Georgetown. Georgetown has a close connection with both Securities and Exchange Commission and the SEC Historical Society. In fact, if I recall, in the early years of the virtual museum, there was a meeting here among a number of academics to give some thoughts and suggestions to what has become a wonderfully successful project. So we are happy to build on our connections with both the Society and the Commission today.

It is a particular honor and privilege to welcome the friends and family of Diane Sanger here. I was at the General Counsel's Office in 1978, when Diane first came to the Commission and I had the privilege of working with her. Russ Stevenson, who is on our faculty as a distinguished visitor from practice came to the Commission and the General Counsel's Office shortly after I left and had that same privilege. He mentioned to me a while ago what a wonderful thing it was to work with Diane. So I am simply going to turn it back to Richard and let the program go forward. Once again, welcome.

RICHARD NESSON: The SEC Historical Society thanks the generosity of the family of Diane Sanger for making possible today's lecture. We welcome her family and friends who have joined with us today. Bryna Sanger, Diana's sister will speak on behalf of the family.

BRYNA SANGER: I am Bryna Sanger, one of Diane's sisters. On behalf of myself and my family, I would like to thank Carla Rosati, the Executive Director of the Historical Society, and Richard Nesson, the President, for sponsoring this lecture and to Don Langevoort at Georgetown for honoring us with the use of Georgetown and of hosting it. You have helped us through this event to provide an appropriate memorial for Diane.

For almost 30 years at the SEC, Diane mentored a generation of securities lawyers and in a remarkable career that remained always committed to the importance of ensuring the protection of investors and of the fairness of markets. Her life was hard, it was short, but it was principled and purposeful. Regulatory reform and continuous improvement in consumer protection are important ways to achieve the outcome she sought in her work. And we are just so delighted to have Professor Steve Schwarcz with us today to help navigate the impact of the recent efforts to achieve the performance. This is the second Diane Sanger Memorial Lecture, and we are grateful to have such an eminent analyst to help honor Diane's legacy. We are grateful to share her memory in this way. Thank you so much.

RICHARD NESSON: Over the past few years, we have witnessed profound changes in the capital markets in the financial regulatory process. Responses to the financial crises of 2008 continue to roll off. One significant response was the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted by Congress last July. Many regulatory agencies including the SEC are hard at work now in implementing the provisions of Dodd-Frank. To discuss the creation and impact of Dodd-Frank, we are honored today to hear from Steven L. Schwarcz, Stanley A. Star Professor of Law & Business at Duke University School of Law.

Professor Schwarcz is a graduate of New York University School of Engineering and Science where he majored in aeronautics and astronautics, graduating first in his class. He worked on legislative initiatives involving science and law while attending Columbia Law School. Before joining the Duke faculty in 1996 he was a partner at two international law firms where he helped to pioneer the field of asset securitization. His main areas of scholarship today are commercial law, bankruptcy and international finance, and capital markets. He founded and was the first faculty director of Duke's International Global Capital Markets Center. It is my pleasure to welcome Professor Steven Schwarcz.

STEVEN L. SCHWARCZ: Thank you Richard and thank you Don for allowing Georgetown to host this event. And thank you to the Sanger family, I am honored to be here on behalf of this memorial lecture and in recognition of the memory of Diane Sanger. I also thank Carla Rosati for doing a wonderful job in setting this up.

Securitization has been called into question because of its role in the recent financial crisis. Securitization refers to a category of financing transactions in which companies sell rights to payment under mortgage loans, accounts receivable, lease rentals or any other type of financial asset, to a trust or other special purpose vehicle. Sometimes you hear the term SPV for Special Purpose Vehicle, similarly you hear the term SPE for Special Purpose Entity; these are the same. The goal in each case is to separate the financial asset from the risks that are generally associated with a company, and to distinguish the special purpose vehicles from the originating company.

I call the originating company, the originator. The originator sells the assets to the SPV. The SPV issues securities to investors and uses the proceeds of the securities to purchase the financial assets. In doing this, securitization accomplishes a very significant cost savings. First, securitization achieves what is sometimes called disintermediation - removing the intermediary, the intermediary in most cases would be a bank. A bank will get its funds in two ways. It will take deposits but it will also issue securities to capital market investors. When it lends the money, a bank is a business and it wants to make a profit. If you make a profit as an ordinary company, you buy at a low price, sell at a higher price. Banks too will borrow at a low price and lend at a higher price. So, in order to eliminate this profit, it would be great if companies can go directly to the capital markets to get their financing, and that is one of the things that securitization does. This enables companies to effectively, buy not retail but wholesale.

Second, securitization achieves a cost savings because the interest rate payable on securities issued by the SPV is ordinarily lower than if the originator itself had issued securities like bonds or commercial paper. This interest rate savings reflects that the financial assets sold to the SPV (it is the SPV that issues the securities) are much more trustworthy, more creditworthy than that of an operating company that engages in a range of businesses, and has creditors and claims against it.

Investors in the SPV's securities expect ultimately to be paid from collections on the financial assets purchased by the SPV. For example, let's assume these assets are residential mortgage loans. The investors will ultimately be paid by the mortgage payments made by the homeowners. Securities of an SPV are payable from, or backed by, these assets; you hear "asset backed securities" and "mortgage backed securities," that is what it references. These securities are called mortgage backed securities, or MBS, if the financial assets are mortgage loans. If the financial assets are anything other than mortgage loans, they are called asset backed securities or ABS. You might ask, "Aren't mortgage loans assets?" Of course and I will refer in general to ABS and ABS to include any type of financial asset backed securities.

The first securitization transactions identified as such took place in the 1970s, and these involved pools of mortgage loans. The companies, savings and loan associations, needed to essentially turn the mortgage loans into cash in order to make new loans. To achieve this, the Government National Mortgage Association, Ginnie Mae, facilitated securitization through SPVs in the form of trusts. They purchased mortgage loans and issued securities to investors in the form of trust certificates. Since then, securitization has become a principal means, maybe the principal means, by which banks, savings and loans, and financial institutions monetize their assets. This increases homeownership, of course. It has also become a very important way, at least until recently and hopefully it is heading on its way back, for companies to obtain low cost financing.

My lecture today focuses on the Dodd-Frank Act's impact on investor protection in securitization transactions. I will begin the analysis by examining securitization's role in the recent financial crisis. But I want you to keep a certain perspective in mind. Investors in securitization transactions are big institutions: think insurance companies, pension funds, hedge funds. Many of these institutions are so large, so sophisticated, that they constitute qualified institutional buyers or QIBs and under SEC Rule 144(a) they can trade securities as if these securities were publicly registered. So, throughout the lecture, keep in mind that one might question whether Dodd-Frank or any other legislation that the government might promulgate should have the goal of protecting these types of highly sophisticated investors.

Now, let me describe briefly securitization's role in the recent financial crisis. The securitization of sub-prime mortgage loans -- and these are essentially mortgage loans made to risky borrowers -- is widely viewed as a root cause of the financial crisis. Securitization transactions were backed at least in part by sub-prime mortgage loans, and the expectation was that these loans would be repaid by the mortgagers' refinancing once home prices had appreciated. Since the Great Depression, as a general proposition, home prices have been rising. The model worked very well until 2007 when home prices stopped appreciating.

One question that comes up is, why did banks make these loans that would only be repaid if there was appreciation, and why did investors invest in them? One potential answer is that there is the "originate to distribute" model of securitization. If I am a bank and I make mortgage loans, I am not going to hold on to those loans. I am going to sell them off, e.g. to an SPV, and so I, as the bank, do not take any of the risk associated with the mortgage loans. That creates the potential for so-called moral hazard.

Think of moral hazard this way. If you have a car, you always have a deductible on your insurance. Why do you have a deductible? Because insurance companies believe that if they pay the first dollar loss, you would drive like a crazy person, you would park your car in terrible places and so forth. The deductible is basically a defense against moral hazard. It dissuades you from taking excessive risk. Many believe that this 'originate to distribute' model of securitization encouraged the making of the sub-prime loans.

I will discuss in a few minutes other possible explanations for why sub-prime loans were made and securitized. But whatever the reason, the fall in home prices meant that sub-prime borrowers, who were relying on the home appreciation, could not refinance. Also, many of the sub-prime mortgage loans had adjustable rates which increased after the initial teaser period. And so borrowers who could not afford the rate increases expected to refinance, or they might not be able to repay the loans. As a result many of these sub-prime borrowers began to default at a level greater than anticipated.

Now, for ordinary securitization transactions, the defaults have localized consequences. But they had more systemic consequences in the case of what I will refer to as ABS CDO transactions, which is a type of securitization of securitized assets. I am simplifying here, but I mentioned that SPVs would issue securities to investors. Now those securities are usually backed by the mortgage loans and other basic financial assets. But when you have a securitization of securitized assets, the ABS securities themselves are used as financial assets. SPVs also issued multiple classes (or tranches) of securities to investors. This created a high degree of leverage. As a result, small levels of default, relatively small but nonetheless levels above what were projected to default, caused some of the lowest priority of the classes of securities to default. They also caused some of the higher classes of securities to be downgraded by the rating agencies, Standard & Poor's, Moody's and so forth.

Why did these securitization transactions degenerate to the point that even relatively small errors in cash flow projections caused defaults and downgradings? One explanation is that securitization's focusing on mathematical modeling to statistically predict the payments on the financial assets underlying these securities fostered an over-reliance on modeling and an abandonment of common sense. Another possible explanation is that investors seemed as anxious to buy these securities as the underwriters were anxious to sell them.

But whatever the reason, these defaults and downgradings spooked the entire investor marketplace. The investors thought that a AAA-rated security should not be downgraded, and that, if you had an even lower investment grade rating, there would not be the possibility of default. So investors began to lose confidence in the rating system and they began to lose confidence in rated debt securities. The price of debt securities began to fall. Falling prices meant that firms using debt securities as collateral had to mark them to market and put up cash. There essentially was a collapse of the entire market price for debt securities.

To give an example, in 2008, I was an expert in the High Court of Justice in England and this was a bankruptcy of Orizon Finance, the largest structured investment vehicle or SIV. The market price at that time of the underlying mortgage assets was about 21 cents on the dollar. If you do an analysis of who the underlying obligors were, most of them were prime obligors, most of the payments you could project, you can come up with a number logically what that price should be. It was close to 80 to 90 cents to the dollar. So the much lower market price reflected a great deal of panic.

In September 2008, the refusal of the government to save Lehman and the resulting bankruptcy added to this panic. The debt markets virtually collapsed. Companies could no longer borrow to pay all their expenses. They couldn't grow, and many failed. These failures affected the real economy and certainly at least in part were contributing factors to the financial crisis.

The problems were also made worse by the fact that when you have that 'originate to distribute' model of lending, the makers of loans sell the loans off to the SPVs. The real owners of the loans are the investors in the SPV securities and there are many many such investors. So you have a problem. How should you have a default on a given mortgage loan? How should that default be treated? Should there be a foreclosure? Should there be a work-out of sorts? You had servicers who were hired to deal with this. The servicers had a standard, which in most cases was to act in the "best interests" of the investors. In theory, that was nice; in practice it was problematic. There were at least two problems. One problem was that the foreclosure costs were very minimal, very small; the work-out costs were much more, much higher in many cases and certainly more variable. Furthermore, a foreclosure was ministerial; you did it and it happened. A work- out was an exercise of judgment and therefore you might be subject to liability if you were a servicer.

So that's the scenario. Let's now consider how Dodd-Frank responded to this. Dodd-Frank addresses securitization by focusing essentially on three types of issues. Number one, the adequacy of disclosure. Number two, conflicts between securitizers and investors. And number three, rating agency information. And when I discuss Dodd-Frank, I am going to use a term that Dodd-Frank really uses quite a bit, the term "securitizer." The term is somewhat imprecise but essentially for our purposes, it will mean the originator itself, the company whose financial assets are essentially securitized, or an investment bank that pools the financial assets and puts them into an SPV which issues securities.

So let us focus now on these three: adequacy of disclosure, conflicts, and rating agencies. First, adequacy of disclosure. Dodd-Frank directs the SEC to require more standardized disclosure of information regarding the underlying financial assets, including information on the assets underlying each class or tranche of the asset backed securities. This is intended to facilitate an easier comparison of different classes of the ABS. The Act also directs the SEC to require securitizers to engage in a due diligence review of the underlying financial assets and to disclose to the SPV's investors the nature of this due diligence review.

From a conflicts stand point, Dodd-Frank attempts to limit conflicts of interests between the securitizers on one hand and the investors in the SPV's securities on the other hand. It does this by making sure that, unless the financial assets are exclusively qualified residential mortgage loans, the securitizers have to retain an un-hedged economic interest in the credit risk of each class of the ABS that is issued. Colloquially this is known as keeping "skin in the game." The minimum retained interest is generally 5%. It might be less in certain cases, but we should think of it as 5%.

Thirdly, regarding rating agency information, Dodd-Frank mandates the SEC to adopt regulations requiring rating agencies to explain, in any report accompanying an ABS credit rating, the representations, the warranties, and the other enforcement rights available to the investors, including a comparison of how those rights differ from rights in similar transactions. Those are the securitization focused portions of Dodd-Frank.

Dodd-Frank does other things in trying to protect investors. It attempts to generally increase investor protection. It enables the SEC to impose a fiduciary standard for broker dealers. In some cases, it provides special protections for older investors. But these protections probably have no application to securitization, where most if not all the investors are major financial institutions, not individuals and hopefully not older people.

So, essentially you have limited application of Dodd-Frank to securitization. Dodd-Frank also says that a lot of the application of the Act will be accomplished through specific administrative agencies, like the SEC. The Act also creates the Financial Stability Oversight Council that can examine and monitor potential sources of systemic risk and identify regulatory gaps.

So the question now is, does Dodd-Frank address securitization's flaws? I believe that it inadequately does so. It addresses one of the flaws or at least alleged flaws I mentioned. It under-regulates other flaws and it over- regulates other areas that are not flawed. Let me explain why.

First, Dodd-Frank addresses one of securitization's flaws, the "originate to distribute" model. Dodd-Frank requires securitizers to retain "skin in the game," some realistic risk of loss. The theory is that by aligning the incentives of securitizers with the interests of the ultimate investors in the SPV's securities, the lending industry would become more disciplined.

This assumes that the "originate to distribute" model was the cause of the problem. It might have been, I am not saying it wasn't; but I will point out that there were also other theories as to why securitization got into trouble. For example, there was a great deal of U.S. government pressure on lenders, such as Fannie Mae and Freddie Mac, to originate and securitize sub-prime loans. This was to enable even poor people to afford housing, so you had that mixing of politics and finance. Secondly, there was this huge liquidity glut at the time, and banks were making loans at extraordinarily low interest rates. They were not going through the typical financial rigor that they ordinarily should. Rates were artificially low. We also had potential conflicts of interest between lending firms and their employees. Employees would make money by originating the loans, but sometimes those loans might not have made sense from the institution's standpoint. Also the "originate to distribute" model does not really full explain why standards were lowered for originating mortgage loans but not other types of financial assets. And finally, it doesn't explain why the ultimate investors in these securities, the big financial institutions, didn't apply this same strict lending standards and discipline to the types of financial assets and securities that they were investing in.

Now, we are never going to know for sure the extent to which the "originate to distribute" model actually contributed to the financial crisis. It's somewhat ironic that "skin in the game," essentially removing the conflict between originators and the ultimate investors, could have a certain backfiring effect. I have argued that one of the reasons a lot of sophisticated investors invested in these securities without really engaging in proper due diligence is that the underwriters of these securities, also big institutions, in fact had "skin in the game" and more than the type of skin mandated by Dodd-Frank. In many cases, they retained the most subordinate interest, the so- called equity interest, the unrated pieces of these ABS CDO issues. The fact that they took essentially the primary loss position on these securities, in many cases induced other investors to buy into the senior portions. There could be what I referred to as a "mutual misinformation" problem. It is not just asymmetric information but one party not fully understanding it, creating misinformation on the other side.

To its credit, Dodd-Frank does mandate the Financial Stability Oversight Council to study and submit a report to Congress on the macro-economic effects of the "skin in the game" requirement. This will include possibly proactively regulating mortgage origination as an alternative or supplement. But we want to be a little careful there. One of the things that could be done, for example, is to apply to mortgage lending the same types of requirements that one saw after the Great Depression applied to margin lending. I have argued that there are real parallels between the Great Depression and what recently happened. The Great Depression was partially triggered by margin loans that financial institutions made to enable investors to purchase publicly traded stock, securing the loans by the stock they purchased. In the recent financial crisis, financial institutions made loans to enable risky borrowers to acquire homes, securing the loans by the homes they purchased. They could impose, for example, the same type of collateral requirements in the margin case; there is a minimum of two to one collateral coverage with these margin loans that are secured by the margin stock. You could require something like that in terms of the value of the house compared to what you put up as collateral. That could be good in terms of preventing default but would be terrible in terms of encouraging home ownership, because very few people could afford essentially 50% equity in their houses.

Dodd-Frank does not in any meaningful way address the danger of mixing politics and finance as occurred before the financial crisis with the pressures I mentioned by the government on lenders to originate and securitize sub-prime mortgage loans. Dodd-Frank also does not address the problems of over-reliance on mathematical modeling. Mathematical models are not problematic per se. If the model is realistic and the inputted data are reliable, models can yield very accurate predictions in real events. But if the model is unrealistic or if the inputted data are unreliable, then the models can be very misleading. To some extent, I think that over reliance on mathematical models should be self corrective. The financial crisis has shaken faith in the markets and has shaken confidence in the market's reliance of mathematical models. I think in the short term there will be much less of that type of artificial reliance. However, experience has shown that, in the long term, as Business Week once put it, "Investors go for the gold." They tend to have short memories, and if the yield -- the rate of return on investments -- is high, they may forget all the critical license.

Dodd-Frank also fails to address what I refer to as the complacency problem, which is a problem of human behavior. People did not fully appreciate what they were buying. They relied on others and the fact that others were investing. There was a certain degree of herding behavior: where many investors will invest in certain type of assets; other investors would want to do the same. There is safety in numbers. This is a problem that I think will be with us always. I think back to when I was a law student. I took a seminar on legislation with Professor Frank Grad, who was a great legislative scholar. At the end of every class he would say, "The problem is not that much statutory drafting; the problem is that statutes apply to people."

Finally, Dodd-Frank does not address the servicing problem. I find that less troublesome. Parties can and should have an incentive in the underlying deal documents to set clear, more flexible guidelines, in setting reimbursement procedures for loan restructuring when it's superior to foreclosure. Parties also can try to prevent the sort of conflicts in cash flows. During the financial crisis, some of the classes of ABS CDO were interest-only securities, some were principal-only securities. How do you work that? If you reduce the principal but not the interest, then the people who have reduced principal get upset and vice versa. So you try to structure the deals, the underlying securities, to mitigate these problems. There are also other ways you can deal with it. I have argued that one thing that should at least be considered is that servicers, when they act in the best interest of the investors, should be protected by something akin to a business judgment type rule so they at least can exercise discretion and judgment in terms of what they do.

Finally, I think that Dodd-Frank overregulates by addressing aspects of securitization that are not flawed. I gave the example of the "skin in the game." Dodd-Frank also might also overregulate in its requirements for more standardized disclosure of information. In principle, it should be helpful for investors who get this standardized information, including information on the financial assets underlying each class of ABS. But my experience is that prospectuses already routinely provide this. Dodd-Frank also requires securitizers to engage in a due diligence review of underlying financial assets and disclose to investors the nature of the review. In my experience too that is routinely done. So the larger problem is not the disclosure. The real problem is that investors don't read the disclosures, and when they do they don't always understand it.

There are two reasons for that. One reason is complacency as I have discussed. Another reason is there is actually a conflict of interest within investing firms themselves. As investments become more complex, conflicts are increasingly driven by short-term management compensation schemes especially for technically sophisticated secondary managers. I will give an example, the value at risk, VAR, model. This is a model for measuring investment portfolio risk. Financial firms began to compensate their secondary managers not only for generating profits but also for generating profits with presumably low risk as measured by VAR. The managers are not dumb; they turned to investment products that had a high rate of return but a low VAR risk profile like credit-default swaps. The managers in some cases may well have known but didn't always explain to their seniors, that yes, there was a small chance of loss but if the loss occurred, it could be huge.

This is an intra-firm conflict. It is very much unlike the traditional focus of scholars and politicians on conflicts between senior managers and shareholders. This is a conflict between senior managers and secondary managers. Dodd-Frank attempts to fix the traditional conflict between the shareholders and the directors. Dodd-Frank does nothing about this secondary conflict between the senior managers and the secondary managers.

Dodd-Frank also focuses on disclosure, and I have written elsewhere that disclosure can never in these days be a complete answer to complexity. Things have become so complex that you can disclose all you want, but people are not going to understand. A typical prospectus for an ABS CDO transaction is about 400 pages. I must tell you that even an expert reading that will not fully understand it, much less an analyst who may be looking at a multitude of transactions.

Dodd-Frank also mandates the SEC to adopt regulations requiring rating agencies to report on securitization transactions, for example, explaining the rights available to investors, and comparing those rights with similar rights in similar transactions. It puts a disclosure obligation on rating agencies. These are private parties and their job is to assess the likelihood of a default. To the extent this information is material, and I think it is, it should be included in the prospectuses, the information statements accompanying the sale of ABS; and so requiring rating agencies to also disclose this information is somewhat duplicative. Now the only saving grace to this is that in many cases rating agencies may have broader industry knowledge than some of the underwriters, but that is going to be a question.

So let me set out my conclusions. At the outset of the lecture, I questioned whether Dodd-Frank or any other legislation should have the goal of protecting the largest and the most sophisticated investors. I do not believe these investors need protection as a matter of government paternalism, but their failures could have systemic consequences to bring down portions, if not all, of the financial system. To that extent, we should be protecting these investors. We should not be doing it for their own good; we should be doing it to protect the financial system and thereby indirectly protecting all investors.

Secondly, I have observed that financial products such as securitization have become so complex that disclosure can never be a complete answer. Because of this increasing complexity, financial failures are and will continue to be inevitable. We cannot create any system to eliminate failure. I think more emphasis should be given to consideration of ex post type of protections, such as financial market stabilizers. In the financial crisis, you had sub-prime defaults start to trigger defaults on the lowest rated securities and cause downgrading on the highest rated securities. That created a complete market panic. Rather than that occurring it would be great if the market was stabilized.

Finally, Dodd-Frank itself imperfectly addresses securitization. But the delegation of rulemaking to administrative agencies and the power of the Financial Stability Oversight Council created by Dodd-Frank to monitor and consider fixes provides the potential that future regulation will be more suited to securitization. Thank you.

RICHARD NESSON: Steven, thank you so much for your insightful commentary on Dodd-Frank. You have given us clarity and fresh perspective on its consequences, both intended and unintended, as well as discussing what it doesn't cover but perhaps should have.

We hope that today's lecture helps us to remember and reflect on Diane Sanger's contributions to effective and fair regulation. This lecture is now permanently preserved in the virtual museum and archive at www.sechistorical.org for access at any time, along with last year's lecture which was presented by Nell Minow. We hope also that today's program recognizes all those who currently work in the regulation of financial markets and that Diane's life serves as an inspiration for those who are considering such a career. Thank you for being with us today.