

**Carmen J. Lawrence**  
**Interview with Kenneth Durr**  
**November 11, 2021**

Kenneth Durr:

This is an interview with Carmen Lawrence for the SEC Historical Society's virtual museum and archive of the history of financial regulation. Today is November 11th, 2021. And I'm Kenneth Durr. Carmen, it's great to talk to you today.

Carmen Lawrence:

It's great to be here. I'm very excited about our interview. I'm sure we'll have fun.

Kenneth Durr:

I think so. Well, let's go back to some of the fun things about your education and how that went. I guess you started out at Cornell?

Carmen Lawrence:

That's correct. I was in the arts and sciences, graduated in '78, and then went on to University of Michigan Law School and graduated there in '81. In Cornell, I was a government major.

Kenneth Durr:

Okay. Did you know you wanted to go into law at some point?

Carmen Lawrence:

I did. It's one of those things where your parents have an influence on you and for whatever reason—I really loved math and science and thought that's where I would be headed, but my dad convinced me that he saw me as a lawyer. So, I didn't fight, I didn't push back.

Kenneth Durr:

Okay. So, you went to Michigan for law school?

Carmen Lawrence:

Yes.

Kenneth Durr:

Did you take some securities courses?

Carmen Lawrence:

I did indeed. I took securities regulation as an elective. And as odd as it may sound, I really loved it. I think what appealed to me was the statutory framework, yet there was the case law that put the gloss as well as interpretations from the staff and the like, so I really did enjoy it. But I think one of my professors had an influence on me. He had become a mentor, and that was Professor Ed Cooper, and he's of Wright, Miller & Cooper fame, the treatise on federal procedure. I had

become his research assistant for my second and third year; had done fairly well in his course. We would talk about opportunities as they presented themselves, and he was very influential in my decision to go to the SEC.

Kenneth Durr:

Why precisely?

Carmen Lawrence:

Why he was influential or why I went to the SEC?

Kenneth Durr:

Why was he telling you the SEC was the place to go?

Carmen Lawrence:

Well, because I had a number of opportunities with big law, and it was his view that, at that time, government agencies were accepting candidates out of law school. And he thought that the SEC was a premier agency, and that I would really have hands-on experience that would open doors for me after, and I would leave there after two or three years with real practical experience, and it's looked at in terms of how associates at law firms spend their first few years, doing research memos, and things of that nature. So, it was a bias towards government experience versus early associate law firm experience.

Kenneth Durr:

So again, get litigating a little earlier, I guess.

Carmen Lawrence:

Yes, I think so. But I think the main influence that led me to the SEC is that, my roommate the first year of law school after our first year, had done an internship in the Atlanta Regional Office, and came back very excited, loved the work that she had done in the Enforcement Division, and regaled me with stories -- not divulging any confidential information, but what she could. When interview season started, one day I was in the area, and I had a gap between interviews, and there was, as I passed by, one of the interview rooms. The SEC was there interviewing on campus, which is very unusual these days, and they had a gap in their schedule.

Carmen Lawrence:

So, I knocked on the door and said, "I'd love to talk to you." And they said, "Well, we'd love to talk to you." I sat there and interviewed with them for 30 minutes and was very impressed with the passion and enthusiasm and commitment that came across from the interviewers there, and I certainly didn't get that feeling from the other interviewers I was speaking with. And got a call-back from the home office, and -- you interviewed with all the divisions there, and the regional offices were represented there as well -- and I got an offer from the Division of Enforcement's Office of General Counsel, but not the New York office, as funny as that is. So, I ended up starting at the division.

Kenneth Durr:

So, you started out with enforcement, is that right?

Carmen Lawrence:

Yes.

Kenneth Durr:

Okay. So you moved to DC, then?

Carmen Lawrence:

That's exactly right. Out of law school, I moved to DC, even though I was from New York. So, I spent my first two years in the division there.

Kenneth Durr:

Okay. Tell me about those first two years. That was starting around '81, right?

Carmen Lawrence:

That's correct.

Kenneth Durr:

What kind of work did you do?

Carmen Lawrence:

I was a regular staff attorney, new to the division. In my class, I think, there were maybe three others. There were four of us all together that were new to the division. I was started in a branch and started getting cases. I think very soon after starting I was assigned to what is now known as the Paul Thayer case, which, because of its significance, and because of its breath, pretty much took up all of my time.

Kenneth Durr:

That would've been a good case to get started out on.

Carmen Lawrence:

Yes, of course. It did come in with sensitivity because, as I recall, there was an anonymous letter that targeted Paul Thayer and said that he was divulging material non-public information to his friends. Right off it clearly had certain sensitivities since he was deputy secretary of Defense. So, a lot of interest from all of the senior enforcement folks, but it was a lot of hard, painstaking work because there were no data analytics. At the time we did it the old-fashioned way. To this day, I'm still surprised that we were able to bring any insider trading cases: the way you're looking at the blue sheets and making the index cards and putting the zip codes together, it's really quite ridiculous when you think about how we had to build those cases at the time.

Kenneth Durr:

And Thayer was involved in lots and lots of trades?

Carmen Lawrence:

Yes. And, it was interesting. What we did was, he was on a number of boards and had relationships with others that were on boards. For example, he was chair of LTV. Then he was on the board of Anheuser-Busch. Anheuser-Busch was quite acquisitive, so to speak, so we started looking at the acquisitions that Anheuser-Busch was making, and some of the corporate events of LTV. And it happened to compare nicely in terms of the timely trading. And it wasn't Paul Thayer who did the trading. He had a broker and he had done a lot of his trades through that broker, and the broker was putting trades through for his friends. And because of that, and the volume of that trading, which was also timed, we were able to back into that pretty well.

Kenneth Durr:

And this is a period when insider trading is starting to become kind of what the SEC is known for??

Carmen Lawrence:

Right. That's exactly right. So, I seemed to have a lot of insider trading cases when I was in the division. And, like I said, Paul Thayer was the case that was most time-consuming.

Kenneth Durr:

Okay, now you would've, while that case is moving through, you would've gone to New York?

Carmen Lawrence:

Yes. At the tail end. I got married, actually, after year one in the division of enforcement, so I was commuting. My husband and I were commuting. He was an attorney at Weil Gotshal doing bankruptcy, restructuring work, and New York was the spot for that. So, after I did the vast majority of the Paul Thayer matter, I transferred to New York to complete that. And that was a funny story, because the reason I didn't get the offer from New York, I think, is because Ed Nordlinger, who is fairly well known and very beloved -- he unfortunately just passed away a month or so ago -- but he had interviewed me when I was on site for the callback interviews. And Ed had a very unique interview style.

Carmen Lawrence:

He thought that if you work for the government, you should know something about the government, so he asked a lot of government questions, like, what's a "pocket veto" and things like that. It's just a little bit absurd, and being a government major, I knew all those answers. So after about 10 or 15 minutes, and I was a little bit cocky at the time, I was like, "Do you think we could talk about the SEC now in the New York office? And he was like, "Well, no, I'm not done yet." So, it deteriorated from there, and the thought of having to interview with Ed, to transfer to the New York office, I just knew that he would remember and would reject my transfer.

Carmen Lawrence:

But of course, he did not remember me at all. We had a great interview and, and of course, I had already had two years under my belt and had done some good work for the division. So, I was able to transfer to New York. And a few years later, I did talk to him about it, and it became our private little joke. We would laugh about it all the time.

Kenneth Durr:

So, was Ira Lee Sorkin the Regional Administrator at this point?

Carmen Lawrence:

Yes. He certainly was. And Ike was fantastic. He had a very interesting style. He was very deferential to the staff. He had the perspective that the staff was closest to the facts, therefore he gave deference to the staff's decision-making. He would kick the tires at a very high level, but pretty much would be supportive of the staff's decisions around the investigation. But he was a great motivator. He was just inspirational. He knew everyone. He knew what matters they were working on. He would pop up during a testimony session and join in. Of course, the witness and the lawyer would have a heart attack with the regional director sitting in on their testimony. They just knew that they were going to jail. And then he would take a break and he'd give you a pep talk afterwards and some pointers and things like that. He was just full of energy and positiveness while he was there.

Kenneth Durr:

You had two perspectives at this point. You'd seen what it was like at headquarters in enforcement. Compare and contrast that to being in the regional office.

Carmen Lawrence:

So, it was a very interesting time about those dynamics because, and I must say, I had a little bit of a difficulty transitioning because, and this sounds absurd now, but it was viewed that I was a "plant," that I was a spy for the division at headquarters. People were somewhat suspicious. It seems odd to articulate that, to express that thought now, but it was very true. There was a sense that the regional offices were not—that the quality of the work in the regional offices was not as up to par as the work that was being done by the division of enforcement and at headquarters, and that the regional offices had to report to and through the division. So, the relationship, I think, between the home office and the regions at the time was not great. It wasn't bad, but it wasn't great.

Kenneth Durr:

That's interesting. I would think that the New York regional office being the big show, as far as the regions are concerned, there wouldn't be that much of an "us against them" thing. But I guess there was?

Carmen Lawrence:

Yes. I think it there really was. There was a very quick transition away from that, I think when Gary Lynch became division director, and then especially when Bill McLucas became division

director I think that there was much less of that dynamic. I also think that the offices and the division worked more closely during that time as opposed to somewhat separate units, and that helped the dynamics and the relationship going forward.

Kenneth Durr:

Well, let's keep moving along. The dynamics of the regions versus headquarters is interesting. I think some of it might have been that there was a long period where the regions are slowly losing autonomy.

Carmen Lawrence:

That's correct. And I should also mention Jim Clarkson, who was the regional liaison. When I got to more senior levels, I became aware of Jim's involvement, so I don't know exactly when he took that position, but I know that he was very, very important to building that positive relationship between the regional offices and the home offices. He kept his finger on the pulse of everything. And he was a wonderful guy, very savvy about the Commission, people and their nature. I mean, he was really an incredible asset to the Commission and to the regional offices and gets a lot of credit as well for the buildup of the relationship.

Kenneth Durr:

Before we move into cases, let's cover a couple more organizational things. Moving into the late eighties, Sorkin left and you had a very brief period, it looks from the outside, like a pretty tumultuous period.

Carmen Lawrence:

Yes. That's true. We had very short—I don't know how long Kathy was regional director. Maybe nine months. I didn't look that up. Again, I was, at the time, just a new assistant director in the office. And I think after Ike left, the expectation was that Anne Flannery, who had been head of general enforcement, because I'm sure people know, at that time the enforcement groups were divided up so that you had broker dealer enforcement with the broker dealer exam program, asset management enforcement with the asset management exam program. And then there was the general enforcement that did everything. And Anne Flannery was the associate director, and it was understood that she was the heir apparent. And so, when that didn't happen, she left pretty quickly.

Carmen Lawrence:

I'm not sure exactly how things derailed so quickly, but, certainly it seemed that there were issues that Kathy had with the general enforcement group. I'm not quite sure why it was targeted significantly at me. So, there was a lot of staff abuse generally and our work went to a halt. She refused to review work and to process our recommendations so that they would go to the division for review and to the Commission.

Kenneth Durr:

Did her approach differ? Were her priorities different?

Carmen Lawrence:

I think she was, for whatever reason, a little bit less comfortable with the law in terms of some of the cases that we were focused on at that time. Micro-cap fraud hadn't surfaced to be the problem that it ultimately became, but it was starting in that direction. And some of the legal theories, she wasn't comfortable with. So, I think there was a little bit of that. And then there were other things. Let me just say that I think it was a combination of things. I think there were some personality issues. I think there was some lack of familiarity with some of the legal areas that we were pursuing, and it was creating an extreme problem for us to do our work. And I shared that with Gary Lynch when it got to an extreme point, and he took it to OGC, and I think it was known that OGC did an investigation and she departed shortly thereafter.

Kenneth Durr:

Okay. And Jim Clarkson, whom you mentioned, filled the void for a little bit.

Carmen Lawrence:

Yes, he did. And as he did, it was great having him. I mean, it was quite a burden for him, because he was spending a number of days in the office and going back and forth. But a shuttle between DC and New York, you get there faster than commuting from New Jersey to New York sometimes. So yes, but he was very selfless, and gracious with his time, and did a great job.

Kenneth Durr:

And they brought Lawrence Iason in, and he apparently worked out pretty well. Tell me about his leadership style as compared to Ike Sorkin's.

Carmen Lawrence:

Yes, Larry. I learned so much from Larry. He actually promoted me from assistant director to associate director and head of enforcement. Very, very different style. The weight of the responsibility for the impact that enforcement actions have on companies and individuals weighed on him. And not that it doesn't weigh on all of us, but it really weighed on him. And he applied, if I could, a criminal standard, if you will. It had to be "beyond a reasonable doubt" standard. In his mind, he had to be certain in his mind—and "more probable than not" didn't do the trick, even though that was the legal standard. So, there was much debate, lots of challenges to the cases and to the facts. And he really put us to our proof, which I thought was the right thing.

But he taught me that just because a case is legally sufficient, just because you can bring that case, think about whether you *should* bring that case. Does it serve justice? And if so, what does that look like? Something that was very powerful and really stayed with me the whole time, trying to get it right. Trying to get to the right place.

Kenneth Durr:

And does some of that have to do with the notion of figuring out which cases send the biggest signal to tell the right people that we're looking at this kind of thing?

Carmen Lawrence:

I think it was a combination of things. I absolutely agree that there was some of what is the deterrent impact. But I think it was more than that. I think he focused on, in particular, the reasonable likelihood of future violations. He would look at a matter and say in simplistic terms, "Does this company have a bad culture? Is this a bad person, or was this a misstep? Have they learned their lesson and we're not likely to see them again because they will have learned the lesson from this experience?"

Carmen Lawrence:

It was really more in terms of should we be bringing that case? Is this someone that is likely to be a recidivist? Do we need to get that injunction? There was a lot of that as part of it. And of course, the egregiousness of the action, lots of victims, and a lot of intentionality in terms of the misconduct. Those are the things that also would factor into his assessment of the culture of this company or the character of this person.

Kenneth Durr:

Okay. Well, you talked about your promotion, you had your own enforcement group, right?

Carmen Lawrence:

Yes. That's correct. Which ultimately -- and I can't remember if Larry did this or Dick, it might have been Dick -- who collapsed all of the enforcement groups under me.

Kenneth Durr:

Okay.

Carmen Lawrence:

And left it so that the exam was under Marty Kuperberg and Ed Nordlinger. I think Asset Management was Doug Scheidt previously, and then Rick Marshall was hired to lead that group. I think it might have been Dick because Ed maybe became his deputy. Martin became the Head of the Exam Program and all of enforcement moved under me.

Kenneth Durr:

Okay. Well, let's talk through some of the cases and some of the ways that enforcement changed over this early period. One of the early ones is the Yuppie 5 case.

Carmen Lawrence:

Yes.

Kenneth Durr:

And obviously it took a lot of work to put this thing together. The thing that was notable was at the end when the judge decided that he didn't like the settlement.



Carmen Lawrence:

I don't remember that all that much.

Kenneth Durr:

Okay.

Carmen Lawrence:

I don't remember it at all, actually.

Kenneth Durr:

Okay. Were you involved in that case?

Carmen Lawrence:

Yes, definitely. That was Michael David, the Paul Weiss associate, and he had—it was a crew of several of whom were in the industry and they shared material non-public information. But I don't recall as I sit here, the issue with the resolution. Do you have any facts around that?

Kenneth Durr:

Well, it's just the judge refused to sign the consent decree.

Carmen Lawrence:

Oh, my goodness. I do remember. Yes, yes, yes. Oh my gosh. How do you know this? I absolutely remember that now. And so, I wrote quite a letter to the judge talking about how he should be giving considerable deference to the SEC and its judgment and our determinations on this. And it was pretty strong. And he set a hearing and had the press. I remember I walked out, was stunned. And the press was there. And he basically already had his decision written and just really, I would say, "dressed me down" would be a little bit too strong, but he put me in my place -- that you sort of get deference, but the judge is not a rubber stamp. They have a job to do.

Carmen Lawrence:

And the role that he's playing is an appropriate role, and that he intends to follow through on that. It was a point that put me in my place, shall we say. I don't know what got into me with that. Sometimes you sort of have in your head that, "well, this is outrageous. What is the judge doing? It's our determination and you should just sign off on it."

Kenneth Durr:

And that's the way it had been mostly?

Carmen Lawrence:

Yes, exactly. Now, fast forward a little bit later in time, and we saw that quite a bit with Judge Rakoff and a number of significant settlements where he was, you know, talk about kicking the tires and questioning. "Come in and explain yourself about some of these." But at that time, I never experienced that and it totally slipped my mind about that. Quite the moment.

Kenneth Durr:

There was this tension. And from that period on, there's this tension. Richard Breeden, when he comes in, he wants... his famous quote about being "naked and without wheels."

Carmen Lawrence:

Oh, my goodness. Yes.

Kenneth Durr:

He puts a priority on making the settlements pretty tough.

Carmen Lawrence:

Yes, absolutely. I'm a big fan of the former chairman. I mean, he was very pro enforcement, and he was tough. He was tough internally as well as externally. He did not suffer fools gladly, and you had to bring your A game or don't show up at all. But he was pro-enforcement and there was an expectation that we were to use the tools in our toolbox and try to use them most effectively.

Carmen Lawrence:

He didn't want to see some milquetoast settlements, especially after he had marshaled through the Remedies Act, which had provided a number of additional remedies for the Commission. He was like, "Use these because there's a lot of misconduct going on out there and we need to stamp it out." Yes, he expected harsher sanctions and some settlements we just didn't get, and we had more litigation as a result.

Kenneth Durr:

Okay, well, let's talk about times when you did use the toolbox and some of the interesting cases. And we talked earlier about this being the decade of insider trading.

Carmen Lawrence:

Yes.

Kenneth Durr:

Naturally you've got some of those. The Motel 6 case, for example, in which you've got a very large group of defendants.

Carmen Lawrence:

Yes. That was a huge, huge case. I don't know how many at the end of the day, maybe 25, 30 and you know, it was one of those cases where it was like a waterfall effect. There was a corporate executive of Motel 6, the communications executive, Hugh Thrasher, and he tipped one of his friends, and then his friend became the town crier and told his friends and family, and his friends and family told their friends and family. So, there were a huge number of levels of tippees.

Carmen Lawrence:

I'm not so sure today that so many levels could survive under the current state of the law. But at the time it was a number of levels of tippees, and there was a lot of litigation and it was all successfully resolved, but it took a number of years, a lot of money, and a lot of people, and it took a lot of resources investigating that matter. Robert Blackburn, who was a senior counsel in the New York office, gets substantial credit for persisting on that matter and running it to ground and litigating it to ground. It was a great case.

Kenneth Durr:

Okay. And then there's the Southampton insider trading case.

Carmen Lawrence:

Yes. The group of socialites. This one got an awful lot of attention because, first of all, the key person, Ed Downe, who was either at the time, or had just been, a director of Bear, Stearns, and he was married to Charlotte Ford, or had previously been married to her. His circle was the who's who of business and society. And you had Martin Revson, who was the co-founder of Revlon, and you had Fred Sullivan, who was former chair of Kidde.

Carmen Lawrence:

A lot of the seven, if you will, were people very high in the C-suite. And what we found was that they had exchanged material and non-public information between and among each other. And what enabled us to unravel this scheme was that Ed Downe traded through his broker. The broker had maybe a hundred accounts -- I'm sure that's an exaggeration, but not much -- of Ed Downe's family and friends.

Carmen Lawrence:

He was very big in the art world, so there were a number of artists that he was helping to support. And the broker, Milton Wanger, is at Oppenheimer. He would trade for the benefit of those accounts at Downe's direction. And because there was so much volume there, we started to focus on Milton, and that enabled us to work backwards and get to the heart of the matter.

Carmen Lawrence:

But that's another case where there's no data analytics. We're back to blue sheets and the index cards. I think we maybe had some computers. I don't even think we were able to use Excel at the time, but again, just painstaking analysis and backtracking of trades and some great investigative work and testimony.

Kenneth Durr:

Yes. At all points here you're sort of tallying up trades and showing where they came from and where they went. I imagine you're also looking for that letter, that email that specifically states, "we want to do this," "we want to do that." Did you ever find things like that? Did that ever sort of materialize?

Carmen Lawrence:

I think not so much in this particular case. I think there was perhaps some of that in the Motel 6, but I'm not sure that on the Southampton 7 that it... I think phone records, as I recall, played a pretty important part at the time. And, actually tracing calls that were being made to the broker and timing them against times when people were in board meetings or had learned particular information.

Carmen Lawrence:

I remember in particular that the phone records played an important part in our proof for the Southampton case, but I'm not recalling an email. Maybe Ken, you know is there... did we charge something in our complaint that the email was a gotcha?

Kenneth Durr:

No, not at all. I'm just thinking in terms of the difficulty of building a case where you have to prove intent to defraud.

Carmen Lawrence:

Right.

Kenneth Durr:

And you're really talking about just building up this huge amount of circumstantial evidence?

Carmen Lawrence:

Exactly right.

Kenneth Durr:

Yes. Well, let's move away from insider trading and talk about a really big one which is Towers Financial. Now, I think I read that at some point it was considered to be the biggest Ponzi scheme to date or something like that?

Carmen Lawrence:

Yes. Certainly, at the time, it was really huge. That was really quite an interesting case for a number of different reasons. When Tower Financial first came to our attention, we had questions around the financial statements and its business, but we observed pretty quickly that they were engaged in unregistered distribution of securities, offerings of securities.

Carmen Lawrence:

So we made a strategic decision that rather than investigate -- investigations take a long time, a couple of years -- we should just try to put a stop to it by bringing a Section 5 case, and maybe they would get religion. We didn't know that there was a Ponzi scheme or a financial fraud. We had some questions, but we thought, let's just put a stop to this and make them, if they're going to sell securities, go through the offering process.

Kenneth Durr:

Right.

Carmen Lawrence:

And I'm not sure how it came back around to our attention, but we realized that they didn't get religion. And we opened up an investigation and figured out pretty quickly that it was a financial fraud, from an accounting perspective of course. And that it was a Ponzi scheme, and that some of the monies that they had been raising were used to pay out investors who had invested in Towers Financial.

Carmen Lawrence:

It was complicated by the fact that Steve Hoffenberg, who was President and CEO of Towers Financial, was making a bid for the *New York Post*, which is sort of a New York institution, and the Post was having financial difficulties. And there was everything in the press about how Steve Hoffenberg was going to come in and be the savior.

Carmen Lawrence:

There was all this attention around Hoffenberg and then, of course, Ike represents Towers and Steve Hoffenberg, and you know how eloquent Ike can be in his arguments. It was really interesting. We quickly landed on the fact that there's a lot wrong going on and went into court on an expedited basis to seek a TRO and basically got thrown out of court by Judge Knapp who, frankly, accused us of grandstanding. He thought that we were just trying to -- it seemed a little illogical -- but that we were just going after Hoffenberg because he was a person in the media right now and we were trying to somehow disrupt his efforts to save the Post and make a name for ourselves.

Carmen Lawrence:

They were very disparaging comments. He threw us out and said we had to give notice to Towers Financial. While we were thinking about what our next step was going to be around the TRO -- because we were very concerned; we didn't think we had time, which is why we went in on the TRO -- either later that night or the next day, Judge Knapp signed off on the TRO, apologized, said he had read our papers and better understood our case at the time.

Kenneth Durr:

Interesting.

Carmen Lawrence:

Yes. It was really something. I think we -- myself, my team -- we went in, and we didn't think we would have an issue on the TRO to argue it. And I know that there were a couple other motions before the judge, and Dick Walker was very involved and did some of those arguments as well. It was really a very interesting case. Very interesting.

Kenneth Durr:

Were you in touch with the Commission on a regular basis about this?

Carmen Lawrence:

Very much so. In particular, the Office of the General Counsel. One of the unique aspects of the case is that, as I said, the judge granted the TRO but then, on the preliminary injunction, we resolved the settled PI. And one of the things that we did was that we required that while we recognized that a part of Tower's Financial was a real business, and they needed to keep that business ongoing for the best interests of the shareholders, we were very concerned about the assets and that they'd be appropriately dispersed.

Carmen Lawrence:

So I became sort of like the CFO for Towers Financial and had to approve every bill, every expense that was paid, every expenditure. And there were issues that would come up and would require consultation with General Counsel's office and things like that, not to mention some of the issues that came up with the judge. Our experience with Judge Knapp was mixed, so there would be times when we needed to consult with OGC in terms of the positions that we were taking and the arguments we planned on making and get their thoughts on some of it.

Kenneth Durr:

Is this a matter of wanting to go after Hoffenberg, deservedly, without undermining the corporate enterprise that all these investors are invested in.

Carmen Lawrence:

Exactly. That's better said than I had. Yes, that's exactly right. That was the goal. And to ensure that what could be salvaged so that investors didn't lose all of their investment, but what could be salvaged was salvaged, and sort of lopping off, if you will, the bad parts.

Kenneth Durr:

How did it turn out?

Carmen Lawrence:

How did it turn out Ken?

Kenneth Durr:

Just generally speaking. I think they had to go into bankruptcy at some point.

Carmen Lawrence:

They did go into bankruptcy that's right. That's right. They did go into bankruptcy. I'm not remembering exactly sort of how things unfolded and got to that point. But you're absolutely right, they did. I remember that now.

Kenneth Durr:

You mentioned Dick Walker and he was in as regional administrator at this point.

Carmen Lawrence:

Yes, he was.

Kenneth Durr:

He was there when the big reorganization came through and I want to talk about that. Early on you were talking about this “us against them” thing and maybe the sense that New York had perhaps lost power over the years. But now, all of a sudden, you’re the regional office and you’ve got Boston, you’ve got Philadelphia, you’ve got this huge empire. What was the effect on the New York office of this change?

Carmen Lawrence:

I think first of all, obviously, there was increased workload for all parts of the office. For Dick, who now had supervisory responsibility for those offices, me for the enforcement program of those offices, and the exam aspects of those offices. The heads of the exam programs had new responsibility, so it broadened all of our scope of work. I think, also, we were very mindful of the extent that this had somewhat of a demoralizing impact on our colleagues. We are all on the same team, so finding the balance of doing our jobs and having responsibility for the oversight and needing to do that, while preserving their independence, to some extent, and the respect for them and the work that they were doing.

Carmen Lawrence:

It really, in the beginning, had some bumps. “What’s the best way of doing that?” And I think, as in most of these instances, what happens is you just work out of the transition. You get through that transition. We’re one big family, and so there were times when there were cases that we provided support to, because they didn’t have the resources, or they were spread too thin. And again, we would lend resources to help speed things up and work together in that respect. And the heads of those now-district offices didn’t fight against it. They accepted that. And we had all been working together before, so we continued to work together. But again, it added dynamics that we didn’t have previously.

Kenneth Durr:

How long would you say this working-out period took? Was it worked out by the time you became regional administrator, for example?

Carmen Lawrence:

Yes, definitely.

Kenneth Durr:

Okay.

Carmen Lawrence:

Probably took nine months, a little less than a year, somewhere like that.

Kenneth Durr:

Okay. Anything else we should talk about before we give you your promotion and talk about running the whole region?

Carmen Lawrence:

Not that I can think of. You've been pretty comprehensive. You reminded me of things that I'd forgotten, and I didn't do a lot of homework. I did try to refresh, but you're down in the weeds. You remember everything.

Kenneth Durr:

We don't have to get too far down there, but let's move on then. You became regional administrator in '96. Obviously, you'd probably had some time to think that it might work out this way. Were there things you wanted to do? Were there things you wanted to change?

Carmen Lawrence:

I think what I wanted was not to mess up. I think I had great predecessors, all of whom were my mentors, and I had learned an awful lot from them. I inherited an office that each of them contributed to and built up, and Dick being the most recent, was in fantastic shape. We had great cases. We were well-run, well-regarded and respected within the Commission and outside the Commission. I didn't take that for granted, and my concern was how to continue that momentum, keep our reputation, and continue to do the good work and really not mess up because there are lots of ways that you could have some pitfalls, especially when the buck stops with you. That's, I think, the attitude that pretty much we all had. We're not looking to point fingers or whatever. You have a responsibility, and if there's a problem on your watch, that's your responsibility.

Kenneth Durr:

How about the learning to manage? You'd been managing the enforcement, but your management role got bigger. Was there a learning curve in dealing with all the different groups that you had to be responsible for?

Carmen Lawrence:

Not really within the office, because first, enforcement had a great relationship with the examination program, and our examination program was second to none. Our examination programs were off the charts, and so, frequently, we consulted with one another. They were our subject experts on some of our investigations, even those that were not referred over by the examination group. But there were plenty of referrals, so we worked some of those cases together. As enforcement head, I had great relationships with the heads of those groups and certainly understood the programs and understood some of the more technical rules and regulations applying to the regulated entities. And, as head of enforcement, I went on an exam with the focus of really understanding the examination process and the like. So, by the time I was regional director, I certainly understood the office and its parts and how we function together.



Carmen Lawrence:

I might add that, when I got promoted to associate director and head of enforcement, OPM wouldn't sign off on my promotion. They said I was not experienced enough, so they made me take -- it's embarrassing -- they made me take management courses before they would sign off. So, I took a huge number of management courses from the AMA and, I have to say, I was really cursing under my breath, and offended, and stomping my feet, but I learned quite a bit. I didn't like these touchy-feely courses, but they really enhanced and crystallized my management skills. I say that meaning, I believe when I stepped into that position, I really had experience, and I considered myself to be really a good manager of the program and of people.

Kenneth Durr:

Okay. And speaking of people, one of the things that the SEC in general is facing at this point is a lot of turnover. And I know in New York City, you've got it even worse.

Carmen Lawrence:

Yes. And I will say that, at the end of the day, this is the principle reason that I left the Commission that I loved. Young attorneys would come... You make the three-year commitment to the staff, to the Commission... and what we found is that, if we got a year, we were lucky. And the burden of that, of constantly restaffing and shuffling cases, and the delay that it caused on cases, and goodness, the insensitivity, and just total disregard by Congress for assistance. I mean, we were contributing so much money to the Treasury, and the budget cuts and the hiring freezes and then the criticism about why we are not doing a better job? I have to say, I thought we were doing a great job under any circumstances, including under all of the difficult circumstances. All of that is to say that it was a very real problem, and it made it almost impossible to do the job.

Kenneth Durr:

Yes. At some point there, in the past, there had been a provision for higher salaries for financial regulators.

Carmen Lawrence:

Right.

Kenneth Durr:

I take it that that was not politically popular at this point?

Carmen Lawrence:

No, that's exactly right. Now, shortly after I left, that went through, and there were lots of staff raises. The difficulty was also the gap between government pay and private pay. When I first started in '81, it wasn't comparable, but it wasn't that big of a gap. My goodness, when I left with my salary -- and I was at the top of the SES scale -- my salary plus any bonuses that I might receive was less than a first-year associate at a law firm. Really? That makes sense? I'm sorry. This is a topic that is really a little bit upsetting for me, because people were just giving themselves, working hard, and then would come to get permission to take on a second job so that

they could live up to their commitment because they got married, they have a child, a new mortgage. Really, really upsetting.

Kenneth Durr:

Right. Well, it's important as far as trying to manage the regional office certainly.

Carmen Lawrence:

Right. Just my last say, it created real instability.

Kenneth Durr:

Yes. And just because the teams are constantly changing, there's a lot of change.

Carmen Lawrence:

Right, right.

Kenneth Durr:

Something that I found very interesting is, I read that when you became a regional administrator is when you learned that Dick Walker had agreed to create this corporation as part of a sting. You basically, your first day, they show up and the FBI gives you a little talking to, I guess. Tell me about that.

Carmen Lawrence:

I don't remember it quite that way. I mean, I remember being brought into it a little bit earlier than that, because this was obviously something very, very unique and different for the Commission. The Commission does not engage in undercover operations in any respect. And, I mean, I remember we used to talk about whether we could go to a public meeting, and whether we had to identify ourselves first before attending. Ridiculous things that are no longer issues. So, I had some early involvement in that. It was something that we had to really make sure that the Commission was satisfied with respect to investor protection. What were the risks? What were the protections against those risks, and what was the upside to the extent that risks remained that we couldn't manage? What was the upside that made those risks worth taking?

Carmen Lawrence:

While Dick certainly spearheaded all of that, there was involvement, consultation, and discussions with me around those, but I certainly wasn't involved in the day to day. What you're referring to is very true, to actually sit down with the FBI. And also, I had lots of familiarity with the securities and commodities task force, but not the organized crime unit. And, as I'm sure you're probably aware, one of the reasons that what was viewed at the time as a "novel, extreme approach" was warranted, is because we had real credible evidence that organized crime was really doing quite well on Wall Street. And we could never keep pace.

Carmen Lawrence:

They were always ahead of us. By the time we got there, they were shut down, opened up another enterprise, defrauding different investors, leaving lots of destruction in their wake. So,

sitting down and talking to them and understanding the risks personally, as well, because they made it quite clear that organized crime is not your typical white-collar criminals, and that they strike back in different ways, and how to protect myself personally. It was really a little... It was an awakening, a slap in the face to wake you up.

Kenneth Durr:

Yes. And they're riding this new penny stock wave, and it had been a long time since penny stocks had been a big deal in New York. It was a Denver, Salt Lake City thing.

Carmen Lawrence:

Right.

Kenneth Durr:

What was bringing that back in the 1990s?

Carmen Lawrence:

I think the money. As I remember, and this is a vague recollection, that they had some challenges in their business of choice, if you will. The truck hauling or garbage hauling, there was a lot of crackdown on much of the corruption in other areas of their business, and so they decided to take some of their methods and apply them to Wall Street in the microcap space. And so, it wasn't just the usual manipulations, pump-and-dumps and stuff like that. They were also extorting and threatening with physical violence some of the participants and players to hold stock and to invest in some of these worthless companies and the like.

Carmen Lawrence:

It wasn't a new front for them, but an opportunity to expand in a front that they had been dabbling in. Before we got to the point that these operations became necessary, we had done parallel cases with the criminal authorities of both the Southern district as well as the Eastern district. But we did see that the infiltration was starting to be really pervasive, and why that was the case, I can only speculate.

Kenneth Durr:

Okay. In the end, that campaign went pretty well then?

Carmen Lawrence:

Sure did. And remember, there were two operations. One, Thorcom was the one I had been brought into earlier, but I think Uptick was the one that I was not really familiar with and had realized that was ongoing. It was a slightly different operation. But they were all very successful, and at the end of the day, when there were indictments, there were a large number. I don't remember the precise number, but a large number of mob members from all five of the crime families that were indicted.

Kenneth Durr:

Okay. Let's talk about another national thing, which was the focus on soft dollars in the mid '90s.

Carmen Lawrence:

Yes. I was thinking about this and I'm not sure whether this was a focus that was generated from New York, or whether it came from a variety of different sources. The one thing I will say is that New York was, in terms of the exam program, really on the cutting edge. So there were times that they would see trends in New York, or spot them, and bring it to OCIE, and it would get national attention within the Commission. So, I'm not sure on this one exactly whether it was generated out of New York.

Carmen Lawrence:

My sense, I have a vague recollection that, first of all, there was just a huge uptick that we certainly observed in the use of soft dollars across the board, not just broker dealers, but also in the advisor space. Then there were a couple of investigations and enforcement cases in this area that got the attention of market regulation and investment management. And that attention then flowed over to OCIE and became part of the national exam program, and there were sweeps that were implemented in order to assess the magnitude of the issue.

Kenneth Durr:

Okay. Well, we've been talking about some high-profile things that you've been involved in, and in the financial world, nothing's more high profile than the New York Stock Exchange. And you had the floor broker case that came up in the late 1990s.

Carmen Lawrence:

Yes.

Kenneth Durr:

Now, I would imagine that this must have been a very delicate situation. Can you take us through that one?

Carmen Lawrence:

Yes. Look, I think from a dynamics perspective, it was very, very difficult in many respects. If you think about it, we looked at the SROs as sort of our partners in enforcement. We worked on parallel cases. We refer cases to them, they refer cases to us. Recognizing that there was an oversight responsibility as well, obviously on both the exam side, as well as the enforcement side. We really did have that perspective that they were quasi regulators, if you will. So there's a little bit of this, "but for the grace of God, go I." In terms of people, they come in, turn us inside out. They could perhaps take issue with whether we are effectively enforcing the federal securities laws.

Carmen Lawrence:

Anyway. The dynamics were tough ones. We approached the case the same way that we investigated all others in terms of process: extensive document requests, extensive testimony, a Wells process, settlement discussions. And obviously, there was a very high level of interest and engagement from Market Regulation, now Trading and Markets, the Office of General Counsel, the Division of Enforcement, and ultimately, the Commission. A couple of things. And first, let me also say that the stock exchange was extremely cooperative during the course of the investigation. I think they were ultimately very disappointed in the outcome, that we would recommend an enforcement action and that we would recommend the undertakings that we did. This was actually a case—I remember that it was the Southern District, Reid Figel, that in consulting regarding some of the more technical rules and things that we learned, that there was a lot of this misconduct going on with the floor brokers. So, given the egregiousness of the misconduct and, in our view, the lack of appropriate surveillance, and the customer harm, as well as the potential for even more customer harm, at the end of the day, we brought that case.

Kenneth Durr:

Right. And maybe something with fewer sensitivities is the Joseph Jett case.

Carmen Lawrence:

That one is easy That was really Marty Kuperberg and Dick Walker who did that one. From time to time, I would share my outrage around some of the things that were happening there. And this supports my conclusion that it was Dick that actually combined the enforcement groups. This was a case coming out of broker dealer enforcement and Marty Kuperberg, who was the head of that group. Oh my God, what a dynamo. He is something else. So, I was consulted on that from time to time, but that was really him and Dick that did that matter.

Kenneth Durr:

Okay. But this is another interesting one, because in the end, they didn't find fraud, or the judge didn't find fraud. It was really a matter of how this guy was compensated.

Carmen Lawrence:

Yes. I think that that case was pretty unsatisfying for a lot of reasons. I mean, first of all, there was an internal investigation that was done by, I think, Jett was with Kidder Peabody, wasn't he? And I think Gary Lynch was counsel for, whether it was counsel to the company or the audit committee, I don't know exactly who the client was, but Davis Polk did the investigation. And I think that the view that this was a books and records case, and the only bad result was that he was overcompensated for profits that were non-existent in that space. I mean, I don't know how you look at the facts of that case, frankly, and reach that conclusion. So, I do think that we were very, as a general matter, unhappy with the outcome of that, for sure.

Kenneth Durr:

Were there any other cases that defined your time as regional administrator that we should talk about?

Carmen Lawrence:

No, I think certainly you've covered an awful lot of them.

Kenneth Durr:

Okay.

Carmen Lawrence:

Yes. Nothing comes to mind, really.

Kenneth Durr:

We've talked about initiatives from the chairman or from D.C., and when Arthur Levitt came in, it's interesting, because you talked about Lawrence Iason putting this emphasis on knowing that you had the case right, and this was an important case to bring. Levitt's kind of, "let's just move the cases through." He issued this position that he really wanted to move the cases quickly. Tell me about how you mobilized in response to that.

Carmen Lawrence:

Well, Arthur, as chairman, it was very interest during that period, because I think that statement lacks a little bit of context for Arthur's perspective. I think he came to the Commission with an incredible amount of experience and service in the industry, and to coin a phrase, he knew where the skeletons were buried. But Arthur was not a lawyer, so I think he didn't understand why it couldn't be done if this was unethical conduct or there was a lot of harm out of it. But sometimes the regulation wasn't clear, or the public wasn't on notice that it was a violation, or perhaps it was not a violation based on the current law. You had to take some time with him for him to grasp that, because his focus was, "this is horrific conduct and it needs to be stamped out."

Carmen Lawrence:

And it's that same sort of foundation about "let's move these cases." Why is it taking so long? Why are we not getting to this until three years after the misconduct occurred? How is that effective enforcement? So I think it wasn't "be expeditious in lieu of worrying about the quality of those cases and getting it right." It was "do what you're doing, and just do it faster." Very similar to Harvey Pitt, who I have tremendous respect for. Chair Pitt, with his real-time enforcement, right? And getting it done, because these investigations, both when I was on the staff and now when I'm defending them, they take too long. There's no doubt about that.

Kenneth Durr:

Okay. Yes, that's interesting though, the context being that Arthur Levitt was not a lawyer and didn't see building the cases from that perspective.

Carmen Lawrence:

Right.

Kenneth Durr:

But I did come across a quote in a response that you made saying, “We’re adopting a SWAT team approach,” in order to move more quickly. And as you said, “do what we do, just do it more quickly.” Tell me about that approach.

Carmen Lawrence:

Well, I think that we did focus a lot on working with our partners and making sure that the right people were taking the lead and investigating. So there might be things that it was better for one of the SROs to focus on, and other times where the criminal authorities should take lead and we provide support, and other times where we should be the ones. But garnering all those resources, instead of sort of having a competitive perspective, you’re pulling everyone together. Also, it was really focusing on, again, leveraging our examination program. We did a lot of that. And I mentioned about how earlier in time, when we would think about doing things, there was a question as to whether it was appropriate for a civil law enforcement agency to do that.

Carmen Lawrence:

One of the things that was a question was, can your examination program be a stalking horse for enforcement? And absolutely, it can. There just can’t be any misrepresentations around it. The examiners can’t be in there for cause and saying, “Oh, this is just routine,” and stuff like that. So that was being sorted out and being worked out. In fact, I think in the floor broker’s case, there were some challenges to the fact that some of the examiners went in and collected information that was ultimately used for the purpose of enforcement. But this was part of our SWAT team approach is to really think about our resources, what was available to us, what was the most expeditious way of tackling a problem? And sometimes it was sending our examiners in, because you didn’t have to wait for production pursuant to a subpoena. They would go in and they’d say, “Hi. We are here. You’re a regulated entity. You have certain obligations to properly produce these documents for our inspection.”

Carmen Lawrence:

And it’s something that the staff uses routinely now. But then it was, I wouldn’t say cutting edge, but it was just beginning to be utilized on a regular, routine basis. So that was kind of our approach, as well as with the staff attorneys, and it’s the methodology that enforcement uses with the special units now. Even though it was broken down in terms of having the specialty enforcement areas, we did start to focus again a little bit more on, “You know what? A couple of people have done these types of cases, more than once. They know exactly how to approach it, what to look out for in developing that case, so let’s give them this one so that they can run with it and aren’t learning, if you will, a new area. So, there was also a little bit of leveraging on the subject matter expertise that was being developed within enforcement.

Kenneth Durr:

Yes, which is something we’re going to see later with the special units, which is interesting.

Carmen Lawrence:

Right. That’s exactly right. And truth be told, it’s funny because when there were early conversations, the vision was thinking about moving to the special units, because everyone

always reaches out and consults to get other perspectives and thoughts. I actually said I wouldn't ultimately do it, because one thing that happens, and we saw this with our approach in New York, is that when you went too far to that area of specialization, people looked at it only from that perspective, and they sometimes missed issues. They didn't see other areas that sometimes were more problematic than what they were investigating. You had a little bit too much of a narrow focus. And so you had to have, I think, people doing not just the specialty area, but also the general enforcement area so that they are able to spot issues and proceed appropriately. But obviously, each approach has its pluses and minuses, and I think experience has shown that the specialized units approach has worked very well.

Kenneth Durr:

Yes. Well, you've alluded to the old regional office model, which is a group of generalists, they've got their area and they're kings of their domain. And you talked earlier about the sense that there was a little bit of tension with D.C. Reflecting back over how things changed during the 20 years you were there, did you see a fundamental shift in, say, enforcement and certainly with OCIE and the exam program? Did you see those things shift toward becoming more national than regional?

Carmen Lawrence:

Absolutely. And I think Lori Richards, when she became division director of OCIE, you definitely saw that. You saw that the regions were a very integral part of establishing whatever the national agenda was for that year, that lots of them were joint exams with OCIE and the various regional offices. And look, with that, with a seat at the table, and people sharing their perspectives and feeling that their voices are making a contribution and they're being heard, I think it just naturally evolves into a really strong, positive relationship. And that's what happened on the exam program. And I think similarly, as I mentioned before, on the enforcement side, it was very much the same, and I saw the shift very shortly after transferring to the New York office. I'm not even sure that perhaps if people hadn't told me, "Oh, we thought you were a spy," and this and that, I would've been as aware, if you will, of some of the challenging dynamics between the home office and the regions.

Carmen Lawrence:

But clearly, we had a great relationship with the home office and did lots of collaboration with them and, no issues. I mean, there were times when we had disagreements, in terms of the cases, where the division disagreed with our recommendation. But I will tell you that I think very early on, if you had that disagreement, that would've been the end of it. You would stand down. For a long time, when I was in senior management positions, we would have a seat at the table, and we would argue to the Commission our position and why we think the recommendation was appropriate, and the division would talk about what its concerns were, and the like. And most of the time, that would happen, perhaps through briefing of the commissioners in advance of the commission meeting. But sometimes that didn't resolve it. And if it was something that was important, and we did this a couple of times, we would say, "We're not withdrawing our recommendation and let's take it to the Commission in a formal way."



Carmen Lawrence:

Sometimes we won those and sometimes we lost. In one particular instance, we lost, and that was the right result, because we later saw that the very concern that the division had expressed, which we had kind of said, “Yes, it’s no risk,” actually happened. So, it was a good thing that we lost that one. So, I think there’s just a lot of mutual respect, more of a partnership and all of one team, again, dynamic, when I left.

Kenneth Durr:

How about with the other regions? There used to be every year, everybody come to D.C. and spend a week together, talk about things. Did that continue?

Carmen Lawrence:

In retrospect I think that we could have been a little less aggressive, that I could have been a little less aggressive. We were very aggressive. We did not respect our geography. And we kind of took the mindset from the Southern district, which talks about the sovereign district—kind of took that approach. We were very aggressive in seeking out new matters and opening them up, regardless of whether they were in another region. And when the region would ask, “Look, what’s your interest? Why are you doing this? Shouldn’t we be doing this case?” We fought to keep those matters.

Carmen Lawrence:

In particular, we had that issue with LA. We took a lot of cases that appropriately belonged to that regional office. We had a nexus. We always did, because we have the exchanges, right? So this traded in New York. But many times, and in particular, Chairman Breeden supported us. One instance, in particular, came up in one of the chief enforcement conferences. So we had a good relationship, I would say, with most of the offices, but less so with LA.

Kenneth Durr:

Interesting. Well, you got to read the newspapers before they did.

Carmen Lawrence:

That’s exactly right. That time difference makes the world of difference. Yes, that’s right.

Kenneth Durr:

Well, is there anything else we should talk about of your time with the SEC?

Carmen Lawrence:

No, I think just to say that it was an incredible ride. I was there 19 years, roughly, and when a lot of us get together, as we frequently do, because the bonds that are formed at the Commission long survive our departure from the Commission, we all talk about how it’ll never get better than that. And that’s the truth. It was a really great ride.

Kenneth Durr:

Well, you've done a good job explaining the ride to me and I've appreciated it. I've enjoyed the ride.

Carmen Lawrence:

Oh, good.

Kenneth Durr:

Thanks so much.

Carmen Lawrence:

Thank you.