Speaker 1 (00:05):

Welcome to The Bill Walton Show, featuring conversations with leaders, entrepreneurs, artists and thinkers, fresh perspectives on money, culture, politics, and human flourishing. Interesting people, interesting things.

Bill Walton (00:25):

Welcome to The Bill Walton Show. I'm Bill Walton. It's getting harder and harder to trust our money. If you're old enough, you might remember the phrase, sound as a dollar. It meant very safe, something you could count on. There was a time when the American dollar was a reliable bedrock of the world's economy and a dependable currency to be admired and aspired to by other nations. Well, that was then. Now, well, I believe we've got a lot to be concerned about our money, and I break it into roughly three areas.

(01:04):

First, domestically, owing to reckless federal spending and a weak-kneed Federal Reserve, we have rising inflation, rising housing mortgage rates, which will have a big effect on housing prices, regional bank failures, and growing concerns about where to put our money.

(01:21):

Internationally, thanks in part to our sanctions on Russia and the weaponization of the dollar, our dollars world reserve currency shares fall into less than half. It used to be 75%. We'll talk in a bit about why that matters and why that puts the United States potentially in jeopardy. The third area and the one I'm most concerned about is how our financial institutions and our regulatory agencies are being weaponized for political purposes.

(01:51):

The so-called ESG investing, unbanking industries like hydrocarbon producers and the push for central bank digital currency, which could lead to a Chinese style social credit system, all these ought to be big concerns for us and we're going to talk about what those are and what they mean for us during this show. There's a lot to unpack here. To help understand the issues, my guest today is a perceptive policy expert and important to me and in the arena finance practitioner.

(02:25):

Chris Iacovella is the President and Chief Executive Officer of the American Securities Association, has deep expertise in the equity, fixed income, and derivatives markets, as well as growth capital and wealth management. Prior to becoming CEO of the ASA, he was the CEO of the Equity Dealers of America and Director of Global Government Affairs at Bloomberg LP. Before that, Chris worked as a security bond broker on a fixed income derivative desk and as a structured finance capital markets and mergers acquisitions attorney. Chris, I'm delighted we're finally getting together.

Chris Iacovella (03:01):

I am as well.

Bill Walton (03:02):

I've been following your work for a long time now and I'm very impressed with the leadership you're providing at ASA, because it's a collection of regional security firms around the country and they obviously have financial objectives, but I think you've been a real thought leader in the policy things we need to be worried about as regards our freedom and as I put it, the American way.

Chris Iacovella (03:28):

Well, thank you.

Bill Walton (03:29):

So, Chris, as I said, there's a lot to unpack here. What do you think? Where do you want to start?

Chris Iacovella (03:34):

I think you hit on a lot of very interesting points and some very important points, especially as it relates to focusing on the administrative state, the expansion of it. I think over the last two years, we've seen more rules than we've ever seen before. I think the amount of paper, the amount of costs that are being heaped on companies, not just in the financial services space, but in every sector of our economy, are far outweighing what their productive capacity should be.

(04:07):

So, what that leads you with is lawyers, accountants, professional services firms, these people are getting rich and shareholders and companies have less money to spend on research and development, on hiring and on job creation and things that benefit our economy. That's not what the administrative state was made for. It was made to provide rules of the road that were simple to enforce them so that most of the organizations that are governed by those rules can operate freely in a fair and competitive playing field. What we see now is just a massive tilting of the scales.

Bill Walton (04:49):

Well, I'm not even sure the state as the founder envisioned it would even be remotely called the administrative state. The federal budget was recently 19. I think before the Civil War, it was as small as 3% of the economy. So, you're in the thick of it with your group, ASA. Flesh out for me what you mean by the regulatory creep that's going on in these... I guess the Securities Exchange Commission would be a good place to start.

Chris Iacovella (05:21):

Well, that's a perfect place to start. Securities Exchange Commission is run now currently by its chairman Gary Gensler. He's undertaken a very ambitious regulatory agenda.

Bill Walton (05:34):

He came in from Goldman Sachs.

Chris Iacovella (05:36):

He previously worked at Goldman, but he's been in government now in three different administrations and was also Chief Financial Officer of the Hillary Clinton Campaign.

Bill Walton (05:46):

So, he does have a political agenda.

Chris Iacovella (05:48):

I would say.

Bill Walton (05:52):

Got you. Okay. I'm sorry, I didn't mean to interrupt, but I wanted to flesh it out a little.

Chris Iacovella (05:54):

Yes, he does. So, with 55 new rules without a mandate from Congress to be writing any of these rules, you have to ask yourself, "What's going on here?" I think you just answered the question there. There's a political agenda that's being introduced into our financial markets. It's designed to crimp private capital. We have a climate disclosure rule that leaks into companies that are not public companies. I think that from the conversations I've had on Capitol Hill with members, there are people who are extremely concerned about the creep that that's going to have in our economy parts of our economy that the SEC has no business regulating.

(06:40):

Then he claims that he has to do this because investors are clamoring for this disclosure, but it's not investors that are clamoring for it. It's Wall Street asset managers, investment banks, and institutional investors who adhere to the ESG agenda. They don't really care how much these costs impose on shareholders. That's where we come in because our mission is to promote investor trust and confidence and get our companies and municipalities that we work with access to capital. When you put rules like this on the climate rules, estimated to cost $8 billion, and that's in their own estimates.

Bill Walton (07:20):

The climate rules alone.

Chris Iacovella (07:22):

Alone. That's a massive amount of money to impose on shareholders.

Bill Walton (07:30):

Well, for those of us, I've been insider on this forever, decades. It's changed so much. I mean, when I was in Wall Street, Wall Street Finance Banking in the '70s and '80s, we pretty much focused on doing business the old way, trying to make a profit, doing deals, that thing. Wall Street was characterized pretty... I remember it was the decade of greed, the '80s. Now I might call it the decade of the woke. I don't think people quite understand the extent to which the major investment managers, BlackRock, Vanguard, Fidelity, maybe not so much Vanguard, but certainly some of the others and the proxy advisory firms, ISI and Glass-

Chris Iacovella (08:16):

Glass Lewis.

Bill Walton (08:16):

Glass Lewis are all totally woke and they're pushing environmental, social, and governance agendas on public companies. Unfortunately, a lot of the public companies are fairly receptive. Who gets hurt? I think the investors get hurt. You want to amplify that? I think I've got that right.

Chris Iacovella (08:35):

You do. I would add a couple more folks to that mix, which are the rating agencies that their participation in pushing the ESG agenda through ratings is going to start to actually tangibly harm the cost of financing for states, for municipalities who don't go along.

Bill Walton (08:59):

How so?

Chris Iacovella (09:00):

Take a state like West Virginia. West Virginia makes money off coal, its demographics may not look exactly like the S&P or movies or their ratings grid wants it to look. So, they take a look at the financial status of the issue and whether they can have an ability to repay on projects and raise financing in the capital markets. That's the way it used to be. Well, now there's other issues that creep into the underwriting criteria that leads to what the credit rating is. If your credit rating gets downgraded because of an ESG factor, it's going to cost the citizens of that state more money to raise capital to keep up.

Bill Walton (09:44):

So, the rating agencies are now rating companies based on their ESG.

Chris Iacovella (09:48):

They are putting ESG into the analysis. Yes.

Bill Walton (09:50):

Let's break down ESG, environmental, social, governance. What seems to me the big piece of ESG is the environmental piece in terms of the cost of shareholders.

Chris Iacovella (10:00):

Yes, I think I would back up and say it like this to your audience. Previously when you were on the street and in your career, your job was to create value for the company and ultimately benefit the shareholders by maximizing their investment. That's what your job was. Now your job is to try to do that as well as handle political issues that have been allowed to be thrust into the boardroom, because shareholder proposals are demanding that companies, that their senior management, that the boards take positions on climate, on guns, on abortion, on racial issues.

(10:42):

These things are not part of why somebody invests in a company. People invest in a company to build wealth for their family, to try to make enough money so that their children can go to school and so that they can retire. That's a dramatic change from where we were 10 years ago. It's all because of shareholder activists who are pushing a political agenda that they can't get through Congress into the boardroom and then hoping that that gets pushed down onto the American people through corporations.

Bill Walton (11:15):

So, let me see if I can frame this. What you're talking about is shareholder capitalism where we're interested in management teams that invest in products and services that create a high return on capital and return a good either dividend or increase in value to shareholders. So, that increases their wealth, it's their money. Most of it was more rather than less. So, that's hard to execute, but a very simple aim. On the other hand, we've got what's now in fashion, which I guess I'd call stakeholder capitalism.

(11:50):

I don't guess. It is called that. I think Klaus Schwab of the World Economic Forum has been a major, if not the initial proponent of stakeholder capitalism. That's where a lot of this nonsense about doing these other things has crept in and that's where it does hurt investor returns. Have you guys done any work on how much lower returns are because people are focusing on ESG and stakeholder versus shareholder capitalism?

Chris Iacovella (12:18):

We haven't done any studies, but we cite some studies in some of our comment letters. It's very clear the trend is that the ESG, ETFs, and mutual funds underperform the broader market. Not only do they underperform the broader market, but the fee structure is higher in terms of a passive investment.

Bill Walton (12:39):

Well, there's a dirty little secret that Wall Street's been always alert to marketing opportunities, has been slapping the ESG label on portfolio after portfolio after portfolio. Because it's a green portfolio, if you just take a regular index portfolio, what's the fee on that one? One-tenth of a percent or 10 or 15 basis points? ESG, it's closer to three quarters of percent or almost a full percent in many cases, because I guess they're curating ESG sensitive firms.

Chris Iacovella (13:15):

I think the main concern for investors and what your audience should be attuned to is that investors want to have choice. If you want to go and choose to put your money into a green company and that has prospects of possibly hitting it big in the future and looking at it as a lottery ticket, maybe it's in the solar industry or somewhere else, you should be able to do that. If you want to be able to put your money in an oil company, you should be able to do that. If you want to put it into a car company, it's fine. Investor choice needs to be preserved. What I think that this group of activists and people who are trying to push politics into our financial markets, I think their end game is that you do not have this choice.

(14:01):

That every single company is forced to adhere to the principles that underlie ESG, and therefore, they can control how capital is allocated. To me, this is the big concern. Firms need to be able to operate at their own leisure in their industries so that they can compete and bring returns to shareholders. They shouldn't be thinking about cultural and political issues when they make those decisions. Hiring, capital outflows, research and development, those ultimately you're trying to get small companies to become big companies because that's what helps the community. Look at Northwest Arkansas, Walmart, Tyson Food, JB Hunt. The amount of wealth that has been created there, because small firms went public back in the '70s with the disclosure prospectus that big.

(14:55):

It was 20 pages with the Walmart disclosure prospectus. Now, today, they're upwards of 300 pages and they're only going to get more and more convoluted after the SEC's done finalizing its rule set to push people into more and more disclosures, which no one reads, except for lawyers who charge $2,000 an hour to read it and to write it. So, I think all of this gets to the point of, "Why are we doing this to our capital markets?" Ours are the most deepest and liquid in the world and they're the most vibrant. All we're doing is trying to poke holes by heaping on more and more regulation and now injecting politics into the public company space. This is something that I think should trouble every American because politics belong at the voting booth.

Bill Walton (15:48):

This is The Bill Walton Show, and I'm here with Chris Iacovella, President of the American Securities Association. We're very quickly getting into the fact that the regulation by regulatory agencies and the investment styles of a lot of the big investment firms pushing towards ESG, woke investing is really hurting the little guy investors in terms of the returns you can expect when you entrust your money with a broker or somebody else with your portfolio. One of the things that is striking, Chris, is that the number of public companies today is roughly half what they were 10 years ago, 15 years ago.

(16:35):

The factors that I think speaking to regulatory issues, we had Sarbanes-Oxley, which made it very tough, I guess in response to Enron, made it very tough, a lot of regulatory issues. Most of which wouldn't have stopped an Enron to begin with, but they got piled on and then we ended up with Dodd-Frank, and then we ended up with an aggressive Securities Exchange Commission developing rules and regulations that you open with. So, nobody really wants to be public anymore.

Chris Iacovella (17:11):

That's a big problem. The public companies that have actually been coming into our markets as of late ushered in by Wall Street and the two New York stock exchanges are Chinese. Those are the IPOs that are coming in here and they're being pushed on the American investor.

(17:29):

This is another area where my organization and me personally have been very active in saying, "What are we doing here? We're going to send money from the United States to China to develop their economy, to fund the Chinese Communist Party, because every single company is controlled in one way or another by the Chinese Communist Party, whether someone's on their board, whether they hold a diminimous amount of shares in the company or whether they're part of the military industrial apparatus out there that the CCP controls."

Bill Walton (18:02):

What company in China is not part of the military? I mean, in fact, they control every company, because every company's supposed to be putting the interest to the CCP first and foremost.

Chris Iacovella (18:15):

That's right. That's an ideology in the United States that has to change, because there is a belief in-

Bill Walton (18:20):

Ideology of investing in these companies.

Chris Iacovella (18:23):

Investing in these companies, but also thinking that if you open up our markets and our way of life and our society to communists that it's going to influence them to be less communists. That hasn't worked. We were talking earlier about treaties and trade agreements. In the capital markets, the idea was you have a flow of capital. Free flow of capital gets to its most highest and efficient use and that could be across the globe. Well, generally, that's correct and I subscribe to that. I don't believe in capital controls.

(18:58):

However, when you have a country governed by the CCP that doesn't adhere to any of the international rules, laws, or norms that the rest of the countries in the world adhere to, why are we giving them access to American capital and allowing them to fund their military and economic rise with our money? So, this has become a huge issue for us. Wall Street continues to bring IPOs. There was three of them this year that were done on the NASDAQ.

Bill Walton (19:32):

What companies? What type of companies? Chinese companies? Three Chinese tech companies?

Chris Iacovella (19:38):

Yeah. So, my view here is we started pushing back on this under the Trump administration. He got it very quickly and his administration got it very quickly. We were able to get Chinese military companies, Chinese oil companies, the aviation companies out of our capital markets. They're now gone and suspended from the capital markets. But Alibaba's in there, jd.com, and all of these others who have access to technology and personal information on Americans are still in our capital markets. You just have to say, "What is the point of not growing the United States of America and pushing capital into small businesses around this country?"

Bill Walton (20:20):

What about the rule that was pushed? It started with Trump and the Biden administration kept it, where we now have to have proper audits of Chinese companies, because it wasn't just so much that these Chinese companies were doing things that might be harming America's interest, particularly if they're in part of their military industrial complex. But we didn't know what we were investing in.

(20:46):

We didn't have any good numbers. They wouldn't disclose the financials. We didn't have any audit work papers. It offends me. I worked my way through business school teaching accounting to accounting majors, so I probably know too much about it. The idea you invest in a company and not have a good audit is that's not what you do. So, did we make some progress on that? That's fallen out of the headlines recently. Where is that now?

Chris Iacovella (21:15):

So, I mean, you're absolutely right. That was the point that we started to make was why US companies don't get to tell our regulator, "No, you can't look at our financials, you can't see the invoices that underlie our sales." That doesn't happen in America. Our companies have to comply with all of the Sarbanes-Oxley laws with accounting rules.

Bill Walton (21:38):

They can't claim their state secrets.

Chris Iacovella (21:40):

Right, but yet the Chinese companies... They still are claiming their state secrets, their national security privilege. I don't personally understand how the PCAOB and the SEC were able to conduct full audits of these work papers during a full COVID lockdown in mainland China.

Bill Walton (21:58):

PCAOB oversees all the auditing firms and basically sets all the rules.

Chris Iacovella (22:04):

That's right.

Bill Walton (22:07):

So, have we begun to fix that or is that still something that we need to be at the barricades fighting?

Chris Iacovella (22:13):

No, Senator Kennedy led the charge and passed a bill out of-

Bill Walton (22:18):

Kennedy From Louisiana.

Chris Iacovella (22:19):

That's right. Senator John Kennedy passed a bill that passed the Senate 100 to 0 and it had full backing in the house. What it did was it was called the Holding Foreign Companies Accountable Act. Then last year, we passed the Accelerating Holding Foreign Companies Accountable Act. Essentially, what it did was say any foreign company that is blocking us from being able to see work papers and understand the true financial condition of companies that are listed in the US capital markets has two years to stop doing that or else they're going to get delisted. It forced the SEC to put out the list of all of these companies that are out there. Also, part of this bill, there's supposed to be disclosure of who's on the boards of these foreign companies so that we start to get at the fact that Chinese Communist Party members are on there.

Bill Walton (23:13):

Which we already know.

Chris Iacovella (23:14):

They've moved on, and now they've decided that they'll just hold a very small amount of shares that don't act as control.

Bill Walton (23:20):

It seems like we have these headlines and it seems like there's some solution. Then next thing you know, the Chinese have reworked it. So, they ended up with what they always wanted. Wasn't Deloitte one of the big four accounting firms recently put in the penalty box in China, prohibited from doing audits, because they trumped up some charge that there was a bad audit of a company? So, they didn't want that US-based company doing business in China, even though it had like 45 offices in China and was largely staffed by Chinese people.

Chris Iacovella (23:56):

Yeah. Well, and also, to add one more point to that, the Chinese Communist Party requires employees who work in audit firms and particularly audit firms associated with the United States audit firms according to an FT article to where their Chinese-

Bill Walton (24:12):

Financial Times.

Chris Iacovella (24:13):

Financial Times article to wear their Chinese Communist Party pin in the office to let everybody else know.

Bill Walton (24:20):

What's that look like? Have you ever seen a Chinese Communist pin?

Chris Iacovella (24:23):

Yeah, it is just a red pin with a flag on it. So, what I think is you cannot trust any numbers that come out of China. You cannot trust the data, the financials, whatever they tell us. People who invest in Chinese companies do so at their own risk, but a lot of Americans were doing so unknowingly because Chinese companies were being stuffed into ESG funds, S&P funds.

Bill Walton (24:50):

Well, let's talk about the Morgan Stanley Index. There's an international index that covers all the countries all over the world and it's used in part. All the federal government pensions are controlled by an agency. I don't remember the name, which you were active on this.

Chris Iacovella (25:09):

Oh, the TSP plan.

Bill Walton (25:10):

TSP plan.

Chris Iacovella (25:11):

Yeah, that's right.

Bill Walton (25:12):

What was happening is the Chinese companies were being-

Chris Iacovella (25:16):

Thrift Savings Plan.

Bill Walton (25:17):

Thrift Savings Plan, were put into Thrift Savings Plan because they were part of the Morgan Stanley index. Morgan Stanley wasn't doing any due diligence about... They were basically agnostic about whether Chinese or not. So, we had a lot of federal employees whose savings were invested in Chinese companies.

Chris Iacovella (25:38):

That's right. The MSCI International Index was part of their investing portfolio and that included a number of Chinese companies.

Bill Walton (25:45):

Did we get that roll back? There was a big fight six months ago.

Chris Iacovella (25:49):

It hasn't been rolled back.

Bill Walton (25:51):

It has not been rolled back.

Chris Iacovella (25:52):

We still have an issue there. People are very upset about it.

Bill Walton (25:55):

Okay, so we're still investing in Chinese companies through the Thrift Savings Plan and we're still looking at dubious audited statements from these same Chinese companies and it doesn't look like we've made much progress.

Chris Iacovella (26:12):

No. When you ask the exchanges why they're not delisting these companies, because a lot of them have been frauds, outright frauds. That's where we started from when we helped Senator Kennedy and others move that bill through Congress. We said, "These are frauds. You had luck in coffee. It went public at $20 a share." There's a pharmaceutical company. Essentially, what happens is when the useful life of these companies is over, the Chinese Communist Party takes the money and the American investor takes the hit.

Bill Walton (26:41):

Well, as an investor, I can simply say to most people who are listening, the political issues, the security issues are quite real, but also, it's been a pretty lousy place to invest. I mean, the returns have not been that good and you get tremendous government risk. For example, the private tutoring business was very big in China because of political concerns or because I don't remember the exact motivation, but the Chinese Communist Party shut down all the private tutoring businesses that were publicly traded that had a lot of private equity investors in it. They got wiped out and it was an arbitrary stroke of the pen that took an entire industry out of business.

Chris Iacovella (27:26):

That's right.

Bill Walton (27:28):

They've done a lot of the same technology companies. They're concerned about getting too frisky and outside the CCP control.

Chris Iacovella (27:39):

All those points are very valid points and important points. To bring it full circle back to the ESG front, it is beyond me how anybody could claim that they're investing in a socially responsible product when they put money into a Chinese company that's owned by a regime that commits genocide against its own people.

Bill Walton (27:58):

Well, and if you care about the environment, they're only building one coal plant a week.

Chris Iacovella (28:02):

That's right.

Bill Walton (28:06):

I don't think coal is particularly the issue, but people who believe in that do and they're absolutely hypocritical.

Chris Iacovella (28:14):

That's another point we've been trying to make as to why the ESG agenda is more of a business proposition than it is an idea to change the world through public companies. So, you have a business proposition that Wall Street has jumped on 100% driven by activists who are trying to push a political agenda into our capital markets. That makes a marriage that is really pressuring a lot of institutions, public companies to either adopt some of these policies or say that they're not against those policies and to conform. Otherwise, they could be on the blacklist for not being able to raise capital.

Bill Walton (29:00):

You and I shared before the show, I mean we both come from a libertarian free market background. In the good old days, the paradigm was you had these hardy entrepreneurs and their businesses, private sector businesses, and then you had the regulators, the overreaching regulators. There was always this tension between the regulators and the hardy entrepreneurs. Well, now that's not so much the case, particularly among the top 500 or 1,000 companies in America.

(29:31):

A lot of their management teams have gone very woke as well. So, they're not really pushing back against this. I mean, look at Delta Airlines, look at Coca-Cola, look at Disney. You're in the middle of a fight and I think we got to figure out how we can win, but if you got the companies who are willingly going along with this, how do we stop that?

Chris Iacovella (29:51):

Well, I think it's up to the consumer because people vote with their money. I think that the consumer needs to pay attention to the-

Bill Walton (30:00):

Consumer or investor.

Chris Iacovella (30:01):

Consumer or investor needs to pay attention to whether or not firms are getting involved in politics. There are a number of firms out there who are resisting to be pushed into politics by woke employees or by outside forces and saying, "Look, that's not our role." We have customers who are Republican, we have customers who are Democrats. We have employees that are both. We do not want to offend people. We just want to do our business. I think that that's probably the best path for people to take. If you choose to go down a political path, then you're alienating half the country. That doesn't seem to make a lot of business sense to me. I'll quote something that Michael Jordan said when I was growing up and people pushed on him saying, "Why aren't you using your position of power to inject race into the conversation?" He said, "Because the entire country buys Nike's and I don't want to alienate anybody."

Bill Walton (31:01):

Well, and now we have Nike's big time in China.

Chris Iacovella (31:07):

That's right. Well, Nike, Apple, Starbucks, Tesla. As a shareholder in these companies, you have to analyze what's the risk, what's going to happen to any company that has a substantial amount of their revenue or cash that's in China. If China quarantines Taiwan and the United States reacts even remotely close to the same way that it did when Russia invaded Ukraine, that capital is going to stay there and those companies are going to have to take massive losses, because they're not going to be able to get the capital out and the Chinese won't them.

(31:43):

Why would they let that money leave? They don't let it leave now. So, those companies who are there are going to get vilified. There are going to be sanctions that they're not going to be able to get around. That is going to have a direct effect on the price of the shares that are in our marketplace.

Bill Walton (32:03):

In the event something happens with Taiwan, we end up in more of a hot war with China. All these companies investments are going to be stranded.

Chris Iacovella (32:12):

Yes, they're cash too. They have a lot of cash that they claim on their balance sheets right now when they report their Qs and Ks that is foreign cash that's sitting in communist China.

Bill Walton (32:26):

This is The Bill Walton Show, and I'm here talking with Chris Iacovella, who's the President of the American Securities Association. We've wandered into the thorny problem of what do we do about China as investors and as patriots and how we extricate ourselves from a lot of the deep involvement that we've had that's been built up over the last 15, 20, 25 years. I mean, one of the issues, Chris, is that you take a company like Apple. They build their iPhone. They build their iPhone almost entirely in China.

(32:57):

Tim Cook is now the CEO of Apple, made his career developing relationships inside China. A, he's got a lot of personal connections there, real deep friendships, and B, they can't move the iPhone operation outside of China. They can't find the technical or the manufacturing expertise to do that. So, if I made you CEO of Apple tomorrow, how would you handle that even if they wanted to?

Chris Iacovella (33:30):

I think they're starting to get relationships in India and in other Southeast Asian... I think not just Apple, all of our multinationals that strongly shifted their growth models towards China are rethinking it right now. We're getting perilously close to a point here where you have this union between Russia and China and Iran that is trying to test the geopolitical power of the United States and investors and capital are starting to realize that. I think that as that happens, you're going to see more and more pressure from investors on CEOs and on boards, not about the social issues, about what's going to happen to the price of your stock in this event because this isn't black swan event. This is something that actually could happen.

(34:30):

They may not invade, they may just quarantine. They may stop the Taiwanese from being able to conduct their free trade and they may keep all the semiconductors inside of that country and keep them for themselves. That would be hostile towards our interests. The United States would have to respond in some way, probably economically, probably through sanctions, but that will have a ripple effect on every multinational company that has capital locked up there. People aren't talking about this risk and it's a real one.

Bill Walton (35:03):

Well, we are.

Chris Iacovella (35:04):

We are.

Bill Walton (35:05):

We're trying to get the word out. I don't want to take the side of all these multinationals, not particularly, but I do believe having run a company to get yourself extricated from China is not a next year thing. It's a next decade thing, if even then you can do it. Now, of course, President Xi of China, I think he'd liked to batten down the hatches a bit and he's not really welcoming foreign investors in as much as his predecessors.

Chris Iacovella (35:38):

Yeah. They're turning inward for their growth.

Bill Walton (35:42):

So, coming back to the domestic world, what are the big issues for your association and what are you trying to accomplish here in Washington?

Chris Iacovella (35:51):

Well, I think we've talked about some of the political, cultural, social issues, but there are also some national security issues that are implicated with some of the SEC rules. One of them, which your viewers may know about, and if they don't, I'm going to give them a quick little lesson on it.

Bill Walton (36:11):

Do it.

Chris Iacovella (36:13):

It's called the Consolidated Audit Trail.

Bill Walton (36:16):

Consolidated Audit Trail.

Chris Iacovella (36:18):

Consolidated Audit Trail.

Bill Walton (36:19):

Okay, you're going to need to explain this.

Chris Iacovella (36:20):

So, there was an event called the Flash Crash that happened about 10 years ago, where inside of a second, stock prices went up dramatically and then went down dramatically and it brought the whole market down with it. That caused Congress to say, "Wait a minute, what happened here? How did all of this happen?" The SEC couldn't answer the question because the national market system that we have is fragmented. So, they said, "Well, we need to have something that brings all of this data together so we can see how the market's money's flowing and where orders are entered and have the complete picture." That's fine. That seems reasonable.

(36:59):

It sounds okay because you're trying to conduct surveillance on our markets to make sure that they're safe, protect the integrity of the market, make sure no one's manipulating it. However, as all regulators tend to do, they overreach. In this case, what happened is that the SEC decided to add to this rule, to its surveillance capabilities, the ability to collect all of the personal and financial information of every investor who has a share of stock in our capital markets. So, if you have any accounts with a broker dealer, all of your personal and financial information is being required to be sent to a database that's being housed here in Washington, D.C. and run by a self-regulatory organization called FINRA who's going to actually monitor for it and supposedly has the cybersecurity capability to protect our data, which we dispute wholeheartedly.

(37:56):

So, now, instead of your information being decentralized among broker dealers all over the country, Bill, I'm sure you as an investor have accounts with multiple folks, you're now going to have one account number that the government can see your complete financial picture and it's associated with your personal information. So, when a hack occurs, it could be from cyber criminals, could be from state-sponsored actors in Russia and China, all they have to do is go to one place.

(38:26):

When they hack in, they broke the code and they can see everything that's going on with your identity and your wealth. I think that this is something that we've been pushing back on. We sue the SEC on it and we are about to sue. Customers are very angry about it and we believe they're going to sue again.

Bill Walton (38:44):

So FINRA stands for what?

Chris Iacovella (38:47):

The Financial Industry Regulatory Association.

Bill Walton (38:53):

You say it's independent. Is it a creation of Dodd-Frank or who governs it? Who funds it?

Chris Iacovella (39:00):

So, the SEC, it has to register with the SEC and the members of FINRA are broker dealers. So, broker dealers, which are my members, are required to comply with the rules of the SEC and of FINRA. In this case, FINRA is the entity that's going to enforce the SEC's rules if we don't send our customers data to this database.

Bill Walton (39:21):

But who does the FINRA report to, the broker dealers or to somebody else?

Chris Iacovella (39:26):

To the SEC.

Bill Walton (39:27):

To the SEC. Yes.

Chris Iacovella (39:28):

They have a license to become a self-regulatory agency from the SEC.

Bill Walton (39:39):

I'm worried about central bank digital currency and I think a lot of us are beginning to realize that's a very terrifying thought. We'll get into that in a second, but this would be similar with all your securities holdings. I mean, the SEC would know individually what you own, what you're buying, what you were selling. It seems a short step to decide, "Well, gee, we don't think you ought to be investing in hydrocarbons," or "We don't think you ought to be investing in the gun industry," or "We think that you ought to be steering your capital towards socially approved investments." I mean, am I just imagining or do we think this is where this could go?

Chris Iacovella (40:22):

Well, when you have a government regulator that has a political motive, they certainly can use this data for purposes other than market surveillance. That's why we object. I mean, they're collecting all of this data from everybody without any evidence of wrongdoing. It's perfectly reasonable for a regulator to have the authority to open an investigation if they believe that somebody has committed insider trading or tried to manipulate the markets. We want them to do that. We want our markets policed and protected.

(40:56):

We don't want SEC staff, contractors, FINRA having access to all of our personal information and being able to see and look into what our portfolio holdings are. Can you imagine if the SEC actually entered into a memorandum of understanding with the IRS? Then the government would've a true and complete picture of not only your securities holdings, but also any businesses that you might own that are private, any real estate that you may own. It's a complete picture of what your wealth is.

Bill Walton (41:30):

Do you see that happening?

Chris Iacovella (41:32):

I hope not.

Bill Walton (41:33):

Okay. Well, I think if we don't have a new administration, I think this administration's got a whole of government agenda for equity, a whole of government agenda for climate. Then I think there's a third thing they've got a whole of government agenda for, but it's overtly political. This is where're getting at what we talked about at the beginning is that there are all these political agendas that are driving our financial institutions and our regulatory agencies.

Chris Iacovella (42:07):

That's right. What our institution has stood for is that there should not be any politics in public companies. There shouldn't be politics in the world of finance. What it's devolving into is red states, blue states, red companies, blue companies, red capital, blue capital. That is entirely in opposition to what the commerce clause in our constitution was about. It was about the free flow of capital commerce and people across state borders to make our union stronger and more healthy.

Bill Walton (42:48):

So how do the big firms react to all this, the JP Morgans, the Wells, the Citigroup, the Bank of America? I'll answer my own question. I forget, you've got a day job where you got to report to all these people. You're in the industry. I don't want to get you in trouble, but it seems to me that they're all in on this agenda. I mean, Brian Moynihan at Bank of America and Jamie Dimon's got more of, I think, attractive tough guy image.

(43:20):

When it comes to policy, he's willing to unbank people just as readily as anybody else. Brian Moynihan's leading this $50 trillion initiative on climate, and he says the governments don't have enough money. So, the banking system's going to have to provide a lot of the money to convert our industry from hydrocarbons to wind and solar, which we know will be a catastrophe. So, I'm editorializing in a question, but aren't the big guys pretty much part of the problem?

Chris Iacovella (43:58):

Yeah, I think Wall Street has adopted the view that you articulated earlier of Klaus Schwab from Davos. That coupled with a lot of the shareholder activists that are well funded in our country is injecting all of these political issues into the boardroom. Now I would be remiss if I didn't say, but you have the red state governors and you have a lot of red state conservative organizations that have said, "Enough is enough" and are now pushing back and you're seeing shareholder proposals going the other way.

(44:34):

Again, shareholder proposals cost anywhere between $150,000 to $250,000 to defend each one and to get proxies send out information on the actual details of the proposal to investors. So, it's not cost free to just put this into the ether of our public companies. The SEC exacerbated what I'm talking about here because Gary Gensler changed the rules about what's an acceptable shareholder proposal from having to have an economic impact on the way the businesses run and the impact monetarily to shareholders to any shareholder proposal can be accepted so long as it has a "broad societal impact." So, you went from monetary focus to broad-

Bill Walton (45:26):

To political societal impact, which is whatever you want it to be.

Chris Iacovella (45:30):

Yeah. Depending on who sits in the White House and has appointed a person from their party to head the SEC. That's why what we're talking about and what you're talking about, this arc that is pushing political agendas into our capital markets, that just makes it easier and easier. It emboldens groups with a lot of money on both sides of the aisle to now try to put their shareholder proposals in and waste the time of management and distract management as you know being a former CEO. Your most important resource as a manager is your time.

Bill Walton (46:12):

Well, that's true. I ran a public company, gosh, long time ago. I came from 2006, 2007, something like that. But even then, we were massively regulated and had massive numbers of things we had to deal with. I remember the one board meeting, we'd gone over all these things, complying with this and doing that. We'd taken about an hour and a half and I said, "Well, I hate to ruin a perfect board meeting, but we're going to have to talk about our business." It was good. I mean, the business was good, but even then, the time and attention that gets sucked into doing these things is real. I think I didn't really develop something and we got to get out of here in a second, but the climate disclosure is $6 billion.

(47:10):

There's the dollar cost, but it's also the way it changes the behavior of the companies that are writing all these disclosures for climate. The net effect of it is all these climate disclosures tend to get you steered away from things like hydrocarbons. I mean anything that's been deemed a bad thing that's a negative and that's seen as a potential risk factor. So, you're building climate change into the risk factor in your business model. I don't know there are a lot of businesses that practically speaking have that risk associated with it. But what's your thought?

Chris Iacovella (47:46):

As we loudly articulated in our comment letter on the climate disclosure rule, this is rewriting the concept of materiality. If it's material to a company's business, they're already disclosing it. But why the SEC feels the need to impose a standard like this on every single public company when it's not material to their business and it has no bearing on it justifies why we believe it's just overtly political. The concept of materiality works. It protects investors, it protects the companies. It reduces unnecessary costs as it relates to disclosure. That in turn puts more money into the company's coffers to invest back into the company or to return to shareholders. This is going to take money out of it because it's unnecessarily imposing a standard of immateriality on every single company.

Bill Walton (48:42):

Well, let's take a big retailer for example, as I understand that they've got to get it. I's not just whether they have climate exposure, but do any of their suppliers have climate issues? So, they've got to go into all their chain of supply and disclose what things are affecting them. The cost and the time to do that is astronomical.

Chris Iacovella (49:05):

Well, exactly. That's why you've had a lot of farmers and private companies saying, "Hey, the SEC's not allowed to regulate private companies." Then public companies saying, "Look, we don't know exactly what the supply chain, the greenhouse gas emission impact is of all the way down the supply chain, and it'd be impossible for us to get to know that."

Bill Walton (49:29):

So, I missed this. So, in effect, you've got a public company with this disclosure, but the extent their suppliers are private, this gets into their business as well.

Chris Iacovella (49:38):

That's right.

Bill Walton (49:38):

It's a way to regulate private companies through the SEC. Gosh, I wish you were cheering me up more, Chris. Give us reasons for hope. What do we hope we can accomplish in the near term?

Chris Iacovella (49:56):

I think that the reasons for hope are that the more balanced that comes back to Washington, you have some balance with in Congress now. I think we have an election coming up in a couple of years, and these issues are front and center. I think the cost that's being imposed on our economy by regulation and specifically by the SEC are going to come into focus and people are really going to start to think about whether or not it's prudent to continue down this path. I think that the agenda that has been pushed by the regulators across the government and particularly in the financial space is hurting the country. It needs to be changed. I think the average American investors waking up to it.

(50:42):

Like what I said before was you have red state governors who are pushing back, red state financial officers, treasurers. You have red state organization. Conservative organizations are pushing back, independent organizations are pushing back. There's a number of folks even in the Democratic Party that do not agree with the progressive left's push of all of these issues into our capital markets. I think that the more reasonable people who view this and say, "What is the utility of all this? Is the cost really worth the benefit?" The Supreme Court's also going to get involved here. They decided a case last year called a major questions doctrine, West Virginia versus CPA. This climate disclosure rule falls squarely in that category.

(51:30):

Has the SEC been given explicit authority from Congress to regulate environmental issues? I don't think so. I think that falls under the EPA. It's the same in the investor privacy issue I talked to you about the other day. The Congress never told them, go create a database of every American, and collect all their personal information. So, you have the courts who are also stepping in to stop some of this regulatory overreach. I think that's the most important thing that American people can look forward to right now because the courts are upholding the law.

Bill Walton (52:07):

Well, that's good news. A court that's upholding the law. On that upbeat note, thanks, Chris. This has been The Bill Walton Show and I've been here with Chris Iacovella, President of the American Securities Association. We've been talking about really big picture, all the things that are affecting our money and our ability to invest successfully and the forces of reign against it. I think Chris is one of the real heroes for bringing these ideas to light. So, Chris, thanks for joining.

Chris Iacovella (52:43):

Oh, thank you for having me. It's been a pleasure.

Bill Walton (52:45):

Yeah, it's been fun. So, anyway, thanks all of you for joining. As always, you can find us on all the major podcast platforms on YouTube, Rumble. We're on CPAC now on Monday nights. We're also on Substack where you can find all of our shows and as well as the website. Please give us your comments about this show and other shows you'd like to see us doing. We pay a lot of attention to what you want to learn about and program accordingly. So, anyway, thanks for joining. I hope you enjoyed the conversation.

(53:16):

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