

Securities and Exchange Commission Historical Society
May 6, 2021 Interview with Walter Ricciardi
Conducted by Kenneth Durr

Kenneth Durr:

This is an interview with Walter Ricciardi for the SEC Historical Society's Virtual Museum and Archive of the History of Financial Regulation. Today is May 6th, 2021, and I'm Kenneth Durr. Walter, good to talk to you today.

Walter Ricciardi:

Nice to talk to you, Ken.

Kenneth Durr:

So, I want to go back a little, get some of the roots of your career. You started out at Columbia, is that right?

Walter Ricciardi:

Yes, that's right. I grew up in North New Jersey and my father was a police officer until I was about five, and he became disabled and my mother raised five kids—a newborn plus four more—and worked nights as a telephone operator at local hospitals. And, I was a runner in high school. So I was a recruited athlete and, as a result, I got into Columbia and because of financial need; I got a full scholarship basically to go to Columbia, plus work study and loans. But I was able to go to Columbia mainly on being a track star more than my intellectual ability.

Kenneth Durr:

Nice. So, when did you start to think about law?

Walter Ricciardi:

You know, I remember eighth grade, the teacher went around the classroom and asked, what do you want to be when you grow up? And I said lawyer. And I hadn't really thought about it that much, but I think partly because my grandfather was the Chief of Detectives in the Hoboken Police Department, and my father, before he became disabled, was a Lieutenant in the North Police Department. And so, I kind of think that enforcement interested me, and I was a paper boy for Hugh Addonizio, who was the mayor who got in trouble with the US Attorney's office. And at the time I was interested in following—I've always read the newspaper from the time I was delivering them. And so I was very interested in the criminal case. So I think that's sort of what got me interested.

Kenneth Durr:

So, then you went straight to NYU?

Walter Ricciardi:

Yes. I went to law school right after college. And again, NYU had a lot of schools that I got into, they weren't able to help financially, but NYU gave me a full scholarship basically to go to NYU Law School, which is terrific. And there, they didn't even let you do work study. So they said, nope, not allowed to work. The scholarship was great.

Kenneth Durr:

So, did you start to think about securities law at this point? Did you get any special training in that area?

Walter Ricciardi:

You know, I wanted to be a trial lawyer. I was very interested in clerking on a district court level. And so, I was able to get a clerkship with Judge Richey down in Washington, D.C. But, unlike a lot of my peers who were planning for circuit court, I felt I learned more in district court, and I think that was right. It was a two-year clerkship, right from August 1, after I got out of law school. And it was just a terrific learning experience sitting in that courtroom. Most days, trials going on, motion practice every Friday and TRR requests on some government contract issue, SEC was coming in and out, and I remember a case when I was clerking where the SEC was alleging that real estate could be a security, and I remember thinking, "Wow, that's a crazy concept." But once you researched it, it was true. Even real estate could be a security. And so I became interested in that area.

Kenneth Durr:

Do you remember which case that was?

Walter Ricciardi:

Oh boy, I'm bad with names, but I remember Michael Perlis was the trial unit attorney litigating it, and I could probably find it, but the judge did hold that in fact it was a security that the realist, because they're relying on the efforts of others to make money and, therefore, it met the definition. Yes.

Kenneth Durr:

Now Judge Richey would have been pretty well along in his career at this point?

Walter Ricciardi:

Oh yes, he was. And he was very, very kind to me, from the day I arrived. Treated me almost like a son. He had me coming by his house giving me swimming lessons—I never learned to swim, but he tried to teach me swimming in his pool in the back. And we went through a pretty prominent case at the time, the Church of Scientology case, where I was the law clerk on that. And, we had the top criminal defense lawyers in the city, including some out of the city, Leonard Boudin and Phil Hirschkop, of *Loving v. Virginia*, I think in his mid-twenties, before the Supreme Court. Zuckerman and Spaeder had just started a law firm in D.C. Now, of course, one of the big firms in D.C., Roger Zuckerman, it was Spaeder on several, that was quite a learning experience. They filed about a hundred pretrial motions, and so I was working with the judge and all those, and we had a massive suppression hearing that I went out to California with the judge on, so it was quite a learning experience, tremendous learning experience.

Kenneth Durr:

What was the next step after that?

Walter Ricciardi:

Well, I met Phil Lacovara, who argued the Watergate tapes case in court as a young lawyer on the Watergate Task Force, because he went to my college graduation. He got an award at my college graduation at Columbia. And so, he was in the courtroom representing an accounting firm. And I remember walking up, teasing him saying, "Hey, Phil, you came to my college graduation." And he said, "Oh, Columbia 75." I said, "Exactly." And so I sort of knew Phil and I thought he might be somebody to be nice to work with. And he had a small office at a big New York law firm. Most of them were former

Supreme court law clerks. And, I thought it might be fun to work with Phil, so I went to Hughes Hubbard. And literally within weeks, Coopers and Lybrand had a trial coming up in Detroit and a local firm was supposed to try it.

Walter Ricciardi:

And they sent me out with the senior associate, Jay Wright, who clerked for Justice Douglas on the Supreme Court to help write briefs during the trial. And Coopers decided, you know what, let's have the associates try the case. Mainly Jay, of course, Jay basically had his first trial. And because I just finished the two-year clerkship, I was able to sort of help out in terms of how our trials were done, because I had seen a bunch of trials clerking, and I got to do a witness, which was great and, as a result, the Cooper's spokesman in a courtroom, the in-house litigator and in-house accountant. And they said, "Oh, we'll just get him to speak. You know, you can handle other stuff." So Jay and I had a lot of work for Coopers over the next year. So, we were flying around the country. Sometimes I'd go argue, sometimes he'd go argue.

And so it became a major part of my practice representing Coopers and Lybrand, and then after about three years so, by 1984, they asked me to come in-house. And my initial reaction was like, "Gee, I don't see myself as an in-house lawyer." But my wife, we had two kids by then, and we were hoping to move back to New York. And they made me a very nice offer, and it seemed like a really great opportunity. At the time, in-house was not like the place everybody wanted to be. And I sort of worked the forefront of saying, "You know what? In-house might be a better opportunity than being in a law firm." And so I moved in-house in 1984.

Kenneth Durr:

Okay. I missed the name of that law firm.

Walter Ricciardi:

Hughes, Hubbard, and Reed.

Kenneth Durr:

Okay.

Walter Ricciardi:

Washington office. Right?

Kenneth Durr:

Right. So, the bulk of your work involves Coopers and Lybrand at that point.

Walter Ricciardi:

Well, other stuff, too. I don't know if you remember the Hyatt Regency hotel collapsing, Kansas City.

Kenneth Durr:

Oh, yes.

Walter Ricciardi:

Fourteen people died during the collapse. And I worked on, I was the lead associate on that and spent a lot of time in Kansas City. Now, that was part of one of the family reasons—almost all the firm's litigation was out of town. I had cases in Detroit, Chicago, New York, Kansas City, and two small kids at home. And most weeks I was heading out Sunday night coming back Friday night, if I didn't have to stay for the

weekend. And so it was the thought of being a full-time litigator in Washington, at that point in time, almost everything out of town, and I was doing the depositions and that kind of thing. So, I was really stuck at the time; I was out of town, most of my schedule. And a lot of it was family reasons that I did go to Cooper's in-house and gave up being a trial lawyer.

Kenneth Durr:

Yes. Those are good reasons.

Walter Ricciardi:

Yes. I don't regret it at all.

Kenneth Durr:

Let's talk about working in-house at Cooper's. How did your work change?

Walter Ricciardi:

I loved the job. A lot more responsibility in that I was calling the shots and, the firm, it relied; the Cooper's culture was they really respected their lawyers. And I was there 20 years and the Coopers became PWC July 1, 1998. I never had an instance where the firm didn't follow the recommendations I made, the guidance I offered. And so the culture was, hey, we're in business because the SEC lets us, or other public companies, and so integrity was number one. And so we want to get to the right answer, and so had an excellent culture that way. And so it was just a wonderful job. I used to teach my partners there that they don't pay me to do the work, they pay me to commute from New Jersey, which is like an hour and a half each way, which was not fun, but I loved the work.

And at Cooper's, I was eventually in charge of both litigation and all the advice to the audit partners and I actually loved advising the audit partners more than handling the litigation, because you can prevent litigation. And so I had a really good, strong relationship with all the audit partners, who called me when they had issues with clients and tough issues to address. And so I would run up to the national office partners and we'd all get on the phone and think it through and get to the right answer. And so it was really a terrific job. I loved every minute of it.

Kenneth Durr:

What kind of questions were they asking?

Walter Ricciardi:

Well, the types of things that would come up are what others faced: should we take the client, there's integrity issues, should we resign because we're not sure about the integrity of the client. And their view was, if you're the auditor, you're vouching for the integrity of that client. Right. And so, in order, you can't detect everything, you can't check every transaction. So, you if don't trust the integrity of the management of the client, you can't do the audit. And so, basically, those kinds of questions plus a possible legal act, something would happen and trying to figure out how to address it. So, and then also just sticky accounting issues where it wasn't exactly clear what the guidance was and making sure you had the right facts of basically, make sure you understand the rule, how it applies.

Secondly, make sure that the audit evidence supports application to that accounting principle and then plus also deal with restatements. Now and then, you come across information that you didn't have before—and it was available at an earlier period—and I would indicate a potential material misstatement in the financial statements. And so you would have a position where you'd have to evaluate what, not just the need statement and those roles. So, I dealt with a lot of issues involving restatement plus

independence issues, which always became more and more prominent later on, and was a dealing very much enmeshed in the independence rules.

Kenneth Durr:

How much were you working with the SEC and other regulators?

Walter Ricciardi:

Well, I pretty much handled all the firm's SEC issues. And so, basically PWC was auditing, I think one third of the world back then. Then they started a public company, and we had a hundred offices or more in the US, and member firms in 154 countries. And so any time an issuer, that was audited by PWC, had an issue, we would be involved if the SEC was investigating. So we would have a number of SEC investigations. And so I was down at the SEC very frequently. So, I knew pretty much knew all the directors and I would often be there to represent witnesses. And, if it got more serious, I would investigate what remedial steps the firm needed to take and decide on separate counsel. And, and in some instances later on, negotiating settlements.

Kenneth Durr:

So, you established close relationships with people in the Commission?

Walter Ricciardi:

Yes, I think I was there meeting with Dick Walker when he was director of enforcement. Steve Cutler's first day work as deputy director under Dick, I happened to be down there, got to know him. I was in a lot of meetings with Dick and especially after the merger, and Steve would be there. So, I got to know Steve that way. And I had investigations with Linda Thompson over the years, plus a number of the other associate directors and people in New York; I had a number of significant investigations. So, if you audit one third of the world, now and then, you're going to have SEC investigations. I took those the most seriously. So, I always viewed litigation as money between rich people. And you want to win, you want to get out of it paying as little money as possible; but SEC was much different in that people's lives were on the line.

If an audit partner is sanctioned by the SEC, basically their career is over. And so, clearly, the culture was we protected our partners as best we could, especially if they didn't do anything wrong. And so it was very much, I would be there for any, pretty much any, SEC investigation. I'd be personally very involved and hire the very best lawyers I could find. People like Harvey Pitt were representing us. So, I was working closely with the best enforcement lawyers I could find and learning at their side, really. But in some ways in charge, of course, because as the head of litigation, I was calling the shots: who to hire, what the major strategy points would be. So, I'd be heavily deep and detail involved. And often I felt it was better. It's one thing, if you hire Harvey Pitt, when he's free to come in and make a presentation, that the firm understands the issues.

Walter Ricciardi:

And I felt having an outside lawyer as a spokesman for the firm wasn't as effective as having a person who really is part of the firm. Especially in the later stages, I was not only head of litigation, but I was on the board of the firm, which was 12 partners that oversee management of the firm. I was on the global board of PW, which oversees the global network. And so I was the representative of the firm in many ways. Maybe not on the technical side, but on the legal side. And so having me come and say, "We don't want these sorts of things to happen. We've remediated, we've put in a gold standard to address it. We've done everything we can to make sure it doesn't happen again." And I felt it was much more persuasive if I could honestly explain rather than have an outside spokesman do it. So. I was heavily involved.

Kenneth Durr:

So, you're deeply knit into the culture of one of the major accounting firms and you've suddenly got to deal with some dramatic events—the accounting scandals.

Walter Ricciardi:

So, it wasn't just my own firm because, the industry had issues with Enron and things. And so I was heavily involved and addressing industry issues. Often I would be the PWC representative with our CEO at post Enron. I would go with our CEO, we'd meet with the other CEOs, including the CEO of Andersen, at the time, and general counsel to discuss how to address what the industry is facing and how to remediate and how to get from up to trust. How important it is that for the capital markets that the audit industry is trusted. And then even when they were forming the PCOB, I was in those discussions with how to address some of the shortcomings in the prior regulatory framework and what was being done to address that. So, I was in those discussions for sure.

Kenneth Durr:

Okay. So, you had an interesting career trajectory because you worked in the private sector, and then you go from there to the Commission, just kind of the opposite. How did that go?

Walter Ricciardi:

That came about because—I'm speaking to you from Martha's Vineyard. We had a house when I was in law school, a friend of mine made it up, made me come up. And I came, and when we had our fourth child in 1987, we started coming up in the summers, and we got a house up here in 1995. And so, people kind of knew that I had this house in Martha's Vineyard, and they're trying to get up here when I could. And Don Nicolaisen, who was a beloved PWC partner, one of the top audit partners in the firm, he was on the board of PWC, also. He was actually the head of the partnership affairs committee. So, any issue involving partners, he was sort of in charge of that. And so I got to know Don, he was on the Price side. I was on the Cooper side, but we got to know each other in the four years after the merger.

Walter Ricciardi:

And then Don was asked to become chief accountant of the SEC, and that was a terrific, terrific choice. Don has as much integrity as anybody you ever want to meet and is just a beloved person, in the audit profession. And so Don had gone to the SEC and I'd helped him a little bit on things like the financial disclosure forms and things, and about going in and, completely out of the blue, he just called me one afternoon and said, "Don't you have a house in Nantucket?" And you have to understand that people from Martha's Vineyard, they do not like you mixing up Nantucket and Martha's Vineyard. So I said, "I don't have a house in Nantucket, I have a house in Martha's Vineyard."

So, he says, "Same difference, same difference. I've got a great job for you." I said, "You've got a good job for me?" He said, "Yeah, how'd you like to run the SEC's Boston office?" And I laughed, and I said, "Don, what makes you think the SEC would want to hire an in-house lawyer from a corrupt accounting firm to run its Boston office?" And of course I was kidding, but you know, I knew what it sounded like. Don wanted me and liked me, but I couldn't imagine the SEC would consider me to be in the running. And he said, "No, no, no. Cutler has tremendous respect for you." And by then, Steve was the Director of Enforcement. "I think he'd love to have you helping us here." And I said, "Well, did you talk to Cutler?" And Don said, "Well, no." I said, "Well, okay, thanks for thinking of me."

Walter Ricciardi:

And so, I figured, well, that's end of that, and then sure enough, Steve called me back and left me a voicemail. He didn't get me, reluctantly, saying, "Hey, I would love to have you work with the SEC. And

if Boston isn't something you'd be interested in, let's think of other jobs down here, because I think you'd have a great time and you'd be a great addition." So I was like, "Wow." And so, I was somewhat stunned that I might have that opportunity. I'd always thought I missed out on a chance to do public service. And this was just a couple of years after 9/11, where I think I was deeply affected by that, kind of regretting that I really hadn't had a chance yet to do public service. And I was about 50 years old and figured I'd never had that opportunity. So, I was just very excited about the possibility.

Kenneth Durr:

Okay. So you had your interview with Cutler then.

Walter Ricciardi:

That's kind of funny too, because actually they always have a panel, and Lori Richards was on the panel. And then I look up Lori Richards and I had not really had any involvement with the Office of Compliance Inspections and Examinations and why Lori would have a seat. I wondered why, and then someone said, "Well, half the office is OCIE." And I was like, "What? What's OCIE?" And so I actually called, I called, I think it was Bill McLucas. And can somebody tell me before my interview, it was like two hours before, what is OCIE? And so they explained it to me so I could look like I had some knowledge of it. And so I had that interview, and I didn't hear for a while.

Walter Ricciardi:

And then I think it was November, I first got the call and then March came and Steve called me and offered me the job. And we were able to work it out that I could leave and take the job. And of course, Steve said, "Listen, you got to start on Monday." So, my last day as a partner at PWC was Friday. I had to be deposed on an arbitration that night. My first deposition I ever wrote, deposed. And then Saturday night was my retirement party from PWC. And then I started working in Boston and, and that was the biggest challenge. My youngest son was a senior in high school and we had a house in New Jersey. He was going to continue at the high school and I was going to have to head up to Boston to work. The challenge is definitely sacrifice, especially for my wife and my son, Jake. And so, I decided to take it.

Kenneth Durr:

I want to get a sense of the Boston regional office. When you found it, was there some lore about the past, how were things divided up? You talked about the enforcement/OCIE thing, and I want to talk about that to a greater extent. What did you find? What did you find that was intriguing? Interesting at the Boston office?

Walter Ricciardi:

Yes. So the biggest problem facing the office, and I think the reason why, is because almost every other officer had at the time had worked their way up over 20, 30 years to get promoted. And I'm a big believer in promotion from within. I believe it's a failure of a succession planning if you have to go outside for talent. If you're hiring the best and brightest, which the SEC is doing, you should be able to groom those people, get them ready to take on more senior positions. So I'm a very strong believer in promotion from within and how an organization ought to be able to... Now and then there's specialized need and you just didn't anticipate it, but generally it should be viewed as a failure in succession planning, not to be able to promote from within. And I have a strong belief about that. And so what happened... it was an unexpected opening, and they felt they needed to go outside, as there was some bad publicity that had come about as to the way the Boston office was handling those market timing investigations, at the time, involving mutual funds trading in and out. And so the feeling was that it would be better to go outside; and what was going on is that the state regulators and the SEC were somewhat at war in terms of state regulators,

pointing a finger at the SEC, saying they didn't do enough and didn't follow up, and so there was criticism there.

And I felt that that was really very damaging to investors, that the state regulators and the SEC could not get on the same page. And so, the first call I placed when I accepted the job was to Secretary Galvin, Bill Galvin. And I talked to people in the office and had a lot of respect for his Head of Enforcement, and I said, "Why can't we have a better relationship, that doesn't make any sense?"

Walter Ricciardi:

And so I placed a call to Bill Galvin, and he didn't return my call. A week or two went by and I had dinner with a good friend, whose wife was a state Senator, and I mentioned that I'm trying to reach out to Galvin and he won't return my call. And she said, "Well, I can fix that. I can fix that."

And so, she actually set up a meeting for me to meet with Galvin, and it opened up where he was sort of sitting there, very reluctant to be in the meeting. And I said to him, "Look, you don't know me, but all I'm trying to do is protect investors. That's all I'm here for. I'm not going to run for political office. I'm not looking to get my name in the paper. I just want to do a good job for investors, and I believe you want to do the same thing. I think if we work together, we can accomplish so much more than if we're going in different directions. And I have a lot of respect, I'm talking to the folks in our office here. They have a lot of respect for your team, doing enforcement, and we can work with them. And I know you get a lot of tips—more than we do—because you're local and people know you, and we would want to work with you on these cases. Plus, when we see things that are interesting, I'd rather bring your folks in and we work on it together. And I think if we work together, we can accomplish so much more. That's it. That's all I wanted to say."

And I said, "I know talk is cheap, so you may not believe me, but I think you'll see that we will not bother your people, and we will try to work together and we'll try to resolve things in a coordinated fashion." And he kind of let down his guard and said, "Okay, let's see what happens." And I kept to that. I made every effort where it was appropriate to have them involved, to involve them.

Walter Ricciardi:

And we had a staff of 100, I think Bill, at the time, had a staff of maybe six. And so he didn't have the resources, but we had 100 people in enforcement in Boston, I think. And so we were much more able to provide the resources where they need to be addressed. And then having a coordinated outcome where we agree what is in the best interest of the investors, and appropriate, and having a coordinated outcome, I felt would be a good public policy. And so that's what we started doing, and we got a much better relationship with Bill and his office.

Walter Ricciardi:

It was small things like New Hampshire. We had a case we worked with in New Hampshire, and we got money back, we were going to give it to investors, and New Hampshire wanted to take responsibility for distributing the money. I was like, "Great, I'm fine with that." We didn't have that much expertise at that time in distributing money and they did. And so I just felt, if you didn't worry about who's going to get credit, you could accomplish so much more. I worked really hard at building good relationships with state securities regulators. I think I accomplished that in my time there.

Walter Ricciardi:

When I first showed up at the office, the culture was more like a silo, and I think this was true with all the offices. They had tremendously smart people at the Boston office. Literally, they were Harvard Law Review, PhD in History from Brown. I mean, these are superstars. Boston's got a lot of very, very smart people. I wanted to stay in Boston, and loved working at the SEC. So we could pick and choose

tremendously talented people for that office. And it was kind of an attitude of a silo. We can take care of it ourselves. We don't need to call up to home office for help, or call to another office for help. And I felt that that's not a good culture in terms of being a silo. That you should bring in HQ, find out who is the person, most knowledgeable, at the commission about an issue and bring them in, so we had the best expertise to address the issue.

Walter Ricciardi:

And so one example of that was we opened a derivatives investigation, which is very complicated accounting. And before this, the home office had a couple of cases about Freddie Mac, I think, and Fannie Mae, involving derivatives accounting. And I know that it's very, very complicated, hard to get it right. And well, who's the accountant in Enforcement in DC that worked on that? Let's get them involved in our investigation. And I was told, "We never do that. You never have somebody from another office working on our investigation." I said, "Well, why not?" And so I think to some extent, just because you're new, you can ask questions like, well, why not? Why don't we do it that way? And actually, it ended up being a godsend to have him on that case. And he really did understand the accounting better than anybody at the Commission, and he was really able to help us handle a very complicated accounting case in good fashion.

Walter Ricciardi:

And so when I first started, I asked for, I'd tell the staff, three things. One, integrity in everything we do. Being in law enforcement is just so much power and privilege that you have to actually make sure that you do everything by the book, and at every step integrity has to be the key to everything we do. And two, teamwork. We should be working closely between OCIE and Enforcement. When I got there, OCIE was on one floor, Enforcement was on the other floor, and I wanted to see closer working relationships there. But also closer working relationships between the Boston office, New York office, home office, seeking out the most knowledgeable, best people.

Walter Ricciardi:

But where appropriate, also criminal authorities. We would even loan staff to the US Attorney's office if they didn't have the resources to go over the wall; we would call it and work on the criminal investigation, lead the SEC staff on that matter. If we thought criminal prosecution was appropriate, we would give them the resources to help on that, and, plus, a big push with state regulators, having teamwork with state regulators so we can work together and try to jointly achieve the goals for protecting investors.

Kenneth Durr:

Boy, you've just run down a long list of things that I'd love to pick apart a little bit. Let's start with systems. You know, it's one thing to say, "This is what we want to do," and walk around the office and talk to people. How did you create systems to make sure that that kind of new approach gets done on a regular basis?

Walter Ricciardi:

Yes. As I started to get to know folks, I'd ask everybody, "What can I do to help you do your job better?" And we had a system called CATS2000, which was the only thing we had. As the head of litigation, I had great databases at PWC that were detailed. Every case I had to keep track, and all the information would be embedded in there. I said, "Do we have like, a tracking system?" They said, "Yeah, CATS2000." I said, "Well, can I sort it? Like, let's say I have a meeting with the chairman, and he wants to know how many insider trading cases we have, or how many FCP investigations we have going." And they said, "Well, you can't really sort CATS2000, it doesn't work. You could hire somebody, computer experts to come in and try to run various programs on it, it would take you a month." And so the information goes

into CATS2000, but you really can't get it out." And I said, "Well, I don't understand." And they said, "Well, let me show it to you."

Walter Ricciardi:

And it was a print out of CATS2000, it was literally six inches thick and the tiny type. And they say, "Well, you have to flip through it to find your matter." And I said, "So it's really not usable at all." And the answer was no.

Kenneth Durr:

So, information management systems, and you mentioned CATS—was it around the year 2000 when it was brought in?

Walter Ricciardi:

I assume it had something to do with, remember we had that whole issue with year 2000 and everybody was looking at the computer systems, so the SEC must've put in a new computer system in 2000, before I came. And it was called CATS2000, and I was told that the only thing we had for tracking investigations was CATS2000, and no ability, as a practical matter, to sort it. And it was a six-inch-thick, looked like a phone book, tiny type. They said flip through it and try to find something. But I said, "What if the Chairman calls me and says, do you have any investigations involving the Foreign Corrupt Practices Act?" Where are they? How do I find that out? And they said, "Well, you'd have to just ask around the staff." I said, "Well, that's not an information management system. We should be able to do better." And they said, "Oh, well, we've been talking about this for years. We just haven't been able to do it."

Walter Ricciardi:

And so there was a young graduate of MIT, which I knew from the OCIE staff. As part of the market timing issues, there was a rule to bring in people with different types of expertise, and he was an expert on systems and things like that. His name is Mark Dusko, from Alaska. And so I brought Mark into my office, I said, "Mark, could you create a spreadsheet for me that tracks our investigations?" And he laughed and said, "Of course, that's easy." And so, but I wanted the staff to support the notion. So I basically had discussions with them about what information would be most helpful for you to have in this system. And so, we had lots of discussions about what it should include. And I had seen that you could get blindsided.

Walter Ricciardi:

For example, the same order partner might be involved in three different investigations around the country. And the staff on each of those investigations wouldn't know that they're all investigating the same order partner, but three different investigations, and there'd be no way to collect that information and figure that out. And so, there needs to be something linking our information, so we have a system of it. But we started just with the Boston office, and we created it, and now you could sort things. You could say how many insider trading investigations, you could figure it out. You could see who was in charge, when it was started, what testimony had been taken? What were the names of the witnesses? What testimony was taken? You could attach those. And so all that information is available to the staff, to understand and work together instead of a silo, to be able to see who else is working on their FCPA.

Walter Ricciardi:

Let's see if we can help each other, let's discuss best practices. And so it enabled, and tried to get enthusiastic about having this new tool, to make their job easier. And it became ... I made no effort to make it known that we had it, but out of the blue, Steve Cutler called me and said, "Hey, rumor has it you

created a database of your SEC investigations. Any chance you could come to DC and show us how it works?" I said, "Sure. But I got to bring Mark. Mark Dusko has to come." So Mark and I went down to DC, and we put up on the screen and walked them through exactly how you could use it to sort things.

Walter Ricciardi:

And Steve said, "Oh, we've got to create this for the division. We've got to do it. And so we had a naming contest where the Boston staff, we kind of voted to come up with names and Hub won. I guess, folks in Boston, identify with that name, it got called the Boston area hub.

Walter Ricciardi:

And so they said, "Let's call it the Hub." And I think to this day, it's still called the Hub. And we basically created it just with our own folks in the office. Towards the end of it, before it was released Enforcement wide, I did learn, once Chris Cox came, the IT people told me, "There are laws about how you have to create databases." I said, "There are? I didn't know."

Walter Ricciardi:

And so we had to actually go to an outside consultant just to make sure we had dotted the I's and crossed the T's on the legal requirements with regard to government databases. But it was pretty much the database tool that Mark developed. The most controversial issue, believe it or not, was who is responsible for making sure accurate information is input? Because garbage in garbage out. I felt it's extremely important that the staff attorney in charge of the investigation, one of their primary responsibilities is to make sure the information in the Hub is accurate.

Walter Ricciardi:

And no, they can't delegate that. They can't say to their assistant, or paralegal, "Put that in there." Make sure it's right. Because you don't want to have bad information in there, or you have all kinds of problems. And so I preached that the staff attorney, even though they're attorneys, it's not that hard to input it, or they could ask somebody else to input it, but they have to make sure it's up to date, so that the division is not giving misinformation out to people. If the chairman's office calls, or a commissioner calls, or if we're having a meeting with DOJ and they're saying, "Well, what FCPA cases have you got going?"

Kenneth Durr:

But I understand that you rolled this out, and this was rolled out through the different regions.

Walter Ricciardi:

It became Enforcement wide. I don't think we finalized it until after Steve left and Linda was Director, and I was Deputy, with Peter Bresnan. And I think we rolled it out after I became Deputy. But we were working on it. Steve was the one who asked us to do it.

Kenneth Durr:

Yes. Let's talk about one more structural issue. And this is kind of the big one, and we alluded to it before, which is enforcement and inspection taken apart and OCIE had inspection. And there's always been talk about the fact that, "Well, if we're not doing the inspection, enforcement suffers." How did you deal with that one?

Walter Ricciardi:

Yes. So I took that part of my job very seriously. I think partly because I was so embarrassed not having heard of OCIE before my interview. So I took a great deal of time and effort to be involved with the examination staff. And so, for example, I think it's every six months they'd have regional meetings where all of the heads of OCIE from each of the offices would meet.

Walter Ricciardi:

And I went to that and they literally turned to me, and they said, "What are you doing here?" I said, "Half my office is OCIE. Why wouldn't I be at the regional planning meeting for OCIE?" And they said, "I think you're the first office head that's ever come to our planning meeting." "Well, I'm trying to learn. And I'm trying to see if I could add any value." And so, I think they appreciated that I was taking time and attention to try to contribute, to enhance the working relationships between Enforcement and the OCIE staff.

Walter Ricciardi:

And some changes I implemented in Boston, I think were well received. The thing I heard with the most frustration by OCIE, was they would make referrals, enforcement referrals, and then they wouldn't hear back, or they wouldn't get picked up, and the OCIE staff would feel, "These are great referrals, but enforcement didn't pick it up." And they wouldn't understand why. Because you know, it's a triage. Like the medical analogy that tips pouring in, newspaper stories about potential fraud pouring in, so Enforcement faces a very difficult task of not having the resources to get to the bottom of every tip, every referral. And so you have to triage, "Okay, which ones should we focus our attention on?"

Walter Ricciardi:

And so I felt that if we created a committee, which was half enforcement, half OCIE, and people would rotate, so that OCIE examiners would take turns being on this committee to evaluate OCIE referrals and decide which ones enforcement would pick up. Because then they would see the flow, they would see the whole flow of OCIE referrals, and not just feel frustrated that their referral didn't get picked up. They would see that the choices that would have to be made by the office to see which ones we can follow up on, which ones we didn't have the resources to follow up on.

Walter Ricciardi:

And so I felt that was a good change for morale, and I tried to integrate the office in terms of not having it one floor OCIE, one floor Enforcement. And I also started a weekly newsletter from the day I arrived. And it was basically, I mentioned the three things I asked for, integrity, teamwork, and the third one, I don't think I mentioned, was fierceness. That we have to have passion to address challenges for the investors, and go after fraudsters, and we want to be passionate about that.

Walter Ricciardi:

And those are the three things I asked for. I felt the best way to build that culture, or enhance that culture was to celebrate instances where the folks behaved in a way that enhanced those values. So the idea was that every week I'd write it up on Friday, what happened during the week. And I wouldn't lay out specifically how it enhanced the values, but I'd tell a story which celebrated fierceness in going after a fraudster and handling something correct. Sometimes it'd even be stories from the sports. It was actually the year the Boston Red Sox first won the World Series, I happened to be up there. So ... We won the Super Bowl, that year. The Patriots won the Super Bowl that year, too.

Walter Ricciardi:

So I'd even use sports analogies, a lot of big sports fans in Boston. And so I'd use sports analogies and things that happened around the office to illustrate, not explicitly, but not explicitly, but just to demonstrate that I'm noticing and I'm celebrating those values. And at PWC, I could help make partners, I was on the partnership committee that decided who made partner, on the board and people's compensation could be substantial, as you can imagine.

Walter Ricciardi:

But I didn't know whether in the public sector that people cared so much about recognition. And they did, the staff really cared about recognition. I think I had like, the ability to get like \$50 bonuses. And believe me, people appreciated those \$50 bonuses, just to show the recognition. And so I felt as the office head, my role was to clearly spell out what I was hoping to achieve, or hoping our office would achieve, through teamwork, and integrity, and fierceness. And notice when it happened and make sure people felt appreciated and when they made it happen.

Kenneth Durr:

Yes. I think that's human nature, whether it's the private sector or the public sector.

Walter Ricciardi:

Right.

Kenneth Durr:

All the regional offices over the years develop a character, in part based on the kinds of cases they get and the kinds of fraudsters that live in their neighborhood. You mentioned the market timing and that's ... the mutual fund industry is very big in Boston. Let's talk through one of the notable cases that you dealt with in your time there, in the mutual fund area.

Walter Ricciardi:

Yes. So when I got there, pretty much the market timing was full bore, the biggest scandal going on. And so it was not an area ... I had some experience dealing with audits of funds, so I had some familiarity, but the market timing area was all new to me. But by then, by the time I got there, Boston was really revved up to deal with those cases. And I think the issue was just what were the company's disclosures, the fund's disclosures, the managing company's disclosures to investors? Most of them said, "We don't allow market timing." And then the question was, "Did they allow it?" And then the question was, "Okay, who knew about that? Who knew?" You know, some people might know that we have a disclosure that we don't allow it, but others might not. I know that the market timing is going on. Some people might know market timing was going on, but didn't know that they disclosed that they weren't allowing it.

Walter Ricciardi:

So you're basically doing your investigation to figure out who might have both of those pieces of information in their head. They know we're telling the world and our investors, "We don't allow market timing," and yet they're allowing it, which hurt investors. And so, we work very carefully to figure out, and that's always the toughest decision as an enforcement person, which individuals had sufficient information that we should go after them?

Walter Ricciardi:

And sometimes people make good faith, honest mistakes, and I'm a strong believer that there's enough fraudsters out there, that the focus should be on going after people who don't make good faith, honest mistakes, and could learn from them, but people who are intentionally misbehaving. And so we tried to

find out who we thought might be intentionally misbehaving and had the evidence to prove that and pursue those people.

Kenneth Durr:

Right. And those would go to criminal cases, right?

Walter Ricciardi:

Well, if we thought there's criminal intent, we were very open to; we would meet with the Boston US Attorney's office, I think a regular scheduled meeting every month. And they were aggressive about asking us which cases did we feel might have criminal intent. And then they would give us an access letter and we'd give them the files. And so some offices were less willing to work with the criminal authorities. I felt strongly that if we thought there's criminal intent, sometimes fines and injunctions aren't enough, if somebody is behaving in a criminal fashion. It's a great privilege to get to work in the financial service industry. The rewards can be extremely lucrative, and if people are intentionally misbehaving and have criminal intent, then there's certainly room for criminal authorities to take a look.

Kenneth Durr:

One of the interesting things is, you put together quite a few settlements, big global settlements. I think Putnam was one. You had Prudential. Tell me about the process of working these things out.

Walter Ricciardi:

Well, yes. I think that, in terms of reaching a settlement, 90 percent, I think in the case was settled. So you have a tremendous amount of ability to persuade people to settle and to delegate. I called the trial unit the heart and soul of the enforcement division because I felt that that gave the investigators credibility. So when we said, "Look, this is what we would recommend, and we will consider other things, but this is what we'll need to recommend settlement." They knew we had a great trial unit behind us to support that decision. And so I felt that picking cases that we would litigate and win for the commission, where there should be one, will be an appropriate way to get the settlements, but in terms of the details of how we fashioned settlements, it's just like any case in terms of carefully evaluating. What I used to try to focus on was permission precedents.

Walter Ricciardi:

And so I felt the staff should not, as some of the Commissioners would say, pluck numbers out of thin air. And so I felt the Commission approved the settlement, therefore the Commission had spoken. And so I've asked the staff and I'd asked defense counsel to put together a spreadsheet. And I say, "Okay, which cases that the Commission has approved settlements in, do you feel this was most like? And then tell me what factors you think in those settlements are most like ours. Where might they be different?" And this way you have a more scientific evidence-based approach to having some rationality to your settlement decisions. So we'd try to do compare and contrast and try to fit it in to commission precedents. I felt that was the best way to negotiate settlement.

Kenneth Durr:

Okay. Any other mutual fund issues that recurred over and over during your tenure?

Walter Ricciardi:

No, that was pretty much it. And to be fair, that was really going full steam when I arrived. David Bergers was the head of enforcement pretty soon after I came and David was on top of that, doing a great job. And the whole staff did a great job getting those cases ready for appropriate settlements.

Kenneth Durr:

He was enforcement in the Boston office?

Walter Ricciardi:

Correct. Yes. At that time.

Kenneth Durr:

You talked about all the people from MIT, the people from Harvard, you had quite a biotech business springing up in the Boston area.

Walter Ricciardi:

Yes.

Kenneth Durr:

Let's talk about that industry and some of the challenges that you faced with that.

Walter Ricciardi:

So most of the time in that industry, they don't have a product yet and they're trying to get the clinical trials done in a way that will enable them to market a drug and make money. And so disclosures regarding the clinical trial process and what they're learning in that process can be extremely important. We had a bunch of insider trading cases involving the biotech industry. People would learn about problems with the clinical trial or problems with a new drug and obtain that information on a confidential basis, but then trade either to avoid a loss or to anticipate a gain. But also we had cases where there were disclosure problems, where the issue was not accurately disclosing the status of a clinical trial. And so, when we did have, which was a referral, which is unusual in our experience, from the FDA where they felt there was a company coming out with a new product, which was instead of transfusing human blood, they were going to use pig blood.

Walter Ricciardi:

And they were doing some clinical trials. And I guess the FDA wasn't happy about some of the results. Some people were not doing okay with it. And they sent them a letter saying, "Hold clinical trials." And the company issued a press release saying... They pitched it as more in the nature of good news that they didn't have any more clinical trials, and I think the FDA was not happy about it. One case was a referral to us, and we did that investigation and a number of people settled. If I remember right, one litigated and he ended up submitting a letter from his doctor saying he was about to die and the trial should be postponed and his lawyer withdrew shortly after that saying, "Don't rely on any representations I made." And it ended up that the letter was fraudulent and he ended up having a criminal problem over that. So it was an interesting, interesting situation, but we were looking for disclosures, accurate disclosures, fair disclosures. If you're going to talk about it and not having any... colorful story, not having any material omissions is really important.

Kenneth Durr:

Was this BioPure that we're talking about?

Walter Ricciardi:

Yes, that's correct. And imagine that if you only have one product and you're waiting to get it approved, having fair disclosures of the status would be really important. So that was an important case.

Kenneth Durr:

Were there other companies in similar situations?

Walter Ricciardi:

Oh yes, we had quite a few. Quite a few. But that one stands out in my memory, especially with the criminal referral to the federal court.

Kenneth Durr:

Did you sort of build up a relationship with the FDA in working through some of these cases?

Walter Ricciardi:

Yes. I actually went down to Washington and met with them. Yes, I did.

Kenneth Durr:

Okay.

Walter Ricciardi:

Yes. The office was a big believer in coordination and teamwork, and we really stressed that and I think the staff appreciated that that was the right way to go. One example that came to mind that later on became important was, right after I came, I heard that the Denver office staff were trying a case like a half an hour from Boston up in New Hampshire. I think it was in Concord. And I was like, "Well, why would that be happening? Why would we be using taxpayer money to have staff from Denver spending a month in Concord litigating a case to trial when it's right in our backyard?" And they said, "Well, that's the way we do it here is that if you find it, you keep it."

Walter Ricciardi:

And that's to reward people for coming up with ideas to investigate. The idea is you get to keep it and see through it. I said, "Yes, but can't, we set up a system that rewards people for finding it and sending it to the appropriate office to handle? Why couldn't that be rewarded? Can we figure out a way to reward that?" And I just didn't think it made good public policy sense to be having a culture where people kept a case because they had the idea, even though all the context and witnesses and evidence is in a different region. And so I tried to get the Boston office to take that into account. And they warned me that, "Well, usually the only referrals we get from other offices are cases they don't want to work on, but they feel like that it's just dumping on another office."

Walter Ricciardi:

Well, the way to change that culture is to be the first to do it. Give them good cases that are in their region and I think they'll reciprocate. If we find good investigations that we think are important and should be handled, but it makes more sense for another office to do it, then let's send it to them and slowly, I think you'll see offices will reciprocate. It's the right thing to do and it makes good sense to public policy. So that was one of the other aspects of teamwork, getting it to the right office. I think so.

Kenneth Durr:

Were you able to do that in certain cases?

Walter Ricciardi:

Oh, absolutely. Absolutely. Yes. And I think people did start to reciprocate and then it later got... When I was deputy that became embodied in the enforcement act as a consideration. So now with the enforcement act you have to consider that.

Kenneth Durr:

I know you had a guy from New York, Harry Markopolos, talk to you at some point.

Walter Ricciardi:

Yes. Actually, I never spoke to Harry, but he did meet with members of the Boston office. He made the pitch on the Madoff funds to the folks in the Boston office and they were very interested in it and thought it was a significant investigation. And they sent me an email, which I didn't remember 'til I was deposed by the inspector general about it. But they sent me an email saying Harry Markopolos had come in and raised questions about the Madoff funds and it could be a Ponzi scheme. It could be he's front running. But they looked it up and saw that New York had done an OCIE investigation recently and they felt that because Madoff was in New York, OCIE had done an investigation in New York, they felt it was most appropriate.

Walter Ricciardi:

And they recommended that in accordance with my feelings about that, it be sent to the appropriate office, which was to New York. And so they also mentioned in the email, and this is all in the IG's report. Well, the details, it goes on and on, but, they mentioned in the report that... I think they said his brother-in-law, Madoff's brother-in-law was his auditor. And of course, me being an auditor independence expert, I thought, "Wow, that's easy pickings. If his brother was the auditor, that's clear, blatant independence violation. And boy, that's easy enough to prove." And so I was excited about it, but I agreed with them that it should be sent to New York.

Walter Ricciardi:

So one of the people, an enforcement assistant director, sent it off to New York and indicated that if you don't want to do it, we'd be happy to do it. I think it's the way he put it. And he didn't hear anything for a while. But they did ask me, should we just send it as a tips— There's a tips bank, you just put tips into. I said, "No, no. Let's send it to the leaders so that it gets... They recognize it." I think I said the potential urgency, something like that. So now indicating no special treatment, let's get it to New York. But then they didn't hear for a few days, but I wasn't involved after that, but they did follow up in Boston saying, "Hey, somebody's going to pick this up?" And I think, clearly, Boston would be happy to do it, but they got back that we're going to assign it. We're going to follow up on it, and I believe that's the last I heard of it until my testimony was taken by the IG.

Kenneth Durr:

Okay. So then you become deputy director of enforcement and you are still in Boston, right? I'm trying to figure this one out. It sounds like you had some overlapping roles there.

Walter Ricciardi:

Yes. I called Steve Cutler. So one of my former, very senior colleagues at PWC became the CEO of an insurance company and he asked me to become the general counsel, but I'd only been with the SEC a little over a year and I felt, "Wow, that's kind of premature." But I was thinking, "Well, I don't know." So

I just called Steve to talk it through with him and he said, "Well, those opportunities don't come along very often. It's a great opportunity. Hey, if you want to take it, don't worry." And he said, "This is a secret, but I'm leaving too." I said, "Oh, you leaving?" And he said, "Yeah." And I said, "Wow." And he said, "Still a secret. Donaldson's going to be going. I'm going to leave before that and Linda should become the new director."

Walter Ricciardi:

I said, "That's great." And he said, "So, I'll be leaving. How can I tell you to stay?" And so I said, "Well, let me consider it." And then shortly thereafter, Steve called me and said, "Linda's going to have two deputies and you and Peter Bresnan should become her two deputies." And I said, "Oh, I don't know about becoming a deputy. I like running something, I like running the office. I really enjoy it. I'm not sure I'd like being a deputy." And he said, "No, you'd really love it. It'd be great." And so I said, "I don't think it's for me." And so I was hesitant to take it, but Steve asked to have a drink with me when we were down in South Carolina at one of our senior staff meetings and tried to persuade me to reconsider and to work with Peter and Linda.

Walter Ricciardi:

And I was saying, "Well..." And he said, "It's really much more exciting being in DC. It's a lot of responsibility." And now he really strongly encouraged me to do it. And I still said, "I don't know. I don't know if it's really for me. And I like running an office and..." But then I didn't really hear further, but then the day Linda got appointed, she called me and said, "You know what? Why don't you be my deputy with Peter?"

Walter Ricciardi:

And so I asked around and people said, "No, you shouldn't turn that down. You can have a lot of fun down there, a lot of responsibility. And so you should take it." And there was a period where... I think October, late October is when that happened, but it was almost... Maybe I would say almost nine months before they appointed a new office head. But I had basically left Boston and got an apartment in DC. And I still had an apartment in Boston, but I also had an apartment DC and moved down during the week to DC to be the deputy and sort of just worked with with David Bergers, who is really pretty much running the office and just talking to me every day about what was going on until he became the official at the office.

Kenneth Durr:

So how did you and Peter divide up the duties in the deputy slots?

Walter Ricciardi:

Yes. We had a tremendously excellent working relationship. Peter's one of my favorite people and we kind of split up the regional offices and he took some, I took some, but we talked all the time, every day, many times a day. No silos. We really work very closely at coordinating and basically, even Linda informed us. She set the agenda and the tone and we followed her orders. And Linda is a terrific boss. One of the greatest people I've ever worked with. And so we loved working with Linda and being her deputies.

Kenneth Durr:

Do you remember which regions you took on? I'm interested in how that process works? How the oversight over the regions originated in DC?

Walter Ricciardi:

Now you're testing my memory, but it was more of a resource. It wasn't like a reporting relationship so much as a resource. Pretty sure I had New York. I think I had San Francisco and LA. I think I had Chicago. I don't remember the rest, but... Because we worked so closely together. A lot of times we were on calls together—if it was an important enough issue both Peter and I would be on, so it was pretty informal. It wasn't like he didn't weigh in on LA issues, but they'd generally call me first and Peter took more... Peter having been in the home offices, more doing the home office stuff.

Kenneth Durr:

Was the job to try to keep the regions on the same page so that they're sort of pursuing the same policies?

Walter Ricciardi:

That's what I was trying to achieve. And the frustration I felt was that some offices and some people, some associate directors were really good about keeping us informed and letting us know when there was an important issue to decide or where they were in settlement negotiations. And then some were more of a silo attitude. And we had what's called the 2D calendar call, which would be in order to get on the calendar, you'd need Linda's deputy's approval and we'd have a meeting, but by then the investigation was two, three years old, four years old. They've already negotiated a settlement and they want to get it put on a calendar. And so like, what are you supposed to do at that point? Go back to defense counsel and say, "You know what? We think the penalty should be higher or lower after the staff agreed to it?" Which isn't a great way to build an enforcement division.

Walter Ricciardi:

And so it became frustrating to me that too often, I was going to 2D calendar calls and there'd be issues, but we felt locked in to some extent in terms of... And if we thought it was wrong, obviously, we'd just say, "We think it's wrong." But it'd be already decided and yet, our job would be to persuade the commission to approve it, right? Because we'd recommend it. We put it onto the calendar and we'd have to recommend it to the commission and persuade them to approve it and, yet, we had little involvement in how we got there. And so I've been urging more of a real national enforcement program rather than, I think there are 24 associate directors, having 24 associate directors each running their own enforcement program and then we would have to try to persuade the commission that they did it right, which we would try to do.

Walter Ricciardi:

And so I started making noises that would be it'd be better if we had more input earlier in the process, but again, every organization is reluctant to change. Most of the people are in their positions because they did things the way they've always been done and it's worked out really well for them. They love their jobs and they've been promoted. And so any notion of change, it's just natural, this resistance. And so I tried to persuade people that some changes would be helpful and would help.

Walter Ricciardi:

And I actually went around the country with Linda's approval. I went to, I think, every office as the deputy, all the regional offices, and met with each branch one-on-one. So there'd be like five or six people in the room. And I'd just go around the room for an hour. "What are you working on? How can I help you do your job better?" Just get to know them. Which case did they like working on? And learn things from that and basically send a message. I, the deputy, am willing to get on a plane, come to your office to spend an hour with you to understand what you are trying to accomplish and how I can help you do it. And I thought that was a powerful message to try to create more of a national enforcement program.

Kenneth Durr:

And this is a great perspective. I think you know that I'm really focusing on the regional offices coming up here. And so you've got the opportunity to take a look at all of these. Were there more differences than similarities or how would you sort of take stock of the differences between these offices?

Walter Ricciardi:

Yes. Some were very resistant to involvement by Washington. They felt they were running their own office, sort of like a U.S. attorney's office, right? I remember there was a little bit of a controversy. Basically anybody could call me and I would take their call, right? And they would ask to meet with us. And we kind of had a rule, you could either meet with the deputy, or you can meet with the director. You couldn't necessarily get both, you had to pick one. And so they were saying, "You shouldn't be meeting with people. If we told them something, they shouldn't be able to come to Washington." And I felt like that's not a good attitude to have because some people were going to get meetings too, most likely on certain matters, and just because you're a nobody lawyer from—I don't want to denigrate any city, but you're not one of the people who were well-known defense lawyers, that somehow, they don't get a meeting.

Walter Ricciardi:

We can't have a situation where some people get meetings, some people don't get meetings. So I felt either we give everybody a meeting or nobody a meeting. And I felt strongly that you should have a right to... And clients, before they settle, just as a practical matter, they want to know that they got heard, right? It's important for them to be heard. And so I gave anybody a meeting. They felt they're unhappy about a decision being made. I would always involve the staff who were working on it, but anybody could have a meeting and they were going to get one meeting, maybe not two meetings, but you get to come and meet and hear it out. And I made a very strong effort, having been a defense lawyer, and when you don't really know what happened, you don't here and clients say, "How did it go? What's the outcome?"

Walter Ricciardi:

I really made an effort to get them very prompt decisions and explain exactly why, in a way that would get translated back to the client so they'd understand. Literally, I'd say, "You're saying they didn't know that investments, disclosures, that there'd be no market timing, but here's these three emails that I've been shown by the staff and their names are on there and it shows that they're disclosing that. So I can't accept that the weight of the evidence doesn't show that they knew. And in light of that, I'm saying that we're going to go forward." So I'd give them, as best I could, a nice short explanation as to why I felt we're making a decision we're making. And I felt it was important to get that. And also for settlement negotiations, because people don't know, I got to understand where to go and have to me it's harder to set as opposed to understanding why I took an oath to enforce the law. I look at the evidence the way the evidence suggests you're guilty of the violation. You got the evidence to prove it. Then I'm required to recommend that we go, we go forward and I'm staff. I recommend it to the commission. They make the decision. And so I felt that kind of controversy should we have meetings with everybody, some offices, they wanted their silo. They want to just run things their own way and not necessarily have Washington involved. And they wouldn't, they wouldn't, we wouldn't hear about it until it to be calendar meeting.

Walter Ricciardi:

I actually heard stories long before I came, when Bill Lucas was the director, sometimes I don't know if it's true or not, because I wasn't there, but sometimes he wouldn't even know about a regional office recommendation until he's sitting at the commission meeting and we'd hear about it. And that's why they instituted the "to be" calendar. It'd be something, some warning or get on the calendar. And so I just felt like that's not a national enforcement program, and we should have a national enforcement program. And

I think the commissioners wanted that direction, that they wanted to know that there's a coordinated approach to two different people with similar violations being treated the same way. And if you have 24 associates going to 24 different directions, you're not going to have that consistency and fairness really to, to the approach. So I believed in more, more centralized involvement at different stage, earlier stages.

Kenneth Durr:

Yes. And, and speaking of centralization, when you started in that position, I think you had your regions and then you had the districts, and the districts were under the regions. Right.

Walter Ricciardi:

Well you know, actually I wasn't familiar with that when I was interviewing, and I asked Steve about that and he said, "We're about to change that." He said, "You'll actually help us change that." And he said, "You will be, there's some resistance to making the change. But I think if, if you're involved, it'll make it easier to get through the Commission. And so you are going to be reporting to me on enforcement."

Walter Ricciardi:

"You'll be reporting to me." He made that very clear. So from the day I arrived, even though on paper, it said district office in New York was a regional office, but both New York and I were told no, no, the head of the Boston office reports directly to the director on enforcement and directed Lori on OCIE. And there was no reporting up. And that was true for the other, the other district offices. And so that formalized in a commission action, maybe six months after I got there, but it was never, it was never an issue I had to address. I didn't, I didn't lobby for it. I never said that I'd have a problem with putting New York like that or asked if I could report directly. I was just told you will be reporting directly to Steve. And the Commission is going to kind of fix that. Cause we're going to change all the district offices to region. But I really had nothing to do with that decision.

Kenneth Durr:

Interesting. It was a policy that was put together in the nineties. It sounds like by the two thousands, it had kind of sorted itself out.

Walter Ricciardi:

Right? Yes. By the time I got there San Francisco is reporting into Washington, not to LA. Yes. You also, as a district office, there weren't that many, but we all became regional offices.

Kenneth Durr:

And, and the other one is, when the regions were created, James Landis said, we want to be an overnight train ride from whatever's happening wherever. This is a much different time. You've got technology. Was there any discussion about really collapsing the regional offices to a greater extent than that? Just because they were a formality.

Walter Ricciardi:

I never heard any discussions along those lines. I had heard stories, before I left where they closed the Seattle office. And that was deep in the memories of the enforcement staff. That if you, if you misbehave or, don't do a good enough job, they close you up and we can all lose our jobs. And so I knew that was part of the lower, that, that, that direct was hanging out there. That if you, the Commission was so unhappy with you, they could close your office. But no one, I never heard anybody ever talk about collapsing or closing any offices. No, except the ancient history that was part of the lore.

Kenneth Durr:

Right. Anything else we should talk about from your time as deputy director?

Walter Ricciardi:

Oh from deputy? So, so the biggest changes that occurred were, I promised my wife, and it gets back to family. You know, I have four kids and they're all in college and medical school by then, they were all close in age, within five years. And my wife was handling as many people at that point in their lives. Her parents were both ill and older and my mother was ill. And she had an aunt that she was caring for, who's older. No, she just could not leave New Jersey where we had a house. And I promised my wife, I'd only do it for two years. And I signed the lease and my wife said, "Oh, I hired a moving truck to move your furniture out of your apartment on the exact two-year anniversary." I said, "Oh, okay." So I went to Linda. I said, oh, Clara's hired a moving truck and it's coming and she's not taking no for an answer.

Walter Ricciardi:

So we got to make plans for my departure. And Linda said, no, you cannot leave because Peter had left already. And you know, you're the only deputy you have to stay. This is not a possibility. I said, well, you haven't talked to Clara because she's got she's got the moving van. And somebody said, no, you can't do it. And it was like a month before. And now it's like three weeks before I said, Linda, Clara's serious. The moving company is coming. We've got to make plans for transition. And she said, no, you just can't leave. And so on a Friday we had another discussion and she said to me, put on a piece of paper, what you would need to stay.

Walter Ricciardi:

And I said, okay, that's an interesting assignment. So I went and that weekend, I thought about it. And I hadn't really given any thought to doing anything like that. But Linda suggested I do it. And so I sat down and I, I typed out on my computer a list of several things. One was change my duty station to New York. And I tried to do the deputy job from New York and get to move back home with my family, that I'd been really, at that point, on a three-year business trip, in which is it grueling to not be home, and not just because of having a house full of four kids. It was grueling to, to be on a three-year business trip. And I went home every weekend, pretty much Clara would come maybe once every few months to where I was, but almost every weekend she had to be in Jersey.

Walter Ricciardi:

So I'd come home every weekend, which meant, getting up at 4:30, getting in the car at five, driving to the office, getting in by nine. I felt strongly I had to be there by nine or just set the right tone that I wasn't coming in late. And I would stay till 5:30 on Friday before I drove back, and I could hit traffic and Boston, heading out of Boston and I hit traffic and New York people come home from the show is so we take me to like midnight to get home. And so it was a long week, as you can imagine, but I loved the job, but I was not happy being away from home so much. And so I put, duty station to New York would be switched. And I, I called it the enforcement management plan, which is to try to, well, I had to have a more national enforcement program to put that in place.

Walter Ricciardi:

And so what I said is that when any investigation was initiated, they'd have to check with the deputy and, and consider, is it the right matter to be investigating? And is it the right office to investigate it? Number two, three months in, I think it was 90 days that the staff would prepare an early, frank appraisal of what they'd done so far. And whether, as part of the triage, is it worth using up our resources to continue it? So figure out early, is this something we're going to see to the end as best we can by early and, and see if

there's better investigations, we should be putting our resources. So frank early appraisal, and I thought it'd be much better if we could figure out early, if it wasn't going anywhere rather than spend three years on it and decide that, and it's not that people are exonerated after three months.

Walter Ricciardi:

All we're really saying is: we have limited resources, where can we best invest our resources? Is it this investigation or are there more important ones that could address issues better? And let's put the resources on that, but I'd want them to copy me from the deputy down to do the early assessment. Plus Wells notices. Where were you going to notify people that, that staff is thinking of recommending charges? I felt a lot of times, I read about those in the newspaper, that big companies or individuals or whatever I got a Wells. And so we weren't in the loop on that. And that's how I felt. How about prepare a note to the deputy indicating that I'm Wellsing, here's why—a short summary explaining case and why you're doing it. And then settlement posture. I felt, again, I was frustrated about investigations that had been settled already.

Walter Ricciardi:

And now we were asked to put it on the calendar for the Commission when it was ready to, and you've got to give some regard—some authority to the deputy and say, here's what we want to do. My feeling was not to add value so much in that process, some great insights, but I felt that it would improve the quality of decision-making if the associates or the office heads knew that the deputy was going to be looking at this work product; I felt they'll take it a little more seriously. Not that they weren't taking seriously. I don't, I don't want to, but also I had the viewpoint, okay. What was coming and how people are treating similar investigations. And so I, I felt strongly that that enforcement management program would enable us to do a better job of bringing about a national enforcement program.

Walter Ricciardi:

So I gave it to Linda, and she took a quick, what she said, "Looks great!" I bet you the Chair will love it. Let's do it. And I was like, wow, I guess I'm staying. And so I stayed and implemented that. The most important thing was to make that work because people would not buy in if it was a lot. So I would stay, I would not leave every night until every one of those notes that I demanded they send to me, I responded to. And I would say nine out of 10, my response was, looks fine, thanks. Looks fine. Thanks. Nine out of ten. One out of ten I would say why don't we talk further about this, I'm available tomorrow morning, let me talk it through. And so I felt it worked and people were not resistant, at least as far as I could tell, because I was very responsive in getting it done and responding.

Walter Ricciardi:

It was not a log jam. And I felt it was really good for Linda. And, of course, I keep Linda informed—any decision, name, anyone I thought where the chief should weigh in on. Absolutely. I'd be talking to Linda about it. And she was running the program. No doubt about it. And I, I viewed it as getting the information to her, to the director in order to weigh in, rather than finding out after the fact. And so I thought it was working. I really thought it was working. And the other thing I was proud of is what I called the working groups. So I felt as part of trying to bust the silos that if you have—one of the big scandals we faced was the options backdating scandal.

Walter Ricciardi:

And I think we had over a hundred issuers that had issues regarding options backdating; and the strategy was okay, let's make sure that people are doing internal investigations, if they think they might have the problem, and letting us know what the findings are. And yet you had so many of them, you had teams all over the country working on. So I suggested the first working group is on options backdating. And it

would be, I would host a call maybe once every two weeks, every month where everybody's is working on an options backdating case or who would join the call. And we talk about best practices, how to handle these in a coordinated fashion, what, what could be provided to help with the other teams? So for example, we have someone from the chief accountant's office explain exactly how the accounting worked. We'd explain what evidence she found in certain cases that was very helpful.

Walter Ricciardi:

And so we'd have these coordinated calls, every room dial in, that's working on it; it's voluntary, strongly encouraged. And I think people really enjoyed that, that they get to talk to their colleagues about where the other associations are and what you learned from that process. And so the first one, I wanted to call it a task force, but apparently there's a history of those not being very effective. And so there's resistance to me creating a task force. And I said, well, what about a working group? And they said that sounds fine. So, but then once that got off the ground and was successful, I set up one for insider trading and then one for the Foreign Corrupt Practices Act, and one for municipal finance. And then once the credit crisis hit late in my tenure, we set up one to deal with CDM-type issues. I felt that that was really one of my proudest accomplishments and that it got people working together, cross offices, cross divisions, and dealing with it and dealing on, on similar cases, on a coordinated basis.

Walter Ricciardi:

And so after I left—It was a product of specialization. Because I felt it really is hard to do the very first options back to in case you start at zero, why not learn from the teams that have already been doing it for six months, right?

Walter Ricciardi:

And so having those calls enabled that, that coordination. And so I felt that that has stuck and evolved into the specialty units under Rob Khuzami, because basically he took pretty much just the working groups and evolved them into specialty units and people would then work, could be assigned doing almost only insider trader, almost only FCPA. And so you had this specialty and instead of having the silos, being the officer and the associate, it'd be specialization. And I think to be honest, in terms of, of the lessons learned from enforcement is that having specialized knowledge of, of how things work and how a Ponzi scheme might work, for example, is probably the most important lesson to be learned from that in terms of having better expertise: get to the investigation and not worry so much about the silos. And I think this, this addressed it, or Rob created a specialty in this.

Kenneth Durr:

And can you do the specialization but keep the regions, or is there a tendency to pull things to Washington when you do that?

Walter Ricciardi:

If there still is tension there, I'm not privy to what's been going on, but I believe it's like a dual reporting relationship. So if you're the head of special, specialty unit, like for municipal finance, the person's in Boston, Leanne Gwen, she's great. She runs that, but I believe she then has those people in her unit reporting to her. So there might be people in New York reporting to Leanne as the head of the specialty but they didn't have a dual reporting relationship to their office head. And so I'm not the one that loves dual reporting relationships because there's some confusion as to who do I work for again? And you get conflicting—but I mean, law firms do it all the time, right? You're working for two different partners in two different cases. So you have dual report, dual reporting relationships. But I think that, that, that could create issues, but I'm not really privy to what Heather is doing now.

Kenneth Durr:

Anything else we should talk about that we haven't touched on?

Walter Ricciardi:

I think that that pretty much covers everything

Kenneth Durr:

Alright. No secondhand stories...

Walter Ricciardi:

The enforcement manual, the enforcement manual, we left out. So that was, that was like one of the two things I stayed for another year and then decided to leave, but I stayed a little longer. And for two reasons, one was, I been pressing to create an enforcement manual. There was no enforcement manual and there were documents available to the staff for guidance, but it was kind of informal and full of all kinds, like anybody's postings into anything. And so I felt, let's have just like just Terry's office—DOJ has a manual. We should have a manual that's available to the public. It could lay out views on things; we can put in there carefully, so that it doesn't create any rights. And so I, I pushed for that and eventually got permission to create it. And now I have to say, John Macallan really was the editor in chief and put together gigantic teams of the entire enforcement staff.

Walter Ricciardi:

Many, many people contributed because it's a terrific document. And I, more or less was just, I focused on just certain of the ones I was most interested in, in terms of, of what those policies would actually say, but, but really others deserve the credit for putting it together. But I think it's really a terrific achievement. Now I teach at NYU law school on issues and SEC enforcement and you'd be surprised how many issues we deal with that are really well addressed. And the enforcement is kept up really well, too. And so I am proud of my involvement with that, having that set up. And so I delayed not to leave. I stopped working on anything because I started talking to law firms to leave, but I continued working on the enforcement manual. And the other reason I stayed is when I first got to Boston, one of the staff attorneys came to me and he said, I'm gay, I'm married.

Walter Ricciardi:

I have two kids. I played football in college and we've been trying to create an affinity group for LGBT community at the SEC and they won't allow it. And I said, you must have misheard that can't be. And he said, no, it's true. I said, no, it can't be right. And so I went to the HR people in Washington, they said, well, we're thinking about it. We're working on it. We haven't implemented yet. I said, well, what's the issue? Why wouldn't we be able to have an affinity group for the LGBT community? And as they say, well, we're working on it. And literally over the next years, every time I was in Washington, I stopped off with HR and said, what is the status of my request to start an affinity group for the LGBT community? And it'd be like, well, we're working on it.

Walter Ricciardi:

And so finally, just as I was about to leave, folks came to me and said, we finally have gotten permission to create it. And our first meeting is going to be, gay pride month is coming up and we're going to have a big presentation, Barney Frank is to be our speaker. And we want you to introduce Barney Frank. And I said, wow. And I said, I'm supposed to be gone by then. And I said, you know what? I'm going to stay until we have that first meeting. I want to be there. And so I did that.

Kenneth Durr:

Well, that's a great way to go out.

Walter Ricciardi:

Yes.

Kenneth Durr:

Well, this has been great. I've taken 90 minutes of your time and I've learned a lot. I really appreciate everything. I hope I can talk to you again as I go through the regional office history project. Thank you very much.

Walter Ricciardi:

Thank you, Ken.

Kenneth Durr:

All right. Take care.

Walter Ricciardi:

Bye.