

SEC HISTORICAL SOCIETY FIRESIDE CHAT
SEC Regional Offices
May 20, 2008

THERESA GABALDON: Good afternoon and welcome to the Fireside Chats of the Securities and Exchange Commission Historical Society broadcast on www.sechistorical.org. I am Theresa Gabaldon, Lyle T. Alverson Professor of Law at The George Washington University School of Law and moderator for the Fireside Chats. The SEC Historical Society preserves and shares the history of the U.S. Securities and Exchange Commission and of the securities Industry through its virtual museum and archive at www.sechistorical.org. The museum collections are free and accessible world-wide at all times. The virtual museum and archive and the Society are separate from and independent of the SEC and receive no government funding. We thank Pfizer Inc. for its continuing generous sponsorship of the 2008 Fireside Chat season. Its support, along with gifts and grants from many other institutions and individuals, make possible the growth and outreach of the virtual museum and archive.

We're in the midst of a series of Fireside Chats looking at the distinctive history and work of many of the major SEC divisions and offices. This series is a part of the Society's commemoration of the upcoming 75th anniversary of the SEC in 2009. Our Fireside Chat today focuses on the SEC Regional Offices. I'm delighted to welcome Mary Keefe of Nuveen Investments, former head of the SEC Midwest Regional Office in Chicago from 1994 to 2003, and Michael Wolensky of Schiff Hardin LLP, a former director of the SEC Atlanta regional office from 1982 to 1987.

The remarks of our speakers today are solely their own and do not represent the views of the Society. Our speakers cannot give legal or investment advice. After our broadcast I encourage our listeners to access the 2003 Roundtable of Regional Administrators in the Online Programs section of the virtual museum and archive. This is a wonderful program that brought together many former regional heads. I'd like to recount one anecdote shared by Gerald Boltz that I feel very nicely exemplifies the boots on the ground impact of the SEC regional offices.

While on an investigatory trip to Pierre, South Dakota, Mr. Boltz and his SEC colleagues went to a coffee shop for breakfast. While they were sitting in their booth they could not help overhearing the conversation of two men in the next booth. The first man was describing in great detail how to set up a securities fraud involving mining stock. The second man finally broke into the description to ask, "What about the SEC in all of this?" The first man replied, "Hell, they can't be everywhere."

Mary and Mike, welcome.

MARY KEEFE : Thank you.

MICHAEL WOLENSKY: Thank you.

THERESA GABALDON: We probably should start by laying a little bit of background. Could one of you tell us, as a starting point, whether there have been regional offices as long as there has been an SEC?

MICHAEL WOLENSKY: As I understand, the regional office concept began with the Federal Trade Commission which originally enforced the 1933 Act until the Commission was formed in 1934. So, from the very outset of the agency, there have been regional offices, although the number has grown and expanded over the years.

MARY KEEFE: There have been various permutations of district offices and regional offices and branch offices. There are currently 11 offices and they are located in Chicago, New York, Boston, Philadelphia, Atlanta, Miami, Salt Lake City, Fort Worth, Denver, Los Angeles, and San Francisco.

THERESA GABALDON: What percentage of the SEC's budget would you say is allocated to the regional offices as opposed to the home office?

MARY KEEFE: As I understand it, it's about 20% of the budgets that are administered locally. There are lots of programs that are run through the Washington budget. This has changed over the years.

Every office went to Washington to formulate its own budget, but as the SEC has become more centralized, most budgets are run through Washington.

MICHAEL WOLENSKY: That has evolved over the years. When I was a regional administrator in the 80's, the regional administrators would negotiate with the Executive Director and with the other divisions, primarily Market Regulation and Investment Management, to try to figure out what travel budgets would be and how much money would be allocated for new hires. Now I think it is a little more centrally dictated than it was back when I was a regional administrator.

THERESA GABALDON: Could you give us some sense for what a regional office really looks like? How many people might be in such an office? How may the office be internally organized?

MICHAEL WOLENSKY: The offices are of a broad range as far as the number of professionals and staff in the office. Some are as small as 20 or so and I believe the New York office is 350 or 60 people. So the agency tries to locate the resources where the issues are, where the problems arise. One great example is the Miami office. Miami was a branch office when I became the regional administrator in 1982 and it had eight to ten professionals. Now, it's got well over 100 people. One of the points I tried to make while I was a regional administrator back in the 80's was that Miami needed to grow. There was so much activity, there was so much going on in Florida, that that office really needed more resources and the Commission over time finally saw that to be correct. I think that's happened in other areas as well.

As far as the organization is concerned, every office is headed by a regional director, and generally there are one or more associate directors who head up different programs. Every office does have an enforcement program and an inspection program, and some offices also have a bankruptcy program.

THERESA GABALDON: Mary, you mentioned on your list of regional offices, Fort Worth, and that gets me thinking why Fort

Worth? To put it as delicately as possible, do you think there are any pork barrel aspects to their location and staffing?

MARY KEEFE: Mike shared the Fort Worth story with me last night. So, Mike, maybe you can answer that question about Fort Worth.

MICHAEL WOLENSKY: Of course this is hearsay, but when the office was formed the Chairman selected an individual to run the office in that part of the country and he was from El Paso. As I understand he was a former Federal official or legislator. He got on the train, which they did back in the 30's and early 40's, and started east. He got as far as Fort Worth and he picked up the phone and he called the Chairman and he said, "I can't go any further east. If you want an office in Texas, it's going to be in Fort Worth." So that's how the office came to be in Fort Worth and for many years it remained in Fort Worth despite some pressure to move the office to Dallas because of some powerful political figures who were in Congress who did not want to the Federal office moved out of their district into an adjoining district.

MARY KEEFE: But for the most part, I think when you look at the cities the offices are in now, they are commercial centers or centers of large population. I think that's the way the decision is made. The offices are reviewed routinely to make sure that they are productive. Productivity is a very important part of maintaining or growing your staff in a regional office.

THERESA GABALDON: It sounds like things have changed, I'm not sure substantially, but they have changed over time in terms of the number of offices, how they are internally organized, where they're located and it sounds like there may be changes in budgetary process. What prompts that kind of change? Is it simply a continuing reviewing process, how can we do things better?

MARY KEEFE: I think one of the biggest changes that occurred happened after Arthur Levitt became Chairman. Arthur determined that there were too many people reporting to him. Before that the regional administrators, as they were called, all reported directly to the Chairman. Arthur came in and said he really wanted to re-organize and at that point created district offices that reported up to

regional offices. The regional administrators then were given a new title of regional director. I think that was in 1993, so that was shortly before I became regional director in Chicago. But Bill Goldsbery had been the regional administrator and he was my coach for the job and was involved in that process with Arthur in communicating it to the rest of the regional office heads.

MICHAEL WOLENSKY: And that was quite a change.

MARY KEEFE: A huge change.

MICHAEL WOLENSKY: Some offices that had been regional offices became district offices. The Seattle office disappeared altogether. The reallocation of people occurred among offices. Miami, which had been a branch office, ended up becoming a regional office. Atlanta, which had been a regional office, ended up becoming a district office.

MARY KEEFE: The regional directors reported to the Division of Enforcement director, Bill McLucas at the time, and the district administrator reported up to the regional directors.

MICHAEL WOLENSKY: Right, when I was a regional administrator we reported directly to the Chairman and we dealt with the other Division Directors on budget issues, staffing and those sorts of things. So it caused quite a stir among the staff and my former colleagues who were regional administrators, who found themselves playing a completely different role than they had before.

MARY KEEFE: I assume that there was perhaps some resistance or perhaps some leave taking because of those things?

MICHAEL WOLENSKY: I don't know about the leave taking, but I think there was some feeling that it was not a reorganization for the better. It worked over the years; it proved to work pretty well. Then very recently last year it was changed again when it was determined to move the district offices into the regional category so every office now is a regional office, but I understand that reporting from the regional offices is still through the Division of Enforcement.

THERESA GABALDON: But that tells us where it would appear in the organizational chart and I think that you already indicated too that the functions basically involve enforcement, inspection and bankruptcy. Could you tell us more about what inspection and bankruptcy would be?

MARY KEEFE: The examination program is broken into two different groups: the broker dealer examination program and the investment management examination program. Before the creation of OCIE, which happened after I became a regional director, the programmatic guidance for those programs came from the Division of Investment Management and the Division of Market Regulation. The examiners are professional examiners and accountants who are tasked with going into the regulated entities that exist within a particular region and conducting examinations of the books and records of the entity and the financial and operational underpinnings of the organization as well now as the compliance programs of those organizations. The bankruptcy program is organized a little bit differently. It is all bankruptcy attorneys who really provide support to the bankruptcy courts so where there is a public company; they are there to advise the courts on shareholder rights. There is not a bankruptcy program in every office. For example in Chicago, the bankruptcy program handles not only the Chicago region, which is the nine Midwest states, but also all of the Denver region and Fort Worth region so I think they cover 22 states in that program.

THERESA GABALDON: Will you talk about enforcement?

MICHAEL WOLENSKY: I will be glad to. I wanted just to take a moment to talk about the importance of the examination program. Enforcement gets the glamour, of course, and those are the people in court, those are the people that get the headlines but it's really surprising and I think anyone who sat back and studied the history of it would be very surprised that how many tremendous enforcement cases grow out of the examination program. The examiners are on the frontline with dealing with the financial institutions, the broker dealers and the investment advisors and the investment companies that manage trillions and trillions of dollars. Those people are out there everyday to make sure that the system is working properly and they report up through a group called OCIE and then those matters

get referred over to Enforcement. Sometimes a case will come almost fully prepared from the examination group and very little work needs to be done to bring an enforcement action. Sometimes Enforcement takes those cases and does full investigations. Tips come in to Enforcement from complaint letters, from whistle blowers looking at the Internet. There is just a whole host of ways for cases to arise in the enforcement area. Those cases are then investigated by the Enforcement staff, subpoenas may be issued, witnesses brought in to testify and cases prepared and referred back to the Division of Enforcement to be sent to the Commission for authorization and then to cases handled by the regional staff in the courts.

MARY KEEFE: Back to the examination program for a second. Really, it's the interaction of the examination staff with the enforcement staff that is the strength of the regional offices as Mike said; many of the cases are originally detected by the exam staff but beyond that the examiners are not only the eyes and ears of the Commissioners because they can report to the Commission what they are seeing in the regulated entity industries. In addition to that, they are the face of the SEC to most regulated entities. So they are there not only to just check the boxes and make sure if it is doing everything correctly but also the talk to regulated entities about what they are seeing in best practices and how things can be improved. Examination staff has a subject matter expertise in the regulated industries and can assist the enforcement people. So when OCIE was developed, OCIE I think went to the examiners and said, give us your best practices and your best ideas. OCIE has heightened the awareness of the Commissioners with respect to the exam program. But for most of the industries which are regulated industries, it's the examiners that they are seeing on a daily basis.

MICHAEL WOLENSKY: One of the interesting changes in the regions that occurred in the late '80s or early '90s, before Mary became an administrator and after I ceased to be one, was the movement of securities filings from the regions to the home office. When I first started with the Commission in 1971 there was a fairly active regional presence in the review of securities filings, called small issues, and every regional office had an small issues branch where you had lawyers who were performing functions in parallel with

the Division of Corporation Finance in Washington. That program shrank some, and then finally everything was centralized in Washington in the Division of Corporation Finance, so that no longer are filings processed in the regions. There were some fairly substantial companies that wanted to make filings in the region if they could because they felt they got quicker processing and more attention. They weren't just put in a long line in what they perceived as a bureaucracy; they had a more active review of their filings and they could get their issues out quicker.

THERESA GABALDON: Was the decision based primarily on visions of economic efficiency?

MICHAEL WOLENSKY: I can't speak to that. I had ceased to be a regional administrator when that decision was made. It was stated to be one of efficiency and of efficient review of filings.

MARY KEEFE: Linda Quinn was the Director of Corporation Finance at the time. I actually think she was leaving soon after the decision was made between Linda and the Chairman. It was a resource decision.

THERESA GABALDON : I was wondering if some of the ebb and flow within the functions of the regional offices and perhaps their number and organization was sensitive somehow to changes either in the Federal administration or changes in the leadership of the Commission. Do you have any views on that?

MICHAEL WOLENSKY: As far as the regional offices were concerned, certainly when I was there, we felt pretty well insulated from the ebb and flow of the political things occurring in Washington and the changes of administration. Our job didn't change a whole lot depending on who was President or even really who was Chairman. There were Chairmen that came in with different views or systematic approaches to certain enforcement policies, for example. There were administrations that came in that wanted to cut back on resources, and that could have an impact on the regional office because you are part of the overall agency and if the overall agency either loses slots or doesn't gain additional resources, than as a region you suffer from whatever the agency suffers for because you

are just part of that pie. It would be extremely rare to look back and see any time when the life of a regional office really changed because of a political change.

MARY KEEFE: I think that's right that each Chairman comes in with an agenda and that can change the focus of either the Enforcement or examination programs or other divisions within the Commission in Washington. But the mission of the Commission remains the same and that's protecting investors. I don't think there has been a single Chairman who hasn't taken that mission to heart.

MICHAEL WOLENSKY: I think the personnel of the regional administrators probably have more to do with what occurs in the regional offices certainly than who the Chairman is for example.

MARY KEEFE: Example?

MICHAEL WOLENSKY: Very gladly but I believe that to be true because some administrators were more aggressive than others, some viewed their mission a certain way and just in my experience in dealing with people you would get to know the different administrators and you would know who's office was going to be right there number one in the number of enforcement cases and who was going to be making the most push for resources and those things. Bill Goldsberry, who was Mary's predecessor, was viewed as the paradigm regional administrator everybody wanted to emulate because he was viewed as really the cream of the crop. I remember when I became a regional administrator I called up Bill and said, "Bill, I will be calling you about once a week to get pointers from you in how to deal with some of these issues." So I think the personalities probably had more to do with it than almost anything.

MARY KEEFE: I think you are exactly right. Each office really has its own character that it has developed and I think definitely starts with the tone of the top. The Chairman has an agenda and also every regional director has an agenda that certainly incorporates the mission of the agency and is really about developing your own staff and using resources in your office well and a healthy level of competition I think is good. Sometimes various regional directors might have engaged in arm wrestling over cases especially with time

zone differences. Often people on the East Coast would get to work and open cases the minute something across the wire or was a headline in a paper even if that all of the logical point of contact would be in exclusively within one of the geographical areas of the regional offices. So like many regional directors, I had many conversations with people in other offices. I was trying to negotiate who was the appropriate group to do the case and usually we were able to work that out.

MICHAEL WOLENSKY: One of the fun arm wrestling things that I remember from my experience. The Atlanta region covered the Southeast and covered half of Louisiana up to the Atchafalaya River. The Fort Worth office picked up at the Atchafalaya River and covered the rest of Louisiana. Originally it was set up that way, I am told, because of the oil and gas in Western Louisiana made it very much like the oil and gas issues that would come up in Texas, as a lot of oil and gas cases were brought out of the Fort Worth office. New Orleans was just east of the Atchafalaya River and Fort Worth administrators for many years coveted having New Orleans in their region and of course the Atlanta administrators were very jealous of their jurisdiction and wanted to keep New Orleans in their region. I remember one time Jim Clarkson called me up and said, "Mike, you need to be prepared because Fort Worth is making a big push with the Chairman to try to get New Orleans to get into his region." We always had to circle the wagons and be prepared for these very minor things but it was always done in good humor because New Orleans was a nice city to have in your region.

MARY KEEFE: But what a great thing actually to have disputes about - no, I want to do better work; no, I want to do better work. One of the reason it's such a great place to work is that people are single minded of purpose. We had one mission and we did the cases and we did the exams with an eye toward protecting investors.

THERESA GABALDON: Before we leave the subject of resolving jurisdictional disputes I just have to ask about something I read in a transcript of the 2003 Roundtable which was about you, Mary, which may have been completely apocryphal about some method of resolving disputes based on choosing even and odd numbers and

keying off of the closing price of something of New York Stock Exchange, wasn't that true?

MARY KEEFE : I think it was more frequent that we just flipped a coin. The fact of the matter is there were more than enough cases to go around. Again, competition was good and sometimes we did have to involve Jim Clarkson in some of these disputes, or Bill McLucas from time to time or Steve Cutler or Linda Thomsen, but people found various ways to make sure that they maintained their own turf.

MICHAEL WOLENSKY: One of the great stories is about my predecessor, not my direct predecessor, but the originator of the Atlanta office, Bill Green. Bill Green had been the head of the Cleveland office and the Atlanta office at the same time and he used to take the train back and forth between the two offices on a bi-weekly basis, that's back when there was a Cleveland office. But one story is told, and I met Mr. Green and he told me that was true when I asked him about it, is that some folks from Washington had gone down to Delphin, Alabama to investigate. Delphin is a small town down on the Florida border and is in the Atlanta region. Mr. Green got a call from a sheriff down at Delphin who said, "Mr. Green, there are some folks down from Washington, D.C. who claim to be with the SEC and they are doing an investigation down here; do you know anything about that?" Mr. Green said, "Nobody ever checked with me so this couldn't be anybody from Washington. You probably should arrest those fellows." About two hours later, he got a phone call from the jail from the lawyers from the SEC who said, "Mr. Green, will you please tell them that we are actually on the up and up, and they don't need to arrest us." The message was sent; you didn't come into the Atlanta region without checking with the regional administrator first. The turf was protected.

MARY KEEFE: One of the things we thought was important to talk about is how the regions are coordinated and the mechanism for the regions to interface with Washington. Jim Clarkson, who was a Director of Regional Office Operations, is such an important part of the successful workings of the regional offices. One of the things that Jim has done is made sure that there is a very cohesive group of regional office heads, although the players change. There is very few of those people and nobody in the Commission has that exact job so

it's kind of a natural group to bond. Jim has been instrumental over many years making sure that those people communicate well, share ideas, share best practices, share management techniques. Jim also is a person who is extremely familiar with the workings of the Commission and so when a new office head comes, Jim really can help train that person in terms of who you go to resolve various issues or problems or to sort ideas by or when you come up with a new concept about how to approach a particular problem within the industry, Jim really has been incredibly important to all of us who ran offices over the years.

MICHAEL WOLENSKY: Jim was key to me wanting to be a regional administrator. I was in the General Counsel's Office at the time and I knew Jim quite well and we talked about the regional jobs. One of my goals from the time I first joined the Commission was to be a regional administrator and that worked out for me and I was very pleased. I worked with Jim very closely and Jim has been an interim regional administrator or regional director when an office head left and it was important to have that job filled to keep the office going forward on an even keel. Sometimes it's not easy to fill those jobs. There had been a group called the branch of regional office assistance that Jim had had headed up back in early '70s and it had been in the Division of Enforcement and it was basically to process paperwork and enforcement recommendations. About 1976 Len Rossen, who was head of the San Francisco office, was asked by Stan Sporkin and the executive director to come back to Washington on a detail for several months to set up an overall group that would be the primary liaison between the regions and the home office. After Len Rossen's detail expired, Jim Clarkson was appointed into that position and has been in it ever since. He has been at the job for a long time and he is just masterful at it. Probably to a person every regional administrator would pay homage to Jim for a job well done and for keeping them on an even keel.

THERESA GABALDON: That tells me something but not quite everything about differences among the regional offices as far as things like enforcement priorities, different policies interpretations, that sort of types. Do the different regional offices have different enforcement priorities, for instance might one as a result of the personnel of the regional director emphasize insider trading or

another one looked at senior fraud or something like that or is it homogenous?

MARY KEEFE: I think their priorities for the enforcement program really come from the Division director. There maybe some ideas that originate from the regional offices because the regional offices are there on the ground seeing things that occur in the regulated entities and in the public companies in their cities and in the investors who are coming in to complain. But I think that the priorities set by the division director are what guide the program.

MICHAEL WOLENSKY: Probably to a greater extent than Mary might agree with, I think that what you see in your region really dictates a lot of what you do in the enforcement program. While the priorities are set in Washington, priorities don't dictate what cases you find. For example I mentioned Fort Worth in oil and gas cases. You didn't have too many oil and gas cases in Atlanta. The cases involving the entertainment industry come of Los Angeles. A lot of the senior cases are in the Sunbelt area rather out of the Boston office. Boston had far more mutual fund cases than anybody because that's where investment companies were located. We had two or three mutual fund complexes in the Southeast and while we would examine those I don't recall that we had a mutual fund case I was there. What you find on the ground, as Mary said, would dictate to a large extent how your resources were used within the priorities established by the division directive.

THERESA GABALDON: How about different policies with respect to things like negotiating for information or plea bargaining? Would that be pretty much driven by Washington?

MARY KEEFE: I think regional directors and the associates who run the enforcement programs have a lot of latitude, and they should know about how they run their cases and how to resolve their cases. Plea bargaining doesn't really happen in the Division of Enforcement because it is civil cases but they are the people who dedicate their resources to the investigations and know the evidence of the case and present that to the Commission. They need to have a lot of latitude in terms of what the appropriate resolution of the case is but I think there is a lot of communication with the Division of Enforcement

leadership about what is appropriate. There is also a lot of communication between and among all of the people who are the leaders of the Enforcement program both in the regions and in the home office; there are meetings that occur a couple of times a year where people talk about trends they are seeing and that includes how to resolve cases.

MICHAEL WOLENSKY: Mary's point is a great point with respect to settlements. For example, as I understand it, even now different memoranda come out of Washington or directions come for handling things in a certain way. A year or so ago the Commission came out with a directive about how it wanted settlements handled particularly with respect to corporations and civil penalties being levied and it came out with some directions about how that was to be handled. The whole settlement process is very important because that's the end of the enforcement process and a lot of resources may be devoted to a case and a determination has to be made with respect to a settlement. Another area where I think there is wide latitude, in my view too much latitude given to the regional offices, is in what's called the Wells Submission process. When an investigation is being wrapped up the Enforcement staff almost always will notify the persons that they are prepared to recommend an enforcement action against, advise them of the nature of the charges and the substance of the evidence to be used in the case and give those individuals an opportunity to make a submission that will be reviewed by the staff and if the matter continues on, to be reviewed by the Commissioners. It's a very important process; it's part of the fairness in the process. In my experience there is quite a disparity among the regional offices in how that is handled, one for which I cannot give rhyme or reason but there is a lot of latitude. Some offices are much more forthcoming than others, some offices bend over backwards to make sure the process is fair, others don't do so and hand in glove with that goes the closure process. When those involved in the securities industry are under investigation and the investigation comes to a conclusion that does not involve any enforcement action against them, in my view they are entitled to be told. We have finished our investigation and we are not going to recommend any action against you and that's particularly important for people in the financial services industry. The offices are very different in their approach to that; some offices are very good about notifying you, other offices you will never hear from

them again. The last thing you want to do is pick up the phone and call and ask, "Are you through investigating my client?" That's not something you want to do. So those are a couple of areas where I think there are disparities where they could be brought closer into sync with the Washington approach to things.

MARY KEEFE: So you are saying that you think Washington informs you that your client is no longer under investigation and Washington turns over all the cards in an enforcement action where you are given an opportunity to make a Wells submission?

MICHAEL WOLENSKY: No. I don't think Washington does that but some regions do. And other regions don't.

MARY KEEFE: I think there was a movement a few years back and I don't know exactly where it stands because I have been gone for four and a half years now but Chicago always had the position that our case will be better if we show you the evidence, with rare exceptions. There might be some instance where a piece of evidence for some reason will not be turned over but those are far and few between.

MICHAEL WOLENSKY: But you were one of the wiser regional administrators.

MARY KEEFE: But I really thought that in some of the regional director meetings I attended people have pretty much agreed that that's the direction they were going in as a best practice. So I am surprised to hear that.

THERESA GABALDON: It does sound as though you could not describe the regional offices as anything like a McDonald's franchise in key operations.

MICHAEL WOLENSKY: Not at all.

THERESA GABALDON: I think this is as good a time as any to walk into this question. In some of my leisure reading, a lot of future FBI agents are always competing for the best offices and always fearing a posting in North Dakota if they mess up. Is there anything like that vis-à-vis the SEC regional offices? I am asking both if there is much

mobility among offices but also whether there are differences in reputation and prestige?

MARY KEEFE: I think all of the offices are highly regarded. I don't think there is one that would be considered an outpost. The offices are evaluated by the various divisions that interface with them and I think by the Commissioners, the productivity as well as the quality of the work that they do. That being said, some offices bring bigger cases and some offices bring as many cases. I think that's part of the evaluation process that goes on with Washington all the time.

MICHAEL WOLENSKY: You ask about mobility. There is as much mobility among the offices as I think the staff wants to have. That might sound like a convoluted way of saying it but if there is a slot available and someone wants to move from New York to Atlanta for example, there would be an opportunity to do that. In my experience most of the mobility that occurs is for promotion purposes. I went from Miami to San Francisco to Washington to Atlanta, always taking a different and what I perceive to be a more important job within the agency. All jobs are posted. The current head of the Atlanta office, Kit Addleman, started in Philadelphia. She's been in Fort Worth, in Denver, back in Fort Worth, in Atlanta and now she's back as the head of the office. There are only a limited number of very senior jobs in the agency outside of Washington so in order to be able to secure one of those jobs, if you really view that as something you want and that's your career desire, you probably going to have to make a move. You can't always be as lucky as Mary was.

MARY KEEFE: But even apart from promotion, there is quite a bit of mobility between and among staff in various offices and I think when I was in Chicago many people came to the Chicago office from other offices and a few people went if they have family move or something like that to Los Angeles or and usually those were without incident.

THERESA GABALDON: On a slightly different tack, that anecdote that I shared at the beginning with Mr. Boltz in the coffee shop in the Dakotas. What you would like to imagine in that circumstance is that just as the guy said, hell, the SEC can't be everywhere, that the hand would reach over the back of the booth to grab him by the shoulder and handcuff him. The SEC doesn't do those sorts of things. That's

not exactly how it would have played out. What do you think would have happened next?

MICHAEL WOLENSKY: I actually had a circumstance fairly similar to that happen to me in a place in South Dakota. I was there with my wife and we were on vacation. We overheard a conversation at the next table of some folks talking about an oil and gas scam that they were going to run. I think I decided that I probably just listen and maybe see if I can pick up a name and then I will call the regional administrator and pass the information on. For the most part, SEC people don't carry weapons and if you are sitting in a place in North Dakota or South Dakota you probably don't want to involve yourself in what would be a little more traditional law enforcement-FBI sort of thing but there is no reason not to keep your ears open and listen to get some information and pass it on.

MARY KEEFE: That's true. The SEC has lots of rules about privacy and about identifying who you are if you work for the SEC. People don't go undercover from the SEC. But there is a myriad of places to get cases. In the examination program we have already mentioned newspaper articles, calls from disgruntled employees or disgruntled spouses and referrals from other agencies. There are many referrals from the U.S. Attorney's offices. Those lines are open and very good and lots of information goes back and forth as is contemplated by the securities laws. The CFTC refers cases. The state securities commissioners are a good source of cases for the SEC.

THERESA GABALDON: Would you say that there is an open door policy as far as public is concerned? Could I walk into the closest regional office and tell them my securities woes?

MARY KEEFE: I think there is always a duty officer in and on call at all times and most of the information that comes in is electronic, as you can imagine. There are also many people who wander in to tell their story but I think yes you could.

MICHAEL WOLENSKY: I am sure if someone has a problem or a complaint they could. It might be wiser to call up and make an appointment first but certainly if they show up at the SEC office I think they are going to be treated properly like a citizen should be treated.

THERESA GABALDON: Now you have indicated that SEC enforcement agents never go undercover. What kinds of things do they do?

MARY KEEFE: First of all they call you up and they say this is who I am and this is what I am an enforcement lawyer or accountant or whatever their job is and they request information on a voluntary basis and lots of people co-operate on a voluntary basis giving information.

MICHAEL WOLENSKY: Lots of them give false information the first time around too.

THERESA GABALDON: That seems to be a problem.

MARY KEEFE: That's why we have US attorneys to follow up on that. I think many cases are conducted at the beginning on an informal basis and when there are certain statutory reasons to get a formal order of investigation, that gives the staff the ability to issue subpoenas. That comes from the Commission. Then the staff commissions subpoenas for information for testimony. Sometimes there is a cooperation where information comes from other agencies and the SEC is able to act on that without taking testimony or getting information directly from the prospective respondent or defendant, where the Commissioners would authorize an emergency action for example.

THERESA GABALDON: This maybe impossible to answer but I think you could identify a particular success of a regional office or are all successes are simply successes at the SEC?

MICHAEL WOLENSKY: I would say that certainly the regional offices always have taken great pride in the enforcement actions that they instituted, the successful cases, the large cases, the meaningful cases. Certainly everyone likes to feel they are contributing and adding value to the investor protection mission of the Commission so when there is a particular successful case, the people who instituted that case and investigated or tried that case in court deserve the recognition. I think that the Commission has been pretty good about

that. Years and years ago you never saw anyone's name in any press releases; it was always in the name of the agency. Then that moderated to where you would see the name of perhaps a regional administrator or an assistant administrator. Now you usually see in almost any litigation release quotations by people on the staff that was responsible for the case, and frequently you will even see the names listed of the staff people who worked on the case. So I think there is recognition and it is important to push that recognition down to the lowest level that you can. Some of the most successful cases the Commission has ever had have been brought in the regional offices and we have had tremendous impact on the development of the securities laws. So it's not just a home office thing.

MARY KEEFE: The enforcement program began in the regional offices so it's been carrying that forward and then involving that through with the kind of new models at the Commission as the divisions became stronger and as really as the agency has become more centralized. But the regional offices continue to play a very significant part in not only the enforcement program, but they do virtually all of the exams that are done. I worked with a guy still runs the enforcement program in Chicago. He used to say that one of the really important things about the regional offices is that it was the Commission's opportunity to leverage the fact that they were very smart people outside of Washington who choose to work for the Commission. I wholeheartedly agree with that; not everybody wants to work in Washington. It's an opportunity for the Commission to have really a very talented staff nationwide.

THERESA GABALDON: If the regional offices had never existed, that is if everything had been run out of Washington starting in 1934, what would we have missed? Could the SEC have achieved what it has achieved without the regional offices?

MICHAEL WOLENSKY: Obviously, I have a great bias having served in different regions, but also having served in the General Counsel's Office in Washington too, which I thought fulfilled an important function. But the short answer to your question is that it would be a much different agency today and it would have missed out as Mary said, on the talents of a tremendous range of people who have brought an awful lot to bear in the way of investor protection.

Having troops on the ground is a current cliché, but having people on the scene who recognize what's going on in their particular area and are there to deal with the local press, who are there to deal with the local regulatory authorities and who are there to deal with the citizens and investors, I think is a very important measure and whoever came up with the concept of having regional officers was very smart, because I think it has played an important role.

MARY KEEFE: So many of the initiatives have come out of the regional office. Think back to the penny stock days; there is now within the Commission a microcap fraud group, but, way back to the penny stock days, that was spearheaded out of the Denver office. There have been many more initiatives like that where the need for the cases is initially recognized by the examination program and that's built into a program of enforcement for that particular region. But then as you look beyond that region, the problem might exist nationwide.

THERESA GABALDON: That's an interesting parallel to the argument against federalizing corporate law that is having a lot of different laboratories trying to come up with the best approaches but at the same time, in this day and age, given modern technology, do we still really need regional offices/

MICHAEL WOLENSKY: I would certainly think that you do for some of the reasons I just stated. One, you've got people who are familiar with the local United States attorneys and familiar with the local courts, you've got people who are familiar with the state regulators that they deal with, people who are familiar with the local FINRA offices and there are tremendous resources that are there. If it's all centralized in Washington, you're going to lose that touch with all of the people, all of the resources that you can call on to better do your job.

MARY KEEFE: All of corporate America and all of the regulated entities don't exist in Washington.

THERESA GABALDON: Very true. Now I'm interested in following up on the idea of co-operation with the state regulators. Is the relationship of the regional offices with state regulators largely

cooperative or is there ever competition?

MARY KEEFE: Oh, no. I think there's been a big effort for all of the offices, including the home office, to work very closely with the state securities regulators and to really to support each other's efforts. You know their efforts are often for smaller companies and smaller businesses. The state regulators had exclusive jurisdiction of the smaller investment advisors; it was a big push to educate the staff of the securities agencies to be able to handle those issues and do those exams. I guess Eliot Spitzer is what you're talking about in terms of competition, but I think kudos need to be given to that office for having done such a great job and really undertaking a problem that a lot of the Commission didn't see in the mutual funds scandal. I think there was a huge amount of cooperation with the Attorney General's office in New York and the SEC. And once it got going, I think things worked out very well. They operate under a different set of rules than the SEC; the SEC doesn't make a practice of doing an interview and then having a press conference for example. They're restricted from doing that. So things were a little delicate, but I really have to hand it to Steve Cutler and Linda Thomsen for working so hard on making that a smooth effort; it was a really big effort.

MICHAEL WOLENSKY: I would agree with that. I think there's a strong effort to work with the states and I think it's an important effort.

THERESA GABALDON: I'd like to ask each of you, in a minute or less, to share one of your favorite memories being in a regional office.

MICHAEL WOLENSKY: One of my favorite, when I was in the Miami office, a new office head came in named Mike Stewart and Mike is a very close friend of mine, but he has served probably in more regional offices over the years than anywhere. We had a case come in. One of our young lawyers, Charles Harper, who later became a regional administrator, got a phone call from a friend who said that we've just got a call from a fellow who just got back from Vietnam and he was in prison over there. Someone wanted to sell him municipal bonds. One thing led to another and it turned into a very significant enforcement case and we had dozens and dozens of former prisoners of war in Vietnam whose pay had been put in the bank by the Army; they didn't give it to the families then. When they got out, a

con man had contacted them and got their names and taken their money. That ended up being one of the cases that led to the Securities Act Amendments in 1975.

MARY KEEFE: I don't really have one incident to share. I mean, there are so many cases, there's so many exams, there are so many good memories. But I guess one of my favorite things to share is that it was such a great opportunity and I'm so grateful to have had it to be able to engender that fire in the belly both in enforcement lawyers and in the examination staff to go out and do the work of the Commission.

THERESA GABALDON: Mary and Mike, thank you for sharing your work perspectives on the work of the SEC regional offices. It's been enlightening to look at the transformations in the work and influence in these offices over the past seven decades. I'd also like to thank Pfizer, Inc. once again for its generous support for today's program. Our audience maybe interested to know that this Fireside Chat is now archived in audio format in the virtual museum, so you can listen again to the discussion at any time. A transcript for the discussion as well as the chat in MP3 format will be accessioned in the Online Programs section in the coming months.

I encourage our audience to tune in again to www.sechistorical.org this summer for two SEC Historical Society online programs. On Thursday June 5th at 12 noon Eastern time, our look at the SEC divisions and offices will continue at the SEC Historical Society's Annual Meeting focusing on the Division of Investment Management. Please join Kenneth Berman, Martin Lybecker, Kathleen Moriarty and Robert Plaze as they discuss the division's exemptive authority. This program will broadcast live from the SEC auditorium in Washington DC.

In addition on Tuesday, July 29th at 3PM Eastern time, I will return to broadcast the fifth anniversary The Best of NERA once again; I'll be joined by the top presenters from NERA Economic Consulting's recent Finance Law and Securities Litigation conference. This program has always resulted in an excellent discussion and I do hope you'll be able to join the broadcast. In the fall, our Fireside Chats will resume on Tuesday September 23rd at 3 PM Eastern time with the

discussion of the SEC Division of Enforcement. My guests will be Irving Pollock and Steven Cutler, respectively the first and the most recently retired directors of the division. Thank you again for being with us today.