

**Southeastern Asset Management, Inc.**  
**Statement to SEC-CFTC Panel Regarding the Events of May 6, 2010**  
**Tuesday, June 22, 2010**  
**Washington, DC**

Chairman Schapiro, Chairman Gensler, Committee Members, and Ladies and Gentlemen,

My name is Jeff Engelberg, and I am a principal and senior trader at Southeastern Asset Management. I take immense pride today representing Southeastern, and, on behalf of my colleagues, it is an honor for us to be invited to today's proceedings.

For context, Southeastern has invested prudently on behalf of its clients for over 35 years, and, today, manages approximately \$35 billion dollars. We serve investors via The Longleaf Partners Funds and through 210 separate accounts, most of which are non-taxable pensions, endowments, and foundations. We seek to partner with capable and trustworthy operators of high-quality businesses and invest when the market offers us entry points at substantial discounts to our conservative appraisals. My perspective, then, is from a market participant which accesses the capital markets to invest in companies for years on end, not to trade shares continuously.

You've asked that I offer Southeastern's collective observations about the May 6 market turmoil.

Irrespective of whatever news item or other factor motivated the May 6 swift drop in the stock market, the situation was exacerbated by panic. Our belief is that, over time, across market participants, average holding periods have plummeted, and the number of active strategies requiring little to no fundamental knowledge of underlying securities has significantly increased. As a result, whether via prior placed stop loss orders or the real-time panic closure of positions, many market participants did not know what businesses they fundamentally owned. This ignorance made a bad situation drastically worse.

In contrast, on May 6, I was struck by the calm on our trading desk. We understood exactly what our investors owned and might buy, and we were significant buyers of securities during the downtrend. Our trading on May 6 was not borne out of a short-term profit motive but rather a logical and defined fundamental research process. The volatility of May 6 provided an entry point for us but was not the reason for our entry. We had no idea whether the market turmoil would rectify itself in minutes, days, months, or years, but, we were confident in the underlying attractiveness of the businesses we were buying. As an outcome of this investigation, we believe this Committee should consider which market participants best foster the capital formation process through resilient, stable equity markets and insure markets are absolutely conducive to those strategies.

External to Southeastern, in the institutional market, I saw very little happening. Given that significant volume was trading and that prices were moving, this lack of activity is noteworthy. It appears that low-latency collocated strategies were calibrated for a more stable environment and continued to trade by the microsecond, reinforcing and strengthening the negative downward spiral.

Despite the market now counting each passing microsecond, complex intelligent human thought takes time to develop. Our equity markets have millions of participants and an infinite series of inputs which are in constant flux. While some market participants may have indeed frozen and some participants chose to close out risk reactively, I believe a greater number of objective, institutional participants who could have provided significant offsetting liquidity were simply unable to react before much of the May 6 market drama reached catastrophic levels. May 6 then is the result when computers are left to misread incredibly complex market signals and run amok before intelligent human thought can regain formerly relinquished control, both of the individual strategies, and, it seems, the markets as a whole.

Our psychology has fallen victim to a notion that, without qualification, technology and speed should be embraced. Contrary to the claim that speed reduces risk, the introduction of excessive speed and unrestrained technology destabilized the markets and made them wholly indecipherable on May 6. We ask the Committee to weigh the benefits of microsecond by microsecond access against the costs of market instability and loss of investor confidence and ask why humans with direct access to the markets need to be licensed but technology does not. There are few events in life requiring decision making which can be altered in less than the blink of an eye. We do not feel that securities trading falls into that category. Further, it strikes us as discontinuous that the markets sanction microsecond speed in calm waters but slow down in times of turbulence through circuit breakers and Liquidity Replenishment Points (LRPs). Why are remedial responses a preferred course over preventative actions? Has speed reached an inflection point and become a liability to the markets?

In closing, you'll note I've commented on the knock on effects of the market's downward spiral on May 6 and not touched on the external root event – such as Greece or the Euro - that set off this chain. Truthfully, I don't have a useful opinion to offer as to what the spark was, yet I believe it is likely irrelevant when trying to prevent a repeat of May 6. This Committee and the regulatory community at large should not try and will never be able to buffer the markets from unexpected and challenging news. However, the mechanisms by which the market digests information, discovers price, and continues to function through any and all events should be of significant focus and concern. I believe May 6 should be seen as a symptom of underlying weaknesses in market structure, and our response should seek to correct the underlying structural problems in the market which are currently being exploited, and, in the case of May 6, most likely mishandled. Southeastern maintains strong views on where these weaknesses lie and how they should be strengthened and would be happy to discuss those observations further. Out of respect for time though, I will pause my comments here.