SEC Historical Society
Interview with Robert Sollazzo
Conducted on February 24, 2023, by Kenneth Durr

Ken Durr:

This is an interview with Robert Sollazzo for the SEC Historical Society's Virtual Museum and Archive on the History of Financial Regulation. Today is February 24th, 2023, and I'm Kenneth Durr. Bob, good to see you today.

Bob Sollazzo:

How you doing, Ken?

Ken Durr:

Doing well. I'm looking forward to our talk. I'm heading toward the end of my research process for the gallery on exams, and I'm interested to talk to you today about the broker dealer program. But first, let's get some background. Where'd you go to school?

Bob Sollazzo:

Okay. Before giving my background, Ken, I just want to thank the Historical Society for inviting me. I really appreciate that. And I also want to mention that a lot of what I'm saying today results from the work of many, many excellent colleagues. And unfortunately, most of them will go unnamed, but I just want to get that on the record, because they're a great group that I worked with over an approximate 40-year career there. In terms of my background, I was a Catholic school boy, so through high school, I went to various Catholic schools, but then I went to Brooklyn College where I majored in accounting. I did quite well there. Unfortunately when I graduated, I didn't have enough credits to qualify for the CPA exams, so I had to continue at night. But it was actually a very good experience and a lot cheaper than schools today.

Ken Durr:

So you ended up in Chicago somehow, right? You went to work for Comex?

Bob Sollazzo:

Yes. So my first job was working for Comex Clearing Association as an accountant, and also computing the open interest, doing various daily functions. And it was an interesting position. I lasted there for about a year. I was influenced to go into government by my family—a lot of government employees in my family. So eventually I landed a job with HEW, Health, Education, and Welfare, in their audit group. And it was a good experience there. Unfortunately, the agency was splitting up, so I was faced with a lot of travel. Buffalo in the winter did not sound like the best experience, so I started looking around.

Ken Durr:

And you found the SEC. How did you do that?

Bob Sollazzo:

Yes, kind of interesting, the SEC. I just walked into a personnel officer in the same building, federal building downtown, put my... It was a 171, old form. I don't know if they're still using it today. Recently I saw my handwritten application. I don't know if they would've hired me based upon my handwritten application. But yes, I submitted that, and I was called after a few weeks for an interview. I'd just like to say that I was always attracted to the SEC, because it's a highly respected government agency. I saw that as a high threshold in terms of working in the federal government.

Ken Durr:

So were you called up to interview in New York, or were you in Chicago?

Bob Sollazzo:

Yeah, it was in New York. Yeah, my whole career has been in New York City, so I had an interview. I first met with Marty Kuperberg, who later became my boss. Marty, he's an interesting character. He asked me basically a bunch of soft ball questions. Nothing too difficult. He's very instinctive. I think he got a good sense of me from my background. He checked to see that I was breathing, and I seemed reasonably healthy. And then, he prepared me for the next interview. He said it was going to be very different, which it was. The next meeting was with the associate director of the Broker Dealer Program. His name was Ed Nordlinger, and his interviews are legendary. Ed would get you in there and almost as soon as you sit down, he would start firing technical questions. "What's a stock? What's a bond?" Some of those, fine. I was answering those correctly, no problem. But then he'd start asking specific questions on the federal securities laws. He slipped in one constitutional law question. I had no clue at that point. I wasn't familiar with the securities laws, so I basically said, "Ed, I can't answer those. I just don't have that background at this point." I didn't realize it at the time, but I think he was checking first whether I was getting rattled based upon those questions. And secondly, whether I was going to try to fib, which of course I wasn't. That wasn't in my nature.

Ken Durr:

That's pretty good. Was that it? You just had to get through—

Bob Sollazzo:

Yes, it was just two interviews. It's a little different now as you could imagine, but it was just two interviews and decision was made. As I said, sometimes Marty was instinctive and sometimes a little impulsive. And I think he probably made the decision that I was a hire based upon my application and the fact that I may have seemed somewhat professional, I guess, in his mind. And there was a change going on, too, in the group. There were a lot of folks from Wall Street at the time in the group. It was only 15 people in the group, and I think they were moving more towards a younger generation. So a changeover in examining. College educated, a number of the newer people had accounting degrees or finance degrees, which wasn't the situation in the years before I joined. Marty and several other managers are college educated, but some of the other folks were not. But they brought in some other experience, too, which was very valuable, which is the back office and knowledge of Wall Street experience. But it was clear that they were trying to go in a different direction.

Ken Durr:

Interesting. Did you hire into Market Reg?

Bob Sollazzo:

Yes, yes. At that time, the exam program was in Market Reg, and truthfully, what I realized over the years is it was sort of a backwater in Market Reg. It wasn't prominent. The rulemaking, interpretive groups were much more prominent. So we probably didn't get as much of attention as we deserved.

However, that allowed us to have a lot of flexibility, which I always appreciated. I thought that was a good thing, but it was interesting, the way we were positioned there.

Ken Durr:

What do you mean by flexibility?

Bob Sollazzo:

At that time, I wasn't a manager, so I didn't see it firsthand, but I got the sense that a lot of the direction of the program was coming from the regional office managers, like Marty Kuperberg in particular. There was a fellow named Tom Kamm, who was also a very bright guy. Two good leaders, and they would do a lot of decision making in terms of what issues we wanted to examine and what firms we wanted to explore. You have to realize too, Ken, that the regional offices were all very different. In New York, we had pretty much everything. You had the large firms, you had small firms and also the manpower. The firms out in San Francisco, it was a smaller number of firms, less manpower, issues were very different. And I think that was recognized. So they gave us that flexibility to pursue the issues that we thought were most meaningful in the region.

Ken Durr:

Okay. What was your day-to-day like at the beginning when you're getting on the job training?

Bob Sollazzo:

When I walked in my first day, in fact, I was a little surprised. It was a diverse group. Back then on Wall Street, there weren't that many women, but there was only one woman in the whole group, which was about 15, 17 people. There was only one woman in a group, and I think she couldn't take some of the guys. She sat in a corner by herself off the back of the office. It was a big bullpen area. She walled herself off. A lot of salty language, which was the Wall Street world back then. It's just so different now from 40 years ago. I've seen things evolve over the years, and as I said before, a lot of the Wall Street folks, there was probably about three to five recently hired folks in the group. And you can see that was where we were moving and into the future.

Ken Durr:

Yes. So we're talking about 1982, right?

Bob Sollazzo:

Yes, right. '82. Yes, it's '81, '82. For the record, I worked for two years and I left for a year. My background, I was an accountant. I couldn't get my SEC experience to qualify to become a CPA, so I had to go and work in public accounting for a year. So I went the work, which was Ernst & Whinney at that time. So that was after my first two years. Anyway, I came back approximately a year later. It hadn't changed that dramatically.

Ken Durr:

Okay. Talk about the exam program. You talked about flexibility. How much direction was coming from the home office? How much was New York just doing on its own?

Bob Sollazzo:

Yes. From what I could tell, Ken, again, I wasn't a manager, but it seemed like a lot of the decision making was done locally. The nature of the exams often involved firms that were part of the SECO program, which were firms that were registered only with the SEC. So we had to have coverage of those firms, which we did, that were generally smaller firms. But that would change over time. It would change. The SECO program was abolished, I think, in about the mid-eighties. I'm not sure the exact date, maybe '84, '85, whenever it was abolished. And the program migrated to what was called more of an oversight program. But from what I could tell, a lot of decision making was being done locally. Obviously SECO firms had to be reviewed, but then in our region, we had a lot of the large firms, clearing and carrying firms. There was a lot of potential risk there, so that was also part of what Marty, Tom Kamm, and others realized had to be covered as part of our exam work.

Ken Durr:

How about the industry in general? You talked about SECO and the transition there. How about the broker dealer industry in general?

Bob Sollazzo:

Right. There were a lot of broker dealers. I think now there's about 4,000. Back then, I believe there was six or 7,000. And I think I came in at a very good time, because there were a lot of medium-sized firms that were self-clearing. And I was able to cut my teeth through exams on those firms, and you really get an understanding of how the industry worked. The clearance and settlement process, custody, the net capital rule. Those were my areas of expertise when I was an examiner, the financial responsibility rules. So it was wonderful.

With my education, interest in finance and accounting, and with the opportunity to look at a physical records, sometimes it was microfiche—as opposed to now, everything's virtual and it's a little more clumsy now I guess for someone like myself in particular, less versed with technology than others—but it made things made easier to learn. I've gone into some of the larger firms, probably not that long ago, probably within the last 10 years, and maybe I lost a step. But those exams are more difficult. They're more difficult to harness the records and go through them and do a comprehensive exam.

Ken Durr:

Did you do any of those SECO exams?

Bob Sollazzo:

Yes, we did a number of SECO exams. Went out with senior examiners and yes, they were pretty quick. Some of them would last just a couple of days. We'd look at net capital, some basic sales practice issues. We had a simple module and that was the guide that we used, Ken. And we'd go through them. I remember some of the first exams I went out on, I was assigned to work with a senior examiner, and I think he got four exams, and we were going to do them in a month, and we whizzed our way through. It was a good introduction. He didn't delve that deep on those firms. There wasn't really a lot of risk. They weren't holding customer securities, and some of them were just selling some small private placements, things of that nature. It wasn't sales practice abuse. But yes, it was something that I did a fair amount of it in the early stages.

Ken Durr:

So in my research, I noticed that after the SECO program, there's this transition, and maybe even before it goes away, to what was called an oversight exam. And I think you used the term. Tell me about the principle, what the concept was with the oversight exam.

Bob Sollazzo:

The oversight exams came into vogue probably right after the SECO program was eliminated. And the nature of an oversight exam was to examine two periods. One was the current period when you go in there and you look more currently and make sure the firm is financially viable and not committing significant sales practice violations. And the other aspect was going back to look at the same period that the self-regulatory organization reviewed. And that would be either the NASD or New York Stock Exchange. There are other SROs as well, but those are the primary that we'd look at. So it's almost like two exams in one you'd be doing and checking out. Truth be told, we spent most of the time in the current period. That's what folks did, but then we did do the work in the oversight period as well. But if we found issues in the current period, obviously we'd look a little closer at those issues in the oversight period.

Ken Durr:

My understanding was the oversight exams involved a good deal of looking at the SROs themselves? Was that the case?

Bob Sollazzo:

That's right. Well, one of the things that we did before we even went out and did an exam, we went to the SRO, we looked at their work papers just to see what they did. And frankly, the SROs did some good work, and as a young examiner, I benefited from looking through some of that work, that was educational. But that would give us a very good background in terms of the firm and what the SRO did. And even from looking at the SRO work papers, you had a sense of maybe whether the exam wasn't up to snuff. You sometimes get that feeling. But then you're right, we would look a fair amount at the oversight period when they'd performed the exam. That was part of the scope exam and we'd look at that.

Ken Durr:

Okay. But as a matter of course, would you also go to the broker dealer itself and look at that?

Bob Sollazzo:

Oh, I'm sorry. Yes, yes. We would actually go to the broker dealer. It'd be part of the exam because again, remember what I mentioned. We'd look at the current period. And obviously to look at the current period, you have to be onsite at the broker dealer. And these exams were all onsite, too. The SRO portion, we'd actually go to the SRO to look at the physical work papers. And then, we'd actually go to the broker dealers and look at the current period and oversight period.

Ken Durr:

Okay. So we're talking about oversight exams. You might have cause exams, right?

Bob Sollazzo:

Of course. They were always cause exams. The program was always cause driven to an extent. And Ken, even the oversight exams. We had the benefit of a lot of intelligence. We'd get focus reports in, so we'd see the financial condition of the firms. We would just get the annual reports, but you get a sense from that whether the firms are in financial difficulty. So that was helpful. But we'd also get periodic dumps of the SRO reports. So the SRO reports were very helpful. And then under Marty, we had the complaint department, and the complaint area could be a very fertile source of issues to examine in the broker dealer world. We were the beneficiary of that intelligence. So that would help drive cause exams, and even to an extent, of some of the oversight exams. They were oversight, but there'd be some sort of rationale, not always, on a fair amount of them.

Ken Durr:

Okay. The other thing was there were cyclical exams. These were particularly big back in the earlier days. Did you have something like that?

Bob Sollazzo:

Yes. Ken, I think in the broker dealer side, there were fewer cyclical exams. I think with the investment management exam program, that was more common, because remember we had the benefit of the SROs. And the SROs were really doing a lot of those cyclical exams. We were doing... It was the oversight. That was one of the major responsibilities we had, and it still is. Even to this day, it still is. That was a big part of our responsibility. But then because we had the SROs, it did free us up to find cause rationales to doing firms. And one of the big issues—the financial responsibility rules were relatively new back then. I think the net capital rule, when I first started, it was about eight years old. The customer protection rule was about five, six years old. And those are just such important rules. And back then, the institutions weren't like we have today, so well capitalized. Especially as medium-sized firms, they were very thinly capitalized and sometimes there were abuses on the customer protection side.

Ken Durr:

So were those the two things you were focused on the most, net capital and customer protection?

Bob Sollazzo:

Back then in my career, probably for the first seven or eight years, I did a lot of work on the net capital and the customer protection rule. We also had responsibility for sales practice. I also did some work in that area. But in particular, Marty was a big driver of this, we did a lot of examination work related to Rule 15c3-3 and the customer protection rule, which has two aspects. One is the customer reserve formula, which deals with funds. And essentially the idea there is to make sure that customer funds are used only to finance customer related activities or remain on deposit with the broker dealer. And possession or control, where we had a lot of good cases, related to just maintaining possession or control of securities in a lien-free location at the broker dealer, at DTC or some other custodian. And this way, the customers are protected if things start to go wrong at the broker dealer. We spent a lot of time there.

Ken Durr:

You mentioned focus reports. I guess those were an obligation for every broker dealer. Tell me what that was.

Bob Sollazzo:

Right. Focus report is basically an audit report, an audit of a broker-dealers' year of activity. An income statement, balance sheet, net capital computation, to the extent they were a clearing firm, there'd be some sort of commentary on possession and control and have a reserve formula calculation. So there was a lot of good information in those reports. Broker dealers were required to file an annual one audited. And then, there also were other more frequent reports that we didn't get. The SROs got the monthly and quarterly reports, so later on we'd get the benefit of seeing that information. It wasn't like that during those days, but later on we'd get the benefit of seeing this other information.

But it was a good lead, and it helped with the integrity within the industry obviously to have auditors going through the records of the broker dealers. I think that was a real plus that we had on the broker dealer side. There was a lot of oversight, as you can see, with the SROs and you have the auditors doing that annual report, and then we're in there overseeing everyone. Not necessarily the auditors per se. That wasn't our responsibility, but the information is helpful and obviously they're doing their due diligence as they do their audit.

Ken Durr:

This has been great, getting some nuts and bolts of the broker dealer program. Let's talk about some things particular to New York. You were involved in some early work, Kidder Peabody. That turned into an enforcement case, right?

Bob Sollazzo:

Yes. Kidder Peabody is probably one of the first enforcement related cases that I worked on. And it was interesting because it was a new issue. They were engaging in something we had never seen before. It was something called a hold-in-custody repurchase agreement where they would not necessarily deliver out collateral to a counterparty, which is common these days. It's more typical. But they would set it aside internally for the benefit of the client who's providing the money for the financing of the repurchase agreement. And what we found is that the extent that they were pledging securities, they should be available customer securities, meaning in a margin account and freely available to pledge, or firm securities. What we found was that the firm was very sloppy, and they were pledging a lot of customer fully paid and excess margin securities, which weren't securities that should have been pledged.

And as a result, it was probably one of our first big possession or control cases. There were some issues with the reserve formula because they weren't capturing that pledge in the reserve formula. So it was a real interesting case. And I worked side by side with the senior examiner was an interesting fellow named Romolo Catalano. He came from the industry, and this is a guy who worked his way up. He came from Italy as a teenager, he worked his way through business school, and became a partner in a small firm, then eventually came to the SEC, and he was great. He knew the back office and accounting so well, and I was able to learn so much from him. He was the driver on that one, and he just helped identify the issues. Interesting guy, he would always make it a little personal, so he'd get really engaged on some issues.

Ken Durr:

Where did the case come from? Did the SRO tip you off?

Bob Sollazzo:

No, no. I always take pride in matters that we would find cold during an examination, meaning that we went in there and we look at various issues because customer protection was just so important. So we looked in depth at that, and we found this matter cold. And there were a number of the significant enforcement cases that we brought, especially through probably the early 2000s, that resulted from staff just finding good issues, what I would call cold. Just coming across it. Not all of them, obviously. And then the intelligence would get better and better. On the sales practice side, we had the benefit of the intelligence from the customer complaint area, and Marty seized on it. One of the things about Marty Kuperberg is he was an energetic, creative guy. He was a little bit mad, I think, at some points in time. He's still a personal friend, but it's my perception of Marty. I love him. But he saw—he harnessed that customer complaint area, and it became a great source of cases and exam issues. He was one of the first ones to realize the value of that area.

Ken Durr:

Okay. Customer complaint, that's just kind of like tips, right?

Bob Sollazzo:

Yes. We actually had a couple of folks sitting in, it would be a room and they'd be responding to phone calls and there'd be written complaints coming in. So it'd be our responsibility to go through that and respond to those complaints. And sometimes you'd get very, very good information from those complaints.

Ken Durr:

You mentioned Romolo Catalano, right?

Bob Sollazzo:

Yes.

Ken Durr:

Marty Kuperberg. Any other people that you worked with back during those years that made an impression?

Bob Sollazzo:

Oh yes. I mentioned Tom Kamm, Perry Scopelitti is terrific. He was an exam manager for a while, real smart guy. Alan Wallace. Really great colleague and very knowledgeable, excellent writer. Some really fine people. It was a pleasure to work with the group. One thing I will say, Ken, throughout my career, it was just a pleasure to work with folks. For the most part. I had one or two, especially as a manager, wars with people, but most of the people were just the best, really. We somehow hired some of the finest people, and it’s alittle different than private industry. There was no backbiting or stuff like that. I've heard some of the lawyers come in from outside and they say, "I couldn't take it out there anymore. This is a happier place." And it is. You're wearing a white hat and you're doing the right thing, protecting customers and protecting the integrity of market. And you have people who want to do it. So it was just great.

Ken Durr:

The people on the ground in the regions had an interesting situation because you're working under Market Reg, for example, but you're also working under a regional administrator. How much did that actually impact things, serving two masters?

Bob Sollazzo:

Over my years, because that continued throughout my career, and I basically led the program, or co-led the program for about 28 years, which was a long time, the regional directors gave us a lot of flexibility. I think they realized that we sort of knew what we were doing. I think that was part of it. And the other part of it was, I think most of the regional directors had more of an interest in the enforcement side of the program, which, if you look at an office like New York, when I first started it was 150 people. We had about 30, 35 people in the exam programs, and the rest were basically in enforcement. You had some administrative people, you had some other people in Corp Finance, but the majority of the work was enforcement. So they spent a lot of time with the enforcement folks. And over time they got more involved. In later years, they got more involved with the exam program, which became more prominent as we became OCIE and then the Exam Division. But a lot of times they relied on us and our working with Market Regulation, OCIE.

Ken Durr:

Okay. How about your relationships with the SROs, the stock exchange?

Bob Sollazzo:

The SROs, it was an interesting situation, I respected a lot of they people, they had some very good examiners. And as I said before, one of our responsibilities is commenting on their work. And that could sometimes be difficult. We'd have meetings with them and basically say, "You missed this, you missed that." And no one likes to be told that. Firms didn't like it, SROs didn't like it, and frankly, we would miss stuff too, and we wouldn't particularly like hearing that. So we had that responsibility. However, we also would sometimes work very closely with them. When we had an issue at a firm, it wasn't unusual for us to be onsite with the SRO, working side by side, and we'd be calling one another, sharing intelligence. So I would call it a very complex, sometimes conflicted relationship where sometimes you're responsible for overseeing them, the next week you're working side by side in the trenches with them. So it's a strange relationship. That eventually resolved itself when the FISIO Group was created in OCIE, I think in 2010 or 11, something like that.

Ken Durr:

Yes. FISIO’s relatively recent.

Bob Sollazzo:

Yes.

Ken Durr:

How did that resolve things?

Bob Sollazzo:

Well, what happened there is that if we found issues that we thought maybe the SRO may have missed, we would refer it to FISIO. And FISIO would actually open up an exam and do the work to see if the SRO missed the violation. So it wasn't our responsibility. We would just make referrals of possibilities. And sometimes we just didn't know, or it would look like they may have missed it, but they were charged with doing the examination of the SRO.

Ken Durr:

Okay. All right. Well, stepping back into the earlier part of your career, late '80s, early '90s, there's some penny stock microcap things going on. It looks to me like exams were pulled into a concerted effort with Enforcement. Do you remember that period?

Bob Sollazzo:

Oh yes. It was probably from, as you said, late '80s, probably through the mid to late '90s. The microcap penny stock market was on fire. There'd be these boiler rooms out in Long Island, New Jersey. They'd hire kids, that were cold calling. It was kind of tragic. I remember speaking to some investors who were involved with some of these exams (firms), like one woman, she was in tears. She couldn't control herself, lost the life savings. For some reason they would pick on people in the Midwest too. I think the people in the Midwest were very respectful. They would pick up the phone and listen to these guys. And these guys would sell the moon to you. And sometimes they were public companies, other times they were just thin air. These are just total shell companies. And I say public in the least sense of the word, let's say that.

But there was a lot of abuse. This is sort of before the internet, so a lot of the high pressure was coming through the phone calls. And we did what we could. We went out and did exams of these firms. Stratton Oakmont was one of the big ones. I wasn't personally involved in that, but we spent years fighting with Stratton Oakmont. And there were many others, and several that we helped probably put out of business. But they would pop up again too. Sometimes you would close a firm and then a lot of the people would become a branch of another firm, so you'd have to track that down. So it took a lot of resources. Plenty of resources.

Ken Durr:

Did you work closely with Enforcement on cases like that?

Bob Sollazzo:

Yes, because there were so many cases coming out of us, eventually Marty was able to form a group called Broker Dealer Enforcement. So he actually hired a bunch of attorneys to work on these types of cases. And some of the possession of control, net capital cases were being worked by these guys as well. But he hired a bunch of attorneys and boy, he would whip these guys. I'm telling you, he would drive them. And they were a very effective group though. They got a lot of cases done.

And eventually the word started to spread. He was doing insider trading cases. He was running his own second New York enforcement program. But he was very, very successful in what he did, and I had the opportunity to work closely with a number of those attorneys. And some that went on to the industry, became high level compliance officers, partners in law firms, very good people. It was a great time. It was a fun time. And we were trying to do what we could do, but we were sort of outmanned a bit. But we did what we could.

Ken Durr:

How long did that go on? Marty Kuperberg's broker dealer enforcement team?

Bob Sollazzo:

I think it went on for about five years or so. And Marty, he took the lead with that. Marty, he loved the enforcement cases and he was just so driven in the enforcement area. He liked the exams too. Marty was an associate director then I was promoted. So we're both associate directors. And when that occurred, I think, in '92 we shared responsibility for the exam program. But I was sort of more involved the day-to-day of the exam program and he'd oversee what I was doing, sometimes insult me because I wasn't doing enough. That was Marty's nature. He still insults me when I call him.

But then he really got heavily involved in the enforcement program. And as I said, he had an ability to find cases. And it was the complaint area. It was some of the exam referrals, but he would find really good cases and got a lot of results done. So it was probably about five years. And it did close down, and it was probably rightfully closed down, when Marty eventually left, he went on to an SRO, a nice job. It was decided that Bob wasn't the right person to run this program. It probably was a good decision. It was made by, I think Carman Lawrence. And so that part of the program went back into enforcement.

The unfortunate thing about that, and I think we all realized that, is when it was part of your group it was easier to get the cases done. You've sort of got Marty there beating these people up. Literally. Where's that case? Where's that case? So they would get those cases done. When the cases go into the general pool, and enforcement was very good to us and we had a good relationship with general enforcement, but it still wasn't like having the attorneys as part of your group. So in my mind it was probably a little less effective.

Ken Durr:

Interesting. Something called the voluntary onsite inquiry program development.

Bob Sollazzo:

Yes. This came out of all the abuse we saw in the penny stock microcap space. A few folks, Steve Vitulano, Terry Bohan, Ed Janowski, came up with this idea. What we realized, we're getting complaints in, and naming these entities, and we're looking at registered broker dealers and we're realizing, well wait a second, this isn't a registered broker dealer. It's an entity that's totally unregistered. Obviously if you're selling securities, you have to be registered. So they came up with the idea of, well, why don't we just go out and visit these firms? We know the location, we can get a sense of maybe what's going on. But since they weren't registered, they had no obligation to cooperate with us. So what the folks did, they came up with this process where we'd go in, we'd get as much intelligence as we could from customers who were complaining or whatever resources we had. And we'd go in there and ask for a voluntary cooperation, production of records, interviews, things of that nature.

And this is a very effective tool. We got a number of really good cases out of this. These folks, they felt they were great salesmen, and some of them were. So I think they were willing to meet with us because they probably thought they could get over on us. They'd tell us a story and we'd go away. And these guys, Vitulano, Bohan, Janowski, these are some of the best fraud examiners we had. These guys were shrewd, and they did a great job getting to the bottom of it. And others eventually became part of that program. But they were really the leaders. They did a great job with it. And it was a very interesting, successful program, which eventually became part of the OCIE mission. It's still part of it, because occasionally you're going to have entities operating in an unregistered space. So it gives you an opportunity to visit.

Ken Durr:

At this point, you'd been there for more than a decade. You're running the broker dealer program, I guess, by the mid '90s. Talk about the challenges you faced at that point. You've got things like bringing people in, training, promotion. How did you deal with the people under you?

Bob Sollazzo:

Yes, at times it was challenging. I will say I had a good group of assistant directors who were very, very helpful, and good management staff. But we had to bring people in, get them trained. There was training offered by DC. I recognized that we needed some internal training, so we had sessions basically once a month where we would do training on various topics, topical issues. We'd have folks from either the staff present or people from outside. So that would be helpful.

The management, other than the times you occasionally had an employee that wasn't doing what they should be doing, but most people, the vast majority, were trying to do the right thing. So it wasn't that difficult. Did it sometimes get stressful? I don't have much hair left. No, it did. I think, especially after Marty left in the early years, it took a little while to find my way, but an assistant director like Doris Bamford, she was brilliant, she was great.

And others who stepped in. Rich Heaphy. For years he was my right-hand man. He did a great job shouldering a lot of responsibility. John Nee. These folks were just terrific. And they helped. And they all became a little specialized in different areas. Like Steve Vitulano became an assistant director, he became a specialist in the microcap fraud area, he did a lot of his work there. And someone like John Nee was doing a lot of large firm work. So we became somewhat specialized, not probably as much specialized as we should have been. However, resources were limited. But these folks, they knew the mission and they were trying to do the job as best we could.

Ken Durr:

Yes. You get to an important point, I think, that in the early days, examiners were examiners. You'd go out look at everything, right?

Bob Sollazzo:

Yes. That's generally it. You're right. You have this big checklist and you have to look at the fidelity bond, you look at the registrations. But you're right, especially when OCIE came into play, we started to migrate to more selective examination work. We're still doing oversight exams, but we became a little bit more cause oriented and a little bit more focused on what we looked at.

Ken Durr:

Okay. Anything else we should talk about from those early days that we haven't touched on?

Bob Sollazzo:

Not really. The only thing is, as I said before, it was just a very interesting time. And I think I was fortunate to come in when the industry was still at a point where you could get your hands around a firm, even a reasonably complex firm. And the staff, the folks who brought me along, I'm very thankful to someone like Marty, Romolo, Perry. These are really helpful folks throughout my career.

Ken Durr:

Okay. When did you first learn about OCIE, that they were going to do this thing out of the home office?

Bob Sollazzo:

I just heard it. It was sort of announced. I didn't get any pre-notice. I heard about this, and lo and behold, OCIE was created. Lori Richards was the head. I really didn't know Lori. I knew she had an enforcement background. But lo and behold, Lori turned out to be a great director and we had just, throughout the years, an excellent relationship with her. It was a little bit of a surprise, but it did make sense. As I said before, the exam program was kind of a backwater in Market Reg. So they get them out of market reg ultimately to be an office and now a division. I think that made tremendous sense. I was happy to see that occurred.

Ken Durr:

How did it change the day-to-day?

Bob Sollazzo:

Initially it wasn't a huge change for us. But I think over time things did change. What happened is there was more of an emphasis on sweeps. Sweeps became very common practice and touched on different issues. And microcap was one of the issues. But day trading, online trading, investment management had their own sweeps. So that helped us become more of a national program because the sweeps were for the most part national efforts. Sometimes we'd have local sweeps but generally they were a national effort.

And I think there was recognition, too, that there had to be more information provided to the examiners. So we would have, the audit programs were called modules. So there was more of an emphasis on creating modules, which were very helpful. And some of them are just excellent tools for looking at something like day trading or looking at online trading. I know New York helped create a bunch of these modules. So that was also part of it. And there was an effort to be more of a national program. There's more of an outreach by Lori there. There's more touchpoints, not early on, but over the years it became much more common to be doing exams jointly with folks in Washington or other regions. So it became more of a joint and national program.

Ken Durr:

Did Washington ever take an exam or say, "This is very interesting, we're going to study this and get back."

Bob Sollazzo:

They may have done that and I didn't know about it. But I will say Lori, in particular, was very generous with us and she gave us some great leads over the years. I'm sure they did take some matters where they got a complaint down in Washington or they heard some intelligence. That may have been the case with the specialists exams, that were done in Washington. Frankly, I think that's where it belonged though because that's where they had the trading expertise. We had looked at some of the specialist activity and frankly we found a couple issues, but we didn't find the problems that ultimately surfaced at the New York Stock Exchange. And the folks in DC put that together and did a really good job.

Lori, I remember she handed me a complaint or a tip that came in regarding Credit Suisse, alleging these high commissions being paid by those folks who were getting participations in hot IPOs. If you remember the late '90s, early 2000s, the tech boom was a super-hot IPO market. Stocks would sometimes go up 50 percent, even double the first day. And I guess this person saw that some of these hedge funds were paying these enormous commissions in relation to maybe getting those allocations of hot IPOs. And Lori provided that to us. She could have easily kept it in OCIE, but she gave it to us, and sent a team out there and they saw these high commissions almost immediately.

Ron Sukhu was the lead examiner on that. He found it almost immediately. And we put together what was an incredible case. Enforcement folks did a great job of bringing that. And I think overall it was a joint matter with the NASD. But overall, it was something like a hundred million dollar fine on that one. And essentially what we found is that to get those allocations, you had to kick back in the form of these excessive commissions. And the commission rate back then was 6 cents a share. That was common. But some of these were trades would involve commissions of $2, $3 a share. They were paying Credit Suisse on trades that were done the same day or the next day to give them back like 35% to 65% of that first day pop. They would just pay them back, which is totally illegal. And we were able to crush that, thankfully. So I didn't feel that we were being short shrifted in any way. We had a lot of issues in New York.

Ken Durr:

In the Credit Suisse case, for example. How long would exams be working on that before you'd go to Enforcement?

Bob Sollazzo:

It would depend. That one, we gathered a whole bunch of information on the trades where we needed to, the excessive commission trades, and we handed off to Enforcement team. They did the large part of the investigation there, Enforcement. We saw this, we saw there was an abusive practice, and we sort of referred it pretty quickly. I don't recall the specific time, but I don't think it was more than six weeks to eight weeks from when we commenced the exam. We worked on that one and moved it over. But yes, in Enforcement, like that, they sensed this thing was outrageous, especially hot IPO allocations. I believe Wayne Carlin was the regional director, he was personally involved in that one, and had a great team on it. It they did a really nice job.

Ken Durr:

Some of the things that started when OCIE started, there were smart exams or surveillance exams. The exam program was changing somewhat. Did that affect you, or is that the new modules you were ...

Bob Sollazzo:

Yes, I think the smart exams probably affected the investment management program more than the BD program, because I think we had always done these cause exams and used whatever intelligence we had. We had the benefit of the SROs. Whereas the investment management program didn't have an SRO. And now they have 12,000, 13,000 investment advisors. They should have an SRO, but that's another point. But yes, so I think that the impact there in terms of smart exams was probably more on that side, because I guess we always felt we were using whatever intelligence we had to do smart exams. Surveillance exams are a little bit different. That became a new sort of oversight exam approach where we could look at the current period and see what was going on, just emphasize the current period in a quasi-oversight exam. And if we found an issue, we would go back and look at what the SRO was doing. So it was slightly different than a typical oversight exam.

Ken Durr:

Okay. But it is an oversight exam.

Bob Sollazzo:

In a sense, it is, yes. But you're looking, clearly the emphasis is more on the current period. The oversight is ideally, you're looking heavily at both periods. Okay? That's the ideal for an oversight exam.

Ken Durr:

Now you've mentioned sweeps, and that's something that OC was really focused on in the first few years. Talk about being involved in one of these things. They tend to be national initiatives.

Bob Sollazzo:

They were national. I think some of the ideas would filter up from exam staff and in various regions. But they tended to be, I think, focused on really good issues, and be driven to look on a very limited basis at what those issues were. I thought it was a great use of resources. It helped build a national program.

In the early stages, we weren't doing as much reporting out, but eventually that would occur from the sweeps when we started doing reporting out as an exam function of what our findings were. But as a result of these, we'd have some internal reports. I remember one sweep that I was personally involved with, which was the risk management sweep, which I led.

Lori put me in charge of that. We had a task force involved and a whole bunch of folks from both the Chicago office and the New York office, because we were mostly involved in the larger firm issues, looking at risk management practices across the industry, see what the auditors were doing, see what the SROs were doing.

But we thought this was a really important issue, risk management, because it involved liquidity at firms, market risk management, credit risk management, which were really key issues. Some of these issues were covered by various rules, you get charges in the net capital rule as a result of mishandling credit.

But as the Drexel debacle showed that if you don't manage your liquidity well, you're highly dependent on short term credits, such as commercial paper, you can have a run on the institution. So that became much more of a focus, even though it wasn't necessarily rules-based type review. We developed a lot of good documentation. I thought was a tremendous module. Eventually it grew to over a hundred pages. It's still in use now from what I believe. And just a lot of good work there.

But I liked the sweeps. Did sometimes we go little sweep crazy? Maybe we did, because there was a lot of sweeps at points in time. But I think there was a really good use of resources, just as long as we had the flexibility to cover the issues that we needed to cover in the region. Frankly, I felt we did. I didn't feel like I had to do 14 sweep exams and I couldn't cover this sales practice issues at firms. So it was fine as far as that's concerned.

Ken Durr:

If you led this risk management sweep, did you work with people across the country in the other regional offices?

Bob Sollazzo:

It was primarily with folks in Chicago. They were somewhat involved. Those type of issues, because we had the largest firms, big in terms of capitalization, customer protection issues. So it was primarily us and really we took the lead, and I was happy to work with both John Nee and Rich Heaphy who really did a great job.

They helped, I led it, but they were the ones who were writing up the module and putting together a lot of material. But it was fascinating, because I feel we were really ahead of the curve on this issue. Because the bank regulators really weren't focused on this at the time. And then you'd go to the accounting firms and even the SROs, it wasn't really part of the issues they were looking at.

It wasn't a rule-based review, but these were such important issues. If firms were ignoring market risk, credit risk, God knows where they would wind up being. So you had started to put firms on notice. This is one of the first times that I think a sweep resulted in some sort of a public notice. At that time, OCIE didn't put out notices. It wasn't something that occurred.

So what we did is we worked jointly with the SROs. The NASD and New York Stock Exchange were somewhat involved with this. But we worked together and put out a joint statement on what we believed were some of the weaknesses in risk management practices and some of the good practices we saw.

Ken Durr:

Another case that arose around this time, First Interregional Advisors.

Bob Sollazzo:

First Interregional was an interesting matter. I think this was probably about the late '90s, but there was a firm that was basically selling municipal leases to customers. It was a white shoe firm and it had a great business. It was like a municipal bond. It was like a quasi-municipal bond. Just instead of having municipal bond, you purchased some sort of an interest rate that was secured by a municipal lease.

I remember that things were going well, but then all of a sudden, the examiner's computer disappeared, which was, “oh that's interesting.” The computer was stolen and that was rare, to have a computer stolen. How it was stolen, we thought it was a secure location, but it was stolen. So that was a red flag. I remember going in for one meeting with the CEO, and guy was so smooth, talking about how the business is very similar to GE Capital. And they were in the same program.

Eventually we came up with some issues, but nothing that significant. However, we figured—we didn't always confirm transactions, but this is different type of business. So we send out confirmations to investors. We sent out a series of confirmations to investors, and one investor came back saying, "Well, you have five municipal leases that I own, but I actually own eight. Where are the other three?"

And we had no idea of the other three. We went back, and lo and behold, the other three were on a separate blotter. So what the firm was doing, they were selling the same lease to various customers. Sometimes they'd sell it 2, 3, 4 times, and it was basically a Ponzi scheme.

So quickly there, quickly after that contact, we went to Enforcement who got in contact with the US Attorney's office. There was an FBI raid on the firm, and the place was closed down almost immediately. That was a great one. People faced significant jail time as a result of that.

But one of the things I'd like to mention about this particular one, and it gives you a sense of some of the difficulties the examiners face when doing their job. It was that one customer, we sent our confirmations to about 15, 20 customers. It was that one customer who called us.

Some customers, they don't respond. They don't care. This one customer pointed out and issue and we pulled that thread, and we came up with the finding that there's something wrong here. We could have easily sent it to a different customer who didn't complain and we may not have found that. That's the risk you have as an examiner.

I will say sitting this chair now, and I said it when I sat in my associate director chair, you're never going to find everything. And thankfully we found that, but people sometimes don't understand how you could miss something and that could have easily been missed by the best examiner, is my point.

Ken Durr:

You say you go to Enforcement, this may be a simplistic question, but what do you do? Do you have to fill out a lot of forms?

Bob Sollazzo:

Oh no. We'd usually put together an enforcement referral memo, but something like this would be an immediate conversation. We would just go into the regional director's office. I'm not sure if it was Carmen, Wayne, I'm not sure who the regional director was at that time. But I would just go in there and explain the situation and this looks like a real fraud. They would get people involved immediately.

This would happen a lot with micro-cap fraud or some of the frauds that came out of those voluntary inquiries. If we saw fraud, they would jump on it immediately. Sometimes these guys would work overnight just to get the papers together, because they'd have to go for a TRO. This is one of those type of matters. They were very responsive.

It depended upon the matter. If it was more of a technical case, it would result in a memo and that would take a little more time to get through the system.

Ken Durr:

So were in the World Trade Center in the late '90s?

Bob Sollazzo:

Oh God, yeah. That was a real debacle during 9/11. I was actually in our building. It was at 7 World Trade Center, and I was actually talking to my wife when the first plane hit, and I'd look out my window and I thought it was a bus coming off the side of the building. And I'm saying, "What's that?" And everything shook and rattled and all of a sudden, we realized there's something wrong here.

We basically all went running to the center of the office space. We called everyone who was in the office to just gathered around and then started to leave the building. We had to walk down, I think we were on the 11th to 12th floor at the time, so we had to walk down. Unfortunately, we couldn't exit the building right away, because they weren't sure where, with the debris falling, whether the building was going to fall.

So we had to wait in the upper lobby for an extended period, but then we left in the back of the building. But that was one of the more scary moments of my career, because when I got home, we had examiners in who were actually working in the Towers. So I was charged with calling everyone, and I accounted for everyone, with the exception of one examiner.

This was the last call I made, and she was working in, I think, the 45th floor of the North Tower, and when she picked up the phone, it was such a sigh relief that she was okay. And later on I learned—and she sounded fine, she's sounded like it was no issue. Her name was Lourdes. She's terrific. She now runs the program with Mike in New York, Michael Rufino.

Ken Durr:

Who's that?

Bob Sollazzo:

Lourdes Caballes, and she runs the program in New York with Mike Rufino now, I was so relieved and she's not like nothing happened. And then later I learned that she actually she had to run down the stairs. She was exiting the building, and it collapsed as she was exiting the building.

She was covered with a powder, and she was most well-adjusted person you could ever meet, it's amazing. She was ready to go back and do an exam the next day. She was just like that. She had that type of resilient personality. Not everyone was like that. The thing with folks, you know, it took us quite a while to sort of regroup. It took us about six to eight weeks to get back into the office.

OCIE was very helpful. Gave us a lot of materials, gave us more supplies. But it wasn't like it is now. We're talking on this Zoom conference. And back then, I was fighting my wife for the internet pickup, because we only had one line. She was mad I was home. It was a difficult six to eight weeks.

But again, the Federal Reserve was helpful, they gave us space, and we had a couple meetings there. But it took us a while to regroup. And then eventually did in the Woolworth Building, which wasn't the greatest space. And eventually we moved to the World Financial Center, which was wonderful space. It was great space, but it was a frightening time.

Thankfully, we didn't lose anyone, because Lourdes in particular was the one that really got me, was so happy that she came through unscathed.

Ken Durr:

Wow. Did you actually have to put your work papers back together? Reconstruct things?

Bob Sollazzo:

Yes. Some exams, basically, everything was gone, and we made a decision. I think we canceled a few exams because we weren't finding anything, and it probably wasn't worth recreating that particular animal. But others, we had to go back and redo whatever.

To the extent we did have electronic records, they weren't really centralized away from the office. They weren't on backup servers, they were on your computer. A lot of the computers were lost, and we still were dealing a lot with paper documents. So there was a lot of cleanup work. It took us a while to regroup. It was a difficult period.

Ken Durr:

Another difficult period, maybe less for exams than for people in the industry is the 2008 market break.

Bob Sollazzo:

The market break, that was another climatic point in my career. Obviously, we had Bear Stearns go under. And then months later we had Lehman go under, and Lehman was a trigger for a lot of concern and volatility and risk was just huge.

After that, we sensed that, and we heard through some of our contacts that some of the firms were experiencing runs on them. In terms of the margin calls, customers, especially hedge funds with flight money, hedge fund money's are very flighty. They were demanding their money back. What we decided is to go visit a couple of the majors. We went on site, opened up exams.

We were concerned about the potential misuse of customer securities in particular, customer funds to meet proprietary margin calls or things of that nature. But what got me when we're there is just the fear that we saw in the eyes of the folks that we dealt with over many years, over many years. This is the most frightened I ever saw these folks.

I always tell folks that I think we were probably just a few days away from another Depression, I think if some of those major firms had gone down, which was quite likely, because they were getting huge calls. You're talking about billions of dollars would have to be removed and where's the funding going to come from? It was a question mark.

Obviously, the derivative contracts, the margin calls on those were huge. It was a real problem. Thankfully, the Fed did step in and make them Fed members, some of the majors. Then I think really it did, it helped stabilize the situation. But it was a frightful period, and I don't think folks realize how close we really were at that point.

Folks who really study history should recognize that the Lehman matter in particular, I guess people felt it had to go, but it really set off just a climatic period... And AIG, it was just a debacle in terms of the industry. Thankfully, they've regrouped and there's been a lot of positive things that have resulted since then in the industry with capitalization and liquidity in particular.

Ken Durr:

You talked about how you sent examiners in to look at some specific things in the aftermath of Lehman.

Bob Sollazzo:

It was not necessarily with Lehman. Well, it was after Lehman, but we went to other firms.

Ken Durr:

So that's one very short-term thing. In the long term, how did that trauma affect the exam program? Did you change the way you looked at firms in any way?

Bob Sollazzo:

Well, eventually what happened is with the large firms, they became part of, I think even before that they were on an examination cycle, and the risk management procedures were generally emphasized. We would spend more time looking at larger firms and some of the issues, and there was probably a lot more coordination than there had been in the past with the federal bank regulators.

I think also, Market Reg became very concerned with what happened with the big institutions. So they got a group together to start to look at some of the institutions, monitor them more closely. OCIE eventually formed a monitoring group as well. So there were essentially almost like two monitoring groups looking at various issues on the business as well as some of the risk management issues that are occurring at those firms.

So there was a lot more oversight. We were doing quite a few exams of the firms prior, but that probably intensified after that. Then one of the things that happened, I think Carlo di Florio recognized this. Maybe we didn't have enough of an in with some of the top executives of some of the firms, so he organized periodic meetings. We had annual meetings with various CEOs and risk managers and business people.

We'd get a more of a connection with the individuals so if something like this happened again, maybe we would have—I think hopefully it won't happen—we'd have earlier knowledge of the situation, and we'd be in a better position to have contact points, when we get really good information. So there was a fair amount of change, with the monitoring teams, the enhanced emphasis on exams.

We were doing exams, we maybe picked up the speed a little bit, and were looking at issues and Market Reg having a little bit more to do with the large firms. They call it monitoring, but they would look to do quasi sweep exams of different issues. So this was a lot more intensive coverage, and the coordination with the bank regulators, I think, improved.

Ken Durr:

Market Reg was doing something like sweep exams?

Bob Sollazzo:

Yes. They were doing a monitoring team, plus they had folks that... They didn't really call them exams but they were sort of exams.

Ken Durr:

Interesting.

Bob Sollazzo:

What can I tell you? And this was not something that struck Bob Sollazzo as particularly sensible, but that's what existed. They created a group. In fact, they took folks from my team to staff that group.

Ken Durr:

Interesting. This is in the late 2000s?

Bob Sollazzo:

This was after Lehman, so this was probably 2011, 2012 (not certain), and not everyone came from my team, but a fair amount. I lost some of my best large firm examiners. Tell me why, Ken, I'm still wondering, still scratch my head. I would always yell at these guys. "Well, when are you coming back?"

The thinking was that they'd be more attuned, because my folks, they would do a large firm, but then they'd do a sales practice exam. So these people were dedicated to just large firm issues and really embedded in the large firm. So there was some sense to it, but it could have been easily handled out of OCIE. But that's another story. That's one I didn't win, Ken.

Ken Durr:

You mentioned cyclical exams. At this point, were you still just, somebody's number would come up and you'd go and take a look because you haven't looked at them for three or four months?

Bob Sollazzo:

The only firms where we'd really do cyclical exams was the larger firms. That was it, and then I was heavily involved with the assignment of exams. Any firm that was holding customer securities, customer monies, we tried to visit every three years or so, and sometimes even more frequently if an issue spiked up. It wasn't a hard cycle.

The large firms we had a hard cycle on for a while, and I think it may have even preceded the Lehman debacle and Bear Stearns. I think it may have preceded that, but it then became more sharp and then more intensive oversight after the market break.

Ken Durr:

So you wouldn't wait three years, for example?

Bob Sollazzo:

Well, for the large firms, the cycle was tighter too. For the biggest firms, it was generally every two years, but sometimes we'd be in those firms three times. Some of the foreign banks, in particular, were good customers, Ken.

Even though we had a cycle of two years, sometimes we'd have three open exams in one year, because the exams would be a little bit more focused, cause related. So we would hit issues. Sometimes the sweep exams would require us to go in and look at a part of one of those larger firms. We would hit those as well on the cause basis.

But then overall, we would look at some of the more general issues like risk management procedures and capital, things like that, at least every two years.

Ken Durr:

So we've been talking about some big landmark events, and obviously, a really big one from OCIE's point of view and Enforcement's point of view is the Madoff revelations. Talk about how your office dealt with, changed course, reinvented itself in the short term right after the Madoff revelations came out, and then in the longer term.

Bob Sollazzo:

That's probably the most difficult point in my career. Probably the most difficult point in New York office and maybe the SEC in the last, fortunately, 50 years. It was a very difficult period, but I think we recognized immediately that there was a need for some change locally. And this was assisted by folks in OCIE—Lori was very helpful.

We got specialists on board. We hired a couple of specialists, one in the derivative products, another in equity trading. That was very helpful. I think there was a realization too that we didn't have sufficient data, so we tried to attempt to mine data. That area became a real national focus too, even though we realized that, and when we tried to get as much data as we could, it became more of an intense issue.

Things just had to tighten up in terms of the review process, in terms of who's out in the field, and that especially became more formal. But obviously, you want to get the best talent out in the field, and sometimes the best talent are your managers, and not every manager would go out in the field, so it was more of an attempt to get the managers out in the field.

That was pushed nationally too. So it wasn't only a New York effort. Personally, even as an associate director, I would go out in the field, in the later years was less, but I always loved going out in the field, because that's where you learned the business and the issues, and some of the management was very good going out in the field.

Others, well, they became more comfortable and they had a lot of workload. They were reviewing reports, giving directions, so they were a little more stuck sometimes in the office. So there was a push, obviously, to get the talent out into the field.

Ken Durr:

So you alluded to what were called SSEs, senior specialized examiners, which happened quickly. Carlo di Florio comes in and there's an effort to just take things apart and rebuild. I understand that the regions were heavily involved in that. Did you work in that?

Bob Sollazzo:

Yes. Carlo, he did a good job. He came in a very difficult period of time. We had a lot of meetings, he's a great communicator, Carlo, and he basically tried to bring us, all the managers together, so that we have to reinvent ourselves. This is a problem that we had as a group, and we have to improve what we're doing. As a result, project teams were formed, almost like small committees, to deal with various issues in the exam program. One is like specialization, one is data capture, one is exam process, one is supervision. And there were these various lines formed where you'd have both managers and staff working in these different areas and they'd meet periodically.

This went on for probably six months to a year Ken, where people would meet, try to determine what has to be improved in different areas, and then eventually each group would sort of—I was involved in the specialization group and others were led by SOs and other managers—come up with summaries of what they think best practices in each area should be. And that was then presented to the executive committee, which is another committee that Carlo formed of like the senior managers. Not every senior manager, but the senior managers throughout the exam program.

And they would hear what was offered up and then elect either to go along with some of the recommendations or decline. I remember the executive committee, I think, was very respectful to people. Some of the recommendations you just couldn't do. Some of the matters were just too extreme and it just wasn't practical. So they were gracious, the executive committee tried to inform people why it had to make sense. But I would say a lot of what occurred, a lot of the changes that occurred came out of these project teams. One of the things is the Chicago office is largely responsible. Pete Driscoll was a driver that came out with an exam platform tool, which we didn't have before. Everything was sort of segregated, Excel spreadsheets, Word, but they sort of developed an exam platform that went nationally.

I know I contributed to some of the tools that were used in there, something called control sheets, which sort of came out of the New York exam program that we had used for years. But it was a real national effort to come up with this, and it took a while. I know our productivity in terms of exams went down because we were so ... It was a sort of a self-analysis, a self-evaluation, so it took a while. And yes, we did feel beaten up during that period, but we did what we could. I think at the end of the day we came up with a much more structured organization, and structure brings good and bad, as you know. But I think a lot of it, the approval process, one of the things that happened is in terms of staffing, there was an attempt to reorganize the way managers worked. So previously we had branch chiefs in the exam program and the branch chief title was changed to an exam manager.

And the idea as I said before is they wanted to get folks more out into the field, so the idea was to get the exam managers out in the field more. So they didn't have any direct reports, now all the direct reports go through the assistant directors, which the assistant directors aren't particularly happy about. Blame me. But that was part of life as an assistant director. So the idea was that they'll (exam managers) would be out in the field more, and that worked. Some of the exam managers went out in the field quite a bit, others you've really got to push them out. But that became part of the change.

Also, one of the things that came out staffing wise is the creation of what's called the lead examiner position. The lead examiner is sort of a senior examiner on the exam who coordinates the work for the exam manager. Makes sure that the different elements of the work are being completed and then everything's flowing into a report, like a central report which is then submitted to the exam manager. So it's sort of a quasi-supervisor, but they didn't really have supervisor responsibility. It was kind of a weird position, but that's the way it was. I worked with senior examiners when I was an auditor and even in my role at the SEC. So you respect them, they're more knowledgeable and you listen to them, even though it's not a direct supervisory role per se. So there's a lot of good things that came out of it. But again, it was more structured and things became a little tighter, which you get good and bad with that.

Ken Durr:

How long did it feel like you were in this upheaval? Was it a matter of years, was it a couple of years, was it months?

Bob Sollazzo:

In New York office, because that's where Madoff took place, the impact was probably the greatest. I would say it was probably about for us maybe 12 to 18 months, and I think others would probably report differently. I think other offices were impacted less severely. We were impacted more severely as a result of that. But I think it took a while. It took a while and it was stressful. And then there's an inspector general review and it was another shoe dropping here, there, and everywhere. So it was always a little something we had to deal with, so it took a while and it was difficult. It was a difficult period.

Ken Durr:

Things that came in with the new national exam program, risk alerts, you were involved in some of those.

Bob Sollazzo:

Right. I mentioned previously when we did that risk management sweep, we really didn't have the ability to put something out from OCIE. The risk alert idea really came out of Carlo working with Julius Leiman-Carbia. The broker dealer program was responsible for putting out the first risk alert, which is on master/sub-account arrangements. And this is something that Julius really pushed. It was a good issue. The master sub-account arrangement, it's something that shouldn't exist. It's basically a limited liability account, so it's a master account and there's a whole bunch of other accounts that are separate customers essentially reporting up to it. So they have different accounts at the broker dealers, but sub-accounts not necessarily main accounts. So the master account is the account. But as a result, some of these were unregistered broker dealers because they're receiving commissions. Some of them were committing sales practice fraud, there's AML issues, excessive margins. So there were a lot of issues there, a lot of good things to examine.

And some of these firms were prosecuted based upon unregistered broker-dealer, excessive day trading issues, there were a number of things. And FINRA, I know, prosecuted a number as well. So it was a really good first step in terms of a risk alert and getting information out there. And this is something that for OCIE, I think, was a big step, and Julius was the type of guy who wanted to make a point of an issue, he wanted to make it prominent. And it was probably a good way to get it started, it was a good issue. Carlo was supportive of it. Sometimes within the commission it would take a while to get something like that done, but it was done. It was clearly something from the exam staff. The Commission wasn't giving it a stamp of approval necessarily, this is the exam staff putting this out and spotting issues.

Ken Durr:

So things that came up later after this transition. There was a Latour trading case you are involved in?

Bob Sollazzo:

Oh, yes. Latour, very interesting matter. You have to understand Ken, that probably a third to half of my life with the SEC is involved in working in net capital and the customer protection issues. Even as a manager it's just such a large part of my life, and we were involved in some of the largest customer protection cases. But this is the largest in terms of fines issued for a net capital cases. And it was a great exam team. They did some really good work. Tammy Heller, Ashok Ginde were two individuals on this one. Tammy's now out in LA, Ashok works for FISIO. They did some great work on this. This is a situation where it's a high frequency trading firm, they're making a lot of money. And basically a lot of the activity was sort of arbitrage activity between baskets and underlying. And what happened is in net capital rule you get a beneficial treatment if you have a hedge that's allowed by net capital. Sometimes they wouldn't have sufficient underlying securities to make the hedge.

So what they brilliantly did, and it's interesting, I've never seen this before, they would just create a position. They'd say economically it's going to be flat because we create a long position and a short position. So they needed the long position to go into the basket. They put that into the basket. A very beneficial treatment for the basket. Save a lot in terms of haircuts and net capital deductions. And then the short position, they would just take a regular hair cut on. But you know, you just can't create positions out of thin air. And that's what these people were doing and the staff figured it out, much to their credit. Took us a while to get everyone on board. It was an interesting matter. But they had a great enforcement team on that case too, they did a great job. But I'm sort of happy, given the amount of my time during my career spent on net capital that this case is as prominent as it is.

Ken Durr:

And this was a high frequency trading firm. Did you use a specialized expertise?

Bob Sollazzo:

We did. I think we had one of the specialists on that as well. But a lot of this was ... some of the folks we had, these people they were brilliant, these examiners. Tammy, she had some sort of Ivy League background. She was a CPA. She's a super smart person and Ashok too. A lot of it came from the exam staff. But then to sort of back it up we got the specialists involved and they did help out. But a lot of it was found because we weren't looking at the trading as much per se as looking at the underlying capital implications at that point. So the exam team knew the capital issues better than the specialists really.

Ken Durr:

Was there a good bit of turnover in the New York office?

Bob Sollazzo:

I have a 40-year career in the New York office. So what happened is in my early years there's a lot of turnover because the pay wasn't really that great compared to what you could earn in the industry, and enforcement was always—it was a huge issue. I remember Enforcement, especially during the nineties, it seemed like people would stay sometimes for a year or two and they'd just migrate out. The exam side was always less of an issue, but still there was an issue. Especially as we were hiring young people, a lot of young people don't stay at one place their whole career. So there was a fair amount of turnover. Then I think it was '99, pay parity came into effect. So we were then paid as much as the bank regulators. And I remember folks getting, myself included, very nice raises. So it really helped with our lifestyle. I think it made a much more livable wage for folks even in the New York area, so that helped.

After that turnover did subside, although there was still turnover. And there's a lot of movement within the agency too, sort of encouraged to an extent, so people moved from group to group. As I said, I lost some folks to Trading and Markets and I still wonder when they're coming back. But Enforcement, it's probably always been more turnover than the exam side. This is my view. I think for the attorneys a lot of times they can move into partnership roles and really, the amount of increase in salaries by multiples of what they're earning at the SEC. I think some of the examiners who left have done very well, but I don't think the opportunities are as great. That's my own view. And I think a lot of the examiners are very happy with the work too, they really enjoy it. So I think that it's historically been less, and in the last few years it's been even less. Since I left it seems like there's almost no change.

Ken Durr:

Were you able to get some senior examiners after the recession?

Bob Sollazzo:

Yes. That's when we hired a number of the specialists. We hired some specialists. And then, it's a good point Ken, because what we started doing, at one point we were hiring folks right out of school, that was in the nineties, and these are folks who were a little more flighty, but then there was recognition—this was probably something that came out after the credit crisis—it was recognition that there's a lot of talent out there. In addition to the specialists, we could hire people from the industry who are not necessarily specialists but have good backgrounds. So we hired folks from the SROs, we hired folks from the industry, not really hiring direct people out of college anymore. In fact, we would have interns in the program and oftentimes they were good, but we wouldn't hire them directly. They would go sometimes to work in the industry, an SRO, and many a time we'd hire them after two, three years if we felt they were a good fit.

Ken Durr:

Staying on personnel matters. One of the big things that happened, we talked about the IA/IC program a little bit. But the whole decision ... I think Mark Wyatt made the decision that we've really got to beef up the program and we're going to have to take people from the broker-dealer program. Did that affect your office?

Bob Sollazzo:

Oh yes, it affected us dramatically. That was another sort of unhappy moment in the Bob Sollazzo world. I will go on record with this. We lost positions and it was unfortunate that we lost positions, but we were promised that we were going to get six slots. And for some reason when it was time to get those slots, Mark Wyatt reneged on that. I will never forget that. And I was bitter, and Mark knew it, and we never really saw eye to eye after that, believe me. But Ken, we have an important program. You can't just take people out of it. Every broker dealer program is different, and New York is particularly important, and taking people out sort of hurt our program, you hurt morale. You promise us slots and then the time comes, you don't show up with the slots. I thought that was kind of horrific and that was sort of done in the dark, and I didn't appreciate that at all.

Ken Durr:

As far as morale, is this because the people who are left are having to work harder?

Bob Sollazzo:

I think in terms of morale, the people in the broker program saw that we were losing resources to another program. It was somewhat justified. I could understand it, because with the absence of an SRO (in the Investment Adviser area) some of it is probably justified and I do get it. But be upfront with what you're telling me. Just tell me this is what's going to be. I remember ultimately complaining to the chairman and she tried to temper me down. But it was just not the right thing to do. It was just a really unfortunate thing. But people felt that we were being picked apart.

I think over the years we had a very strong program. I think it was recognized both in the industry, as well as the SROs and we had a good relationship with enforcement. And to have that happen like that ... We eventually got some slots. We at one time we were about 100 people, I think it was 101. I think when I left we were like 87 or 88. So we did lose in that transition mode, we lost about 10, 15 people, whatever it is. But then we sort of stabilized and we did get some—I think we got a couple new slots recently, so it's stabilized. But that was a sore moment.

Ken Durr:

But it wasn't a drastic—I mean, from the numbers you're talking about it, it wasn't like this huge collapse or anything.

Bob Sollazzo:

No, no. It wasn't a huge collapse. It wasn't. The program went on. But from a morale standpoint, it looked like the broker dealer program's being picked on, you're not as important. That's how folks viewed it. And right or wrong, and they were wrong, because I realized there's a real need in the investment management side. We're upset about it. And what really got me is the fact that they weren't being upfront in what they were going to do.

Ken Durr:

You mentioned FISIO earlier and that's what comes in here and it's sort of an oversight program. Is that correct? Is that essentially the same kind of thing?

Bob Sollazzo:

There were slots, folks did move into FISIO. But I understand the need for that. The idea is once the program was restructured and there were resources taken out of the broker-dealer program, the idea is they didn't want to lose any focus on the SROs. So that's why FISIO was created. And also, some of the regions were complaining about the conflict that existed where you're working sometimes hand in hand with these folks and other times you have to criticize their work. I think that was also part of it.

So the attempt was to maintain a focus on the SROs. I think that was a primary reason, and also to eliminate that conflicted relationship. Because this way that's their (FISIO's) responsibility. If we're working—and I'm telling you, we've worked a lot, especially with something like during the COVID. I was there for the first few months of COVID, we're working (closely with FINRA staff). And this is with some of the other issues that existed, we were working arm in arm with colleagues in FINRA. And so it probably did make sense to make that move.

Ken Durr:

My understanding of FISIO was essentially it was to be an oversight organization.

Bob Sollazzo:

Yes, that's right. Basically oversight of the SROs. Yes, that's their primary function.

Ken Durr:

Okay. Is there anything from your career that stands out that we haven't talked about?

Bob Sollazzo:

I don't think so. I just want to express the feeling that I feel blessed to have been able to work 38 years with the agency. It's the premier agency in the federal government. I mentioned the SEC to someone, I worked there, in a hiking group that I'm in, and he said, "Oh, that's like the best federal agency." We had a rough spot back in 2010, 2011 with Madoff. But it gets a lot of respect, well-deserved respect, quality people, just incredible. I just want to reemphasize that, and just such a lot of talent that I worked with in Enforcement and throughout the regions. Some really, really good folks. So I think you covered the major bases in terms of my background and career, and hopefully shed some light on some of the practices that existed. Hopefully people find this interesting.

Ken Durr:

Well, I certainly have. It's taught me a lot that I needed to know about the broker-dealer program.

Bob Sollazzo:

Good. If you got any other questions Ken, you can always ask.

Ken Durr:

All right, thanks a lot.