Securities and Exchange Commission
Oral History Project
Interview with Alger Chapman
Conducted on April 7, 2011, by Kenneth Durr

KD: Interview with Alger "Duke" Chapman, April 7, 2011, in New York City by Kenneth Durr. Tell me a little bit about your upbringing. Are you a New Yorker?

DC: I was born in Portland, Maine, but grew up in New York, in Albany, New York. I went to Williams College, graduated with a BA and then went to New York City, to Columbia University Law School, where I received a JD; actually received an LLB, but we all got to change into JDs once that became popular; $25, I think it cost.

KD: That's a pretty good deal.

DC: I did some clerking in the summer when I was in law school. My first job out of law school was with the Securities and Exchange Commission in Washington, D.C.

KD: I read somewhere that you'd been interested in tax law.

DC: I had been. My dad was a very accomplished tax lawyer and one of his dear friends taught tax law at Columbia and ended up being the dean of the school for many years and has written a lot of the Hornbooks. I discovered very quickly that I didn't know enough about corporate law to do corporate tax work. Somehow I had to learn more.

I went to the SEC and interviewed with Barney Woodside, who was running the corporate finance division. He said, "Nice interview, but no job." He said, "Go over and see Tom Meeker and Dan McCauley in the General Counsel's office," which I did. I got offered a job as a junior lawyer, G-7, and worked with, particularly, Irv Pollack and Joe Levin for a year-and-a-half, writing briefs, researching briefs. I did argue a case one day because our General Counsel became ill at the last minute. The only thing I ever argued in court was a section 5 case in a Second Circuit Court of Appeals. (Laughter.)

KD: Well, that's pretty good.

DC: It was a very easy one, fortunately. I'd written the brief, so I knew a little. But I panicked. It was a panicky feeling starting out in the courtroom.

KD: Yes, but you did all right?

DC: I froze, but I unfroze in time. The legal assistant to one of the commissioners, Jim Sargent from New York, left. Jim offered me the job to be his legal assistant, which I did until the fall of '59. Then I was offered a job to come to New York with the New York Stock Exchange.

KD: Now you were working as a staff attorney?

DC: Yes.

KD: Is that in the General Counsel's office?

DC: Yes.

KD: What was your general day-to-day like? What were your responsibilities?

DC: Responsibilities were to work on cases, to work them up, to do legal research, to write preliminary briefs. Any time we needed a citation, we'd go to Irv Pollack, who had memorized every brief in the securities-related federal court system and had most of the opinions in memory. He's a fabulous guy. I don't know if you had a chance to talk to him.

KD: I haven't had a chance to.

DC: Oh, man. He's still existing and practicing law in Washington, just formed a firm with another guy. He is the longest tenured person I could think of and knows everything and everyone. He'd be a fabulous guy for you to interview.

KD: Yes. Was Dave Ferber in there?

DC: Dave was there, yes. He was there. So day-to-day we'd work on briefs. We'd work on cases.

KD: And you got to argue one once.

DC: I was still too green, they wouldn't even send me to argue a motion. (Laughter.) I get an argument in the Second Circuit Court of Appeals. I thought that was kind of funny. I still remember the judge's names, imprinted forever.

KD: Well, what were they?

DC: Waterman, Hincks and I've forgotten the third one for the moment. I'll remember before we get through. Lumbard was the chief judge that day.

KD: It must have been pretty interesting working closely with one of the commissioners.

DC: It was. Every day he would have a docket of materials that were going to be gone over in the morning at the commission meetings. My commissioner would hand that to me. He lived twenty minutes beyond where I did, which was not a good idea, but I found out too late. He'd get to my house and he'd say, "Here, you go through this tonight and tell me what you think tomorrow." I'd get home with a stack of things and it would be filings under the Electrical Utilities Act and the Holding Act and all these things, boring as could be. I had to go through them and then we would review it the next morning.

KD: On the train or in the office?

DC: Back in the office. He'd say, "What do you think?" In this little old Morris Minor he'd had forever, it was always an exciting ride to and from work. But I didn't have any commuting costs as a result.

KD: How about that?

DC: He was a very, very nice person and a good lawyer, taught at the University of Virginia Law School. He went back to New York after his commissionership, partner in a New York law firm.

KD: Did he have areas that he tended to focus on more than others?

DC: We had a chairman who had been a Massachusetts regulator of utilities, so nobody else really focused on—that was the longest, most boring boilerplate. Ned Gadsby, who was the chairman, would say when he reviewed the filing, he'd say, "Look at this map of the New England electric system. You know that this power plant here should be a half an inch over there." I think all the commissioners figured what could they add to his knowledge? They all learned about the Public Utility Holding Company Act.

The big focus while I was there was illegal distributions, section 5 cases, out of Canada and various other places and within the United States, of pretty junky securities, Canadian mining stuff. There were a couple of Florida promoters who were doing a lot of that stuff, so there was a lot of that going on. Reviewing the New York Stock Exchange and the NASDAQ filings, whenever there was a fee change it had to be filed and the commission would give them a red light or a green light on the filing. They'd go ahead or they'd have to go and do some more explaining.

That was back in the day when the world thought the New York Stock Exchange was exempt from the antitrust laws because all the trades took place in New York City and they cleared in New York City. That was subsequently turned around. I was there at the New York Stock Exchange, responsible for legal government and civic affairs when it was turned around. Who do I see one day but my old boss, Irv Pollack coming at me?

KD: Yes, I'm sure you probably got that a lot.

DC: Not that often.

KD: Any other highlights from the SEC years?

DC: Those were the major things. You know, there are always all the corporate filings, corporate underwritings. All those documents had to be reviewed and legal assistants were given the task, which was pretty good education, as a matter of fact. There would be people down arguing for their point of view under the various acts.

KD: Would you have been in there when the AMEX was having all their problems?

DC: No, I was in New York then. In fact, my boss went over to be the CEO at the AMEX, my boss from the New York Stock Exchange, a fellow named Ted Etherington, went over to be AMEX, to become the new chairman and to try and lead it out of the wilderness.

KD: Well, let's take you over to the New York Stock Exchange, then. How did that opportunity come up?

DC: Well, when the senior management of the exchange would come down, they would go out and visit all the commissioners. Jim Sargent was from New York, so they probably had more in common with him. They'd spend time and if anybody had a filing, come down and talk about it. My boss included me in all those meetings, so I got to meet these people. Then one day they came around, he wasn't there and they had some things they needed to get done, so I volunteered to get them done for them. When I say "get them done," they were procedural things in the SEC. I just got a call one day and Etherington said, "The boss wants to know whether you'd like to come to work with us as my assistant."

I thought about it, checked with my bride, how she felt moving to New York. She was from Birmingham, Alabama. So we moved to New York and took that job in the fall of '59. Ted left, I'm going to guess it was in '61. He was vice president in charge of civic government and legal affairs. He left for the AMEX and they decided that I would take his job. I became house counsel responsible for legal government and they added civic affairs.

KD: So you went in first as an assistant to Etherington?

DC: To Etherington, yes.

KD: Tell me a little bit about him, because he's come up a great deal but I've never spoken with anyone who worked with him.

DC: Very, very smart guy, very, very organized, an extremely nice person; he and his wife, Kathy, were two of the nicest people I've ever met. He understood, almost instinctively, the business. I think that would've been true in any business he got involved in. He was just one of those people who would get a grasp of things. I think he was a wonderful conceptual thinker. He would think through the problems. We would sit and talk about the problems and the answers. I'd think about them, come up with my answers, and he'd tell me why they were wrong. Then he would tell me his answers and we'd agree they were right. It really wasn't that way, but we'd have great discussions. He was very open.

He wasn't dictatorial in the way he approached things, so we would discuss it. Everybody loved him. The members did. They respected him, I should say. Everybody respected him and liked him. I think over at the AMEX when he came in he was greeted very favorably and did a really good job.

KD: That would've been one of the reasons he was tapped to go over there, I'm sure. Do you remember what some of the issues were?

DC: At the New York Stock Exchange?

KD: In those early years.

DC: The biggest ones that come to mind were the fact the New York Stock Exchange had a very strong regulatory hand that reached into its members' affairs way beyond what they were doing in New York City and out through the correspondent network of non-member firms it worked with.

They raised the issue with the Commission. That brought up the issue of the New York Stock Exchange being exempt from the antitrust laws that the New York Stock Exchange had gone far beyond. Not only didn't they give due process, but it was doing business outside, on an interstate basis. It was an old case in the Supreme Court, which I can't remember, *Exchange Buffet*, I think was the name of it.

KD: It sounds like the Silver Case, too, where they yanked a broker's stock ticker at the exchange.

DC: So that raised the whole question. The SEC considered it and they consulted with, I'm sure, the Justice Department. There was a Rule 390 on the New York Stock Exchange, which said that members could not trade with non-members without approval. All transactions had to be done through the member firms on the New York Stock Exchange in any listed stock, wherever it was listed. Otherwise, it didn't matter.

So I had a visit one day. Keith Funston, who was president of the exchange, had a visit one day from a delegation from the SEC. Gene Rotberg, Fred Moss, who by the way, had been a classmate of mine at law school, and he went to the SEC. We were there at the same time. In fact, we played in the finals and I beat him at the SEC annual tennis tournament, and Irv Pollack. I was called into Keith's office after they'd been there a while and he said, "You've got to go meet with these folks. Get our outside counsel. It sounds like we've got a problem to work on."

Keith, who had been present in the talks, said he was not a lawyer. He taught me not to use prepositions at the end of a sentence and would edit every memo I wrote; great guy, great boss. So we met and we spent months and months and months working on Rule 390 and wrote a Rule 390b, which is the first crack in the antitrust protection that the exchange thought they had. We put a new rule in and it gave an opportunity for competition. If the exchange couldn't match and the specialist had to have a special opportunity to match the market elsewhere.

KD: It provided a window of time or something like that?

DC: A little window of time, yes; a second opportunity if they looked at the order, made a bidder an offer, and it was lower than somewhere else, it gave them a window to come back and get a second guess shot at it. It was a small expansion of the rule. But it was the beginning.

KD: Now was most of the initiative on this coming from the SEC?

DC: Yes, totally from the SEC. The members didn't like it at all. Some of them could see where it was going, which was a full-scale assault on the right of the New York Stock Exchange to fix commissions. That was a big, long, drawn out battle. The lawyers lined up and the SEC said, "No more red light, green light. From now on you're going to have to submit your changes on commissions that are charged by the exchange."

KD: What red light, green light? Explain that to me.

DC: We'd do a filing and someone would call them back and say, "Green light, go ahead and implement it," or, "Red light, you've got to come talk to us." What it would also do is it would open the door for, of all people, Bernie Madoff and his firm. It created the beginning of the third market because we could not fix commissions. Over-the-counter firms could trade listed stocks away from the exchange and took away the right of the exchange to fix commissions on anything other than the members. Those commissions would go through a very serious regulatory review any time they were to be changed.

So it really took the old private club—while I was there, that was the most important thing going on—and opened it up, let the world know there was no longer antitrust exemption, regulating commission rates, and that the SEC deciding on fees. It was the beginning of the end for the old boys' system. Or maybe it was the end of the middle of the end of the old boys' system. I guess it was not a competitive environment. NASDAQ traders traded NASDAQ over-the-counter stocks and the good, big capitalized stocks came on the New York Stock Exchange or mid-level went to the AMEX.

KD: So you'd see 390b as really being the beginning of all that?

DC: I'd say it was the first chink in the armor. Then it went on from there to where we are today, which is wide open competition. Actually, that period I was there opened the door—those decisions opened the door. Subsequent decisions opened the door to two firms that created the third market of New York listed stocks. It was Weeden & Company and Madoff. They made very competitive markets, but they got to pick and choose, where our specialists got assigned stocks and they had a responsibility to commit their capital in times of descending markets.

So the New York Stock Exchange specialists would say, "Oh, these guys have a big advantage. This is unfair." And the guys over there would say, "Hey, you've got a specialist book. You see all the customers' orders." There was a big debate, but they took a good chunk of the market away and built very, very successful dealer firms. Madoff was very successful, really.

KD: Yes, Don Weeden did okay until '75 or so.

DC: They were very good in the bond market, too. Weeden was good in the bond market, municipal bond market, particularly. But Don and Alan created the firm and they did very well.

KD: This would've been the time that the special study came out, too, which took a real hard look at everything.

DC: Well, that's what led into –

KD: Okay, so this was part of that initiative.

DC: Off of 390b, off of the attack on Rule 390, triggered an inquiry, which turned into the special study, you know, about pricing and all of that. I dealt a lot with Gene and Fred Moss, Ralph Saul. One of the great guys was Ralph Saul, so is Gene, so was Freddie. Freddie died last year, but we were friends forever.

KD: The commission rate issue, was that being discussed at this point?

DC: That was really discussed because institutional firms got better commissions than retail traders. Retail traders had fixed rates, but over a certain value of stock, value of transactions, those rates could be negotiated. So the institutions, and that was one of the issues being looked at, being an important one in the special studying team out of that, that you couldn't have preferential rates.

KD: One of the things I understand is they were sort of negotiated through the back doors, like with give-backs and things like that, so it wasn't a transparent system.

DC: No, it wasn't transparent at all.

KD: So did you work pretty closely with Keith Funston?

DC: Yes.

KD: It sounds like it would've been a liaison role, where you're sort of lobbying and talking to the government.

DC: I remember when I came back from a trip to Washington—I went to Washington one and a half times a week over a five year period because of commission responsibilities, tackling legislation responsibilities and New York State and other state legislation responsibilities and then the civic, governmental and dealing with member firms. But my favorite story about Keith is I came back from one of these trips and he said, "Who did you see?" So I rattled off about twenty names, I'd only been gone a day-and-a-half, members of Congress.

He said, "You know my old friend, Leverett Saltonstall, from Boston, Senator Saltonstall?" I said, "No." He said, "I don't want you to ever come back in this office unless you can tell me you have met every member of Congress." I said, "Keith, Saltonstall is not on any of our committees that we care about. He's a wonderful guy by reputation. I haven't met him. But if I just concentrate on the committees, getting to know those people is a full time job." He says, "I don't care. I want you to know every one of them." He never asked me whether I had gotten to know any others, but that was Funston.

The members all called him a boy scout. He didn't smoke. He didn't drink. He didn't swear. On issues, his view was, "Own your share of an American business to the investing public." He brought that theme. Prior to that, the boys club always pooh-poohed that kind of thing. It was a dramatic change in the business. Merrill Lynch went out and built a giant customer base, a base of retail investors. He made that major contribution to the exchange.

KD: Something else, a pretty sizeable event, was when the Ira Haupt incident took place. Funston would have made the decision to pay back those customers.

DC: Yes. That was a board decision. It was taken to the board by Keith, or he had the department of member firms take it to the board. I remember that day vividly. I got a call from a senior of the member firm division, Bob Bishop. Bob said, "Duke, we're supposed to go over to Ira Haupt. They've got a terrible problem. They've gone broke and people are coming in and demanding their securities. The lobby is crowded." I said, "Okay, Bob." He grabbed two of our guards. We had uniformed guards, pistols on their hips.

We got there and made our way through this mob of people. The vault was open. People were walking in and taking certificates and leaving, so we stopped that. There was a guy coming out and the guard said, "Wait a minute." He had a bundle of securities under his arm. Bob said, "What are you doing with those certificates?" He said, "Ira Haupt owes us these certificates. I'm from one of the big banks. They sent me to bring them back.

KD: They didn't mess around.

DC: That was an exciting time. But that decision was a wise one, in terms of the integrity and the reputation of the market mechanisms.

KD: Was it understood that that would set a precedent?

DC: Everyone was afraid it would set a precedent. Of course people would say, "It won't make precedent. Next time, we'll do it with a precedent."

KD: We talked a little bit about the special study. It would seem to me that you probably would've been involved a great deal of the time reacting to what was coming out in '63 and '64. Anything else that we should talk about from your time at the exchange?

DC: It was a time of great change. No, there's nothing, as I've thought back on it that would be even any way comparable to those events that were going on. We worked on changes in the tax law and we were successful sometimes and unsuccessful others. Our real focus was the special study. It took up all the energy. Once the special study got going, every department had to totally review and rethink what they did. I have a lot of memos written back then.

KD: Did you have a timeframe in which you had to respond?

DC: There was usually a timeframe, but we usually were within that timeframe. They had to hear back in the next ninety days, or whatever it was.

KD: How did you get the opportunity, then, to go to Shearson Hammill?

DC: I had been invited to go to the quarterly meetings in the Association of Stock Exchange Firms because I became a liaison to the member firms. The member firms wanted to hear about what was going on in taxes and the SEC, so I went to their meetings. Then I was asked if I could be on their legislative committees, or at least give them reports, and I did that.

Those meetings were attended by the heads of the member firms. And they did them in various cities. They brought their wives. Strangely enough, in May it just accidentally coincided with the Kentucky Derby. There would be a meeting in Louisville. They were very interesting and you got to know personally all the people.

I liked Bob Van Tuyl, from Shearson, a lot. He was probably the most versed in computers of any head of any member firm at the time. He had been a top IBM salesperson before. So in 1966 I went to Keith and said, "I'm thinking of going to a member firm. I've had an offer from Bache & Company. Harold Bache wanted me to come over and be his assistant. Everyone had their knives out for a Harold Bache assistant. That's why he didn't have one. I said, "I've done all these things and I know how to do them and I think I've done a good job. But I want to have another challenge."

He said, "Go talk to Ed Gray." Ed Gray was the executive vice president of the exchange; been there a long time, run the membership firms department before, a wonderful guy. I went in and I was talking to Ed and saying that's what I was thinking of, maybe doing something else. He said, "Well, you've got a decision to make. You should know that no one from this staff will ever be president of this exchange." He says, "The members look at staff people differently." He said, "I could never be president. No one will be. No matter how good a job you do, if you're staff you could never be president."

So he said, "Put that in your pipe and smoke it while you're thinking about things." We had a good talk. Then I went over to Pace Institute, across the river, and they had a program where they put you through testing to see what your aptitudes were for business. Mine came back that I would be a very good dentist or forest ranger. (Laughter.)

KD: You were in the wrong place.

DC: I just spent a lot of time thinking about it and talking about it; talked to my dad about it a lot. I had several offers from firms like Hornblower and once the board members knew I was thinking of going—Van Tuyl offered me a job to come over and be a junior vice president and learn the business, so I did. Keith had tried to sweeten my position by adding the title of being in charge of long-range planning.

So as a result of all that was going on, I came in one day, and this is what really made my decision to go, and I said, "Keith, I've been working on long-range planning ideas." And he looked at me and said, "Hey, we don't have time for that." (Laughter.)

KD: What was Shearson's reputation in the business?

DC: Very high retail firm reputation. They were the firm that research built. The founder was a research guy. He did research in the way, at the beginning, that other people didn't. He'd go to Pittsburgh and sit outside with a clicker in his hand and count the smokestacks that were working and those that weren't, basic research. He was a wonderful guy and he built a firm around research. They built a retail system that made it—E.F. Hutton, Hayden-Stone, Shearson, Paine Webber and Merrill Lynch were really the retail networks. It was a good business. It was very broad-based. Our guys are out there selling the success of our research. And then we had commodities and all the other products.

KD: How long did it take you to learn the business?

DC: I never really learned it all the way. I had chances. I went along to get involved in every part of the business and know something about every part of the business. The retail business I think I got to know very well. I ended up running it. I think we had branch offices all across the country. I managed that retail business until I became president and CEO of the firm. Bob Van Tuyl had developed a brain tumor and he knew he was going to step down, he had to make some plans.

KD: So you would have just gotten up to speed when the back office problems started to creep up on you.

DC: Oh, the back office problems. We never had back office problems, because we had two giant Control Data, I think it was 5500, 5600—two of the early boxes. Of course those were batch processing, after trade, not real time. But our guys would be finished at 5:30 in the evening every day, if the pot was right. They would go upstairs to another firm, our senior guys in the back office would go upstairs to help out another firm. We had Hayden-Stone and Goodbody and their were a bunch of us in separate back offices.

I won't say what firm it was, but maybe it was typical of a lot of them. They were so far behind that even with our help, and other people were helping out, every day the number of failed trades, unmatched trades, grew. We cleaned up 1,500 a night and the next morning, the next night, the next morning, a day's work, you come back and you had more than you had to start with the night before. Securities had to be physically signed to be transferred as that we didn't have a bookkeeping entry system. So the whole transfer system was pieces of paper, certificates, moving around the street. Customers had to sign for the transfer.

KD: So did this brokerage put your people from Shearson on some kind of retainership to help them? Is that how it worked?

DC: No, they just did it as friends.

KD: One day one of our guys went up and there was some guy back in the cage and they didn't have the signed certificates, but they wanted to complete the transfers, so they'd put it in the floor and rub their foot over where their signature should be and then sign the name of the customer. I mean, it was a legitimate trade. Everything's fine, but they didn't have that customer signature.

One of the things that came out of that was another one of my wonderful chores, opportunities at the exchange. There was an amendment to Section 9 of the Commercial Code. It had been approved by the commissioners but had to be adopted by the state legislators. You could transfer the ownership in securities on a bookkeeping entry basis. My job was to go off and get that bill adopted in state legislatures. That was an eye-opening experience because those state legislatures were very primitive. They're a lot better now.

I'd go in and I'd testify in Arizona and my testimony would be over and the chairman of the committee would come and say to me, "Okay, Mr. Chapman." He says, "You know, we don't understand what you're talking about. Our folks know cattle. They know land and they know all those sort of things." He says, "You go down the street to the Arizona Public Service and talk to the chairman. He'll understand your story. Then tell him to come talk to me and we'll take care of it." So that's what I'd do. And lo and behold, it would pass in Arizona.

What the head of Arizona public service did to get it passed, we'll never know. There were no committee hearings. There were no records of the hearings and the testimony. I did have one member of the committee in a state to be unnamed who said to me, "Mr.

Chapman, we don't understand. You're talking about runners running around the street. In this part of the world runners are guys who bring illegal booze from their stills. That's what runners are. We don't really get what you're doing, but if you would give me $1,000 a committee member in cash, you've got it." Those are the extremes.

A lot of states, it went through the way it should. But it was kind of all of a sudden I had forty-eight states, I had to get state legislation. They didn't all meet on the same year every year. Some of them met once every two years.

KD: So this was in the mid-sixties you were doing this?

DC: Yes. First half of the sixties.

KD: To lay the groundwork for the clearinghouse.

DC: Then my successor had to keep on going. Now the best hire I ever made was an assistant I brought into the exchange. I forgot to mention that. He was the securities commissioner in Illinois and his name was Don Calvin. Don came in to be my assistant. When I left, there was a great brouhaha. We're going to go out and hire some fancy this and that. I went to the board members and I said, "You're never going to find anyone as good or committed as Don." They ended up picking him and he went on to a fabulous career.

I was at Shearson. I went first to just given projects, the over-the-counter department, the quotation system was totally overboard and they couldn't get into the quotes. I said, "I'll go back and be a quote clerk." So I went back and for a week I rode a phone. You had to get a quote from several different firms before you sent that quote out, in terms of what the current market was. And I did that.

The quotes came in and they were going in boxes and they were being unanswered. But having spent a week, I went to the guy who ran the department. I said, "I think I can help solve your problem." He said, "What's that?" I said, "Hawaiian Airlines." That was a hot stock then. "If you quoted it back to the system once every half hour, you would reduce your quotes by," I counted them up in the week, "this much per day, just on that one stock." I said, "If we could take the hundred stocks that are most actively being asked for quotes and put them on a list and have some person quote them every half hour, you won't be over-phoned and solve the problem."

KD: Fewer phone calls.

DC: Yes, that was brilliant. Everyone kept saying, "Oh my God. Look what that guy thought of." "Look what he thought of."

KD: Well, you talked about Shearson being big into retail. This is a period where you're seeing the rise of some firms that are doing big blocks of business. Was there a point at which those two sorts of functions came out of whack, that that became a liability for Shearson?

DC: Not really, because our retail stayed predominant. How we got paid—when fixed commissions at the institutional level went away and we had to negotiate. The firm's that had had a big institutional business really got hurt. We had a not really big institutional business, but some institutional business because they liked our research. So for us it wasn't as much of a hit. On the retail side, the unfixing of commissions ended up with commissions—it wasn't the death knell. Commissions stayed high enough. But some institutional firms, it was really killed their business.

KD: Yes, in the seventies things started to slow down, too.

DC: When I think of Shearson, there's a phase that runs up to 1973, '74. The market had been bad for a long time. The Dow Jones was 800. Firms were merging. The stock exchange had a special committee which called firms on the carpet because their capital wasn't adequate. They set a much tougher capital target than prior and the SEC. The capital ratio had to be a ten-to-one or better and if you were over that—again, it previously had been higher. Most of the firms were like ours, in that we had been partnerships and our earnings would be in preferred stock. Every security of the company was callable by the investors on a six month or one year notice. So if things went wrong, the capital could just flee and we couldn't stop it.

So everyone incorporated. When they did, they did the same thing all over again. They had preferred stock and common stock and they had those provisions in all of those. So they didn't solve the problem. It was a time of great stress in the industry and it was for Shearson. I can remember being called up before that committee and being told that we had to get our ratio under ten to one or we needed to come back and tell them how we were going to get under there, or we would be closed down. The number one way to get under there was to close branches. Of course, if you started closing branches, then the rumors would spread.

So I set out to find a firm to merge with rather than run the risk of having a run on the bank. We were doing interim things, which would keep ourselves headed toward ten-to-one. But I'd have to go back every week to the committee. Those were not fun visits. So I went and talked to Reynolds & Company and we went and talked to Paine Webber and all of those people. Reynolds is not in that group, but they were another wire house. And the head of Reynolds, who was a dear friend of mine, said, "Duke, I don't think in this environment we’d do a deal, but we'd sure help pick the bones."

Then we went to Paine Webber and we were within a day of a merger. Our board voted it and their board met the next morning. They had one big shareholder who wasn't part of their team and he'd made a big capital contribution when they needed it. He said, "No, I don't want to do it. It's going to dilute my position so much that I won't have any affect in the new fund." So I got a call saying, "Oops, we couldn't get it done." Of course, all the comedians in the firms were trying to think up a name for the new firm. One guy came up with the name Shear Paine. (Laughter.)

KD: Which it would've been for a little while there.

DC: Yes. Then subsequently, I met with Sandy Weill, who ran CBWL Hayden-Stone. They had acquired Hayden-Stone, the remains of Hayden-Stone, the grand old names. And we talked about merging our businesses in the spring of 1974. He knew we were in trouble. We worked and worked and worked on it and we decided that we were going to take the average daily volume of the New York Stock Exchange, which was in April of that year, 14,000 shares a day. We were going to look at our two firms and see if we could put together a firm to make money in that environment. If we could, we were going to go ahead and merge the firms. So we came up with one that did. It cost a lot of bodies and the majority, more of them, came from my firm than came from his. We were in more trouble.

KD: But you had all the retail branches.

DC: Yes, they had some, too. They had a fair number and nice European branch offices. On Memorial Day weekend, we decided we would go ahead and do it. We spent the summer putting it together, closed it in September of that year and became Shearson Hayden-Stone. Some of the press treated us not the way I would've hoped for. One of the headlines was "Does one and one really make half?" talking about our merger. I think that was the *Wall Street Journal*. Then *Business Week* had a headline and a little article talking about a merger and the comment was, "The only difference between this merger and the *Titanic* is they had a piano on the *Titanic*."

You had to hold 1,000 salesmen's hands and we all took to the road. That was part of the plan. We were in the branches. All the branches and talked to the troops. I think we kept 85 percent of our sales force, which was – on a combination, anyone who can do that is unusual – I would think out of that we then acquired seven member firms, between '74 and '81 and integrated them all and ended up with $980 million in market value of shares of American Express. Sandy and I were co-chairmen, except I learned quickly that with a co-chairman, somebody's the chairman and it wasn't me.

KD: Well, he was a pretty enterprising guy, though.

DC: He was great. He was great. Our market cap on that September day when the firm officially became Shearson Hayden-Stone traded on the American Stock Exchange, it was under $10 million. So it's a great run. A lot of people made a lot of money. In all those acquisitions we gave preferred stock to people, which was convertible at prices no one thought we'd ever get to. Those who kept it made a lot of money. It was a good deal for them.

When we joined American Express, Sandy went over to American Express. He wanted to become the CEO. I left with him, because I didn't want to work for the guy who took his place. I then became the vice chairman of their international bank and my job was to build the private client business on top of the bank's travel and travelers check business.

KD: What's a private client business?

DC: That's private banking. You get people who would come and put their money in Switzerland, where we had two offices, or Singapore. We had offices around the world and we went to the wealthiest people we could find and get in front of them and you can try and convince them to use your banking facilities, which brought with it privacy. Most countries had serious exchange controls. Many people got around that by creating Swiss companies, where they would sell their product to their own Swiss company, who would then reprice it and sell it to the world, the difference stayed in the Swiss company. Now that money was out of their country.

There were all sorts of ways to get around the exchange controls. People who didn't want their recently divorced wives to know where their assets were. There were people who ran foreign governments who wanted some of the money offshore, and usually a lot of it, so it was an interesting business.

KD: Now you were in London when you were doing this?

DC: Yes, I went to London and built a team in New York for the first year and a product to take to London. I marketed for the next four years, around the world, every month except

August, at least once a month around the world. AMEX 50 percent owned banks in places you wouldn't want to go and some you would, Nigeria, Sri Lanka, the Philippines, Egypt. Anyway, it was a lot of those places. It was great for a young guy with total energy and an understanding wife.

It was terrific, because in August we would go to the south of France and stay in a lovely hotel and entertain our clients who all came from around the world. So we were entertaining Greek shippers and their Arab potentates and it was kind of fun. At the end of the summer, we'd have to give a party outdoors at the sporting club, black tie, for 1,500 people. Our board of directors, strangely enough, flew from the States to be with our clients for that gathering and that weekend. So it was a great experience.

Then one day I was just back from Lagos, Nigeria, which was a horrible place and it's probably gotten worse, I don't know. I got a call from the headhunter, Russell Reynolds, in New York. He said, "How would you like to be the chairman of CBOE?" I had been a board member before I went to London, so I understood that. I had been responsible for Shearson Hayden's commodities business for a good long time. Shearson, when I was running it, had the biggest share of the retail put and call business when it was an over-the-counter business. So it didn't take me long, after checking with my bride, to say yes.

So in September of '86, I started there. I left American Express and was at CBOE for the next eleven-and-a-half years. When I arrived, '86 was the biggest year in the history of the exchange. It was a booming year. Eighty-seven, a booming year. Then came the crash.

KD: You had been on the board of the CBOE earlier?

DC: Yes, so I knew all the players.

KD: Yes and then you went away for a while. Were you surprised when you came back?

DC: I had to go away because I've been out of the country, so I stepped off the board. And I was with the bank, so I couldn't –

KD: I just want to get a sense of whether you saw a great deal of change.

DC: I watched the whole thing, as our put and call business shifted to exchange business. The over-the-counter business went on the exchange. We would make a tremendous amount of money in that business and the margins were cut for us. But the volume increased so dramatically, because there was a market other than a negotiated put and call market. There were market maker crowds, and some of them pretty competitive, some less competitive, but it was a better market. The firms then put out a lot more publicity and education and training and research.

So the thing grew while I was gone. It started in '74 and when I went overseas, it was '81 or '82. So when I came back, it had changed. The volumes had skyrocketed. The crowds were immense. My first day on the job had me sign a contract with the then-chairman, CEO, Wally Auch. We went down to the floor, not really, it was the control room that overlooked the trading pit for the S&P 100, OEX. It had 200 traders in there, all tiered up, hanging from the rafters. Wally says, "I'd like you to meet the new CEO, Duke Chapman." All of a sudden these guys think they are at a football game, "Duke! Duke! Duke!" It was that kind of atmosphere on the floor.

KD: These were not your New York Stock Exchange type?

DC: No, no. I used to bring people who were in town from the various congressional people and brought Bill Bradley to the floor. All of a sudden they had him in that pit, they started going, "Dollar Bill! Dollar Bill!" He walked up through the crowd and they loved it. But it was a different kind of place.

KD: Yes and you'd led right into one of the first things I wanted to talk about was Walter Auch. He had some issues with the floor traders and there was a lot of tension for a long time there, particularly at the end. Tell me a little bit about how you approached that thorny situation.

DC: The exchange had been run by committees and the members. The executives in the exchange served at their sufferance. They weren't driving change. Everyone liked what they had and they didn't want change. The member firms, on the other hand, were saying, "Look, you've got to change. Your spreads are too wide. Your commissions are too high." You know, all the things you expect customers to be saying. Wally listened to that, I think agreed with it. He was frustrated, and had been, about not having the power a CEO would normally have. He was president.

He met with the SEC and they came up with a new plan to restructure the CBOE's board and governance structure, which was to make Wally chairman of the board and president and to give him much more power than he had before. So that was what the frictions were about. Secondly, Wally didn't like to go to the floor.

When I was CBOE chairman, I went to the floor every day. I told my assistant and I told my bride, I said, "Every morning, first thing you see me, you say, 'Did you go to the floor yesterday?'" I would eat lunch in the members firms' cafeteria. It didn't take long for all these young people to know that my name was Duke, not Mr. Chapman. I used to tell them even my children's friends don't call me Mr. Chapman. Call me Duke. And so I built a good rapport.

But Wally didn't go out of his way to do that. He was sort of in conflict with his board members and his committee chairman. That's what produced their looking for a new chair. He believed in the right things, but he hadn't established the kind of relationships to bring them about without cutting his own throat.

KD: Gary Leahy would've been one of the big representatives of the people. Tell me a little bit about him.

DC: Gary was a market maker. He was in one of the crowds and he was a lead market maker. He became a firm board member. Gary was one of the great proponents of no change. And because the majority of the board were market makers, and that was one of the things the SEC changed, they could call the shots. They could call the shots; they could block change.

I remember when some of the real changes were happening when I was there, having guys come to me from the floor and say, "Look Duke, put this off for two years. It's going to screw up my business. All I need is two more years and I'll retire and you go ahead and do it." I mean, that was symptomatic of the kind of thinking.

When we first brought electronic order delivery there was a great resistance. Everyone liked the idea of having runners come out for the orders and having hand signals from the pits back, they fought that. With most every innovation that happened there was a resistance from floor people because they were afraid it was going to change their business.

KD: Well, that's one of the things shaping CBOE. The other one, of course, you mentioned is the OEX. This was a very large percentage of business going here.

DC: It was. It was.

KD: So I would assume that that really molded the organization.

DC: Well, it was the only index. Remember, there weren't other indexes and then the ones that came on were modest. AMEX became the biggest competitor to the CBOE, at 7 percent of the business, when I left, down from some other higher number previously. The other exchanges were around the edges. The AMEX got competitive, some of them pretty competitive near the end of my stay, the latter part of it.

KD: You would think there would have been a great deal of attention paid to the OEX and making sure that worked and you wonder if that might have happened at the expense of something else.

DC: No, the key to OEX was that that's where the members could make money. That's where the volume was. That's where the public interest was. That was where institutions could hedge their portfolios. They didn't have any other place.

I remember after I'd been there, after the '89 mini crash, we developed the S&P 500 Index. I can remember going to the head of a trading firm named Henry Jarecki, in New York, and met with him and his right-hand guy. His right-hand guy has created the biggest low-cost professional firm in the business now. And I said, "Gee, if we want this

S&P Index to work, we need to have some market makers from the crowd." He said, "Okay, we'll put some in there."

I went to the two other biggest trading firms and said, "Give me somebody." They had four market makers to start in a little, teeny crowd. Now it's passed OEX dramatically. It grew up in the beginning of the electronic age. OEX was kind of the vehicle for the open outcry traders.

We went partially electronic. It's still a pretty good crowd there. I mean, but it's even bigger at SPX now. When we moved to electronic, there were a tremendous number of guys. I remember I'm saying to one guy, "Well, what if you get your two years? What are you going to do after that?" And he said, "Well, I'll go back and do what I did before."

The *Financial Times* had an article after they went electronic in the futures exchange in London, saying 70 percent of the floor brokers have gone back to their home counties and are doing other things they're qualified to do. You know, these were smart guys. They were intellectually smart. They're math whizzes.

KD: It's a very different kind of skill. Well, let's talk about one of the things that precipitated all that IT, which was October '87. Tell me a little bit about that day.

DC: That day? Well, that Friday before I was on the golf course with my vice chairman and our two biggest traders, Blair Hull and John Stafford, and a phone call came. They said the market's down 190 points or whatever it was that Friday. It was a big number. So we all left the golf course and rushed back, trying to make sure everyone was okay over the weekend that trades were matching. We had a big volume day.

Then on Monday, the torrent hit. We just went down, down, down—540 points, I think it was, on the Dow, a giant volume. Our concentration at that point was trying to make sure that clearing firms could clear the business and market makers were matching trades and we weren't having people who were getting bankrupted.

The next morning, the market opened down, big. But that morning I had been with the head of Clearing Corporation, Wayne Luthringshausen. I said, "Wayne, we have to go over and talk to the Federal Reserve." So we waited outside the office of the chairman of the Federal Reserve at 6:00 a.m. He was already having his meeting. And he came out and he said, "What do you guys want?"

We said, "Well, you know, if we don't get some kind of relief on the clearing, you've got firms that have not got enough money to clear all these trades," and we mentioned several of them. We said, "They all say that when they talk to their banker, they know that they aren't using all of their credit lines and they'll be able to clear these trades. However, the senior bankers are still asleep in New York or on their way to work. We need help from the Federal Reserve so that the firms can go ahead and extend the credit."

So the Federal Reserve in Washington said okay and quietly made the rounds, calling the banks and saying, "Extend the credit. We need to have you do it. We'll take the firms on their word." So that was pretty scary. The whole system would have ground to a stop. Clearing firms, any big clearing firm would've gummed up the whole system. It was true over in the futures markets, too, but ours was the biggest.

Then the market traded down. At noon on Tuesday, you could walk to the floor and there wasn't a sound, except for the time clocks clicking. We had a lot of time clocks, and you went to the OEX pit, and the guys are all standing there looking ashen-faced. Any one of the pits, you know, you'd look at guys, some of them, of course, had tapped out. One of the very best traders, a good friend, wife and three kids and a house in the suburbs and he went bankrupt. He resurrected himself, because he's a smart guy. That was happening in a lot of places and with a lot of customers.

KD: So in the aftermath of this, the volume goes way down.

DC: Oh, yes. At noon that day, over on the board of trade where they listed the AMEX equivalent of the CBO or the OEX, the AMEX market index, a guy named Blair Hull started buying in size. Everyone kept saying to Blair, "Who's your customer?" He said, "I can't tell you who my customer is." He triggered a giant rally. Blair was buying for his own account, for his firm's account. I said, "Blair, why did you do it?" He said, "My experience told me, gave me a feeling that this was going to be the bottom. No one was trading, everything had stopped, so I figured this was my last chance to get in at that price." He turned the market.

KD: What was his firm?

DC: It was called Blair Hull. Now it's called Matlock Capital. He told his firm to Goldman Sachs a number of years back.

KD: So that was the beginning of the climb back up?

DC: That was the beginning of the recovery. There were some other bad days, but that was the beginning.

KD: It was a long climb, I think four or five years before the CBOE did the same volume.

DC: Yes, but you've got to remember in '89 we had another bad market event, which had a setback to that. Financing fell through, a big airline? A big deal, and a lot of the firms had positions. That day the market crashed big; not like '86, but big, a lot of the problems that we'd seen before. We had one clearing firm that was on the brink of bankruptcy and we had to step in. I had a board meeting on Sunday. We put up our money and AMEX put up money and Clearing Corporation put up money to keep the firm from going out of business. We all had rescue funds.

KD: It sounds like it would have been pretty clear that there are some things that had to be done. Put in the requirements that people and businesses wouldn't be so close to going out of business all the time.

DC: Well, you would've said that and that's true now, after Lehman Brothers and Bear Stearns are gone. You only know after the fact. And you think that's never going to happen again. But what we did with the clearing firms is we did tighten up with them. One of the things that I thought was strange, but was true, is that the free credit balances of the traders, their profits that were sitting in the clearing firm, were not segregated the way customer money was. So they were at the total risk of the firm failing. Their funds would go along with the firm's funds. So when we were looking at firms that were about to fail, they had wiped out the equity not only of the firm, but of market makers who cleared through the firm.

KD: Market makers; one of the bones of contention with the floor was the competing market makers setup. Was that still in when you started?

DC: When you say competing market makers—

KD: As opposed to having a specialist.

DC: In the crowd? Yes, we had competing market makers in crowds. The whole floor was that way when I came here. They were the kind of crowds where you'd come in with an order and eight guys would yell their best price and then the guy who led the way, who had the best price, would get the order and execute it. There were other pits where there was one guy who was the resident genius and he would shout out. Then the guy bringing the order would say, "All right, two for you, two for you and two for you; four for the guy who made the price." But they were basically competitive crowds.

There were, in those competitive crowds, go-along traders, I called them, who would ride piggy back and when I shouted, "Six-and-a-quarter! Six-and-a-half!" He'd shout, "Six-and-a-quarter! Six-and-a-half!" He wasn't thinking what it should be. When the order got broken up for the people who did say six-and-a-quarter, he'd get some. The majority of them were real market makers and good market makers. OEX was fiercely competitive. SPX, by the time I left, had seventy-five traders in the pit.

KD: What about options that weren't as glamorous?

DC: Well, every crowd had them. Each crowd, as the allocation committee handed out the allocations, they would look at the crowds and say, “These fellows have six dogs and two good ones. Maybe they ought to have another good one. This might be a good one.” No one knew until after the fact. That allocation went on.

We had a lottery system going with the SEC. I call it a lottery system. They've got some other name for it, where we would each put in our list of what we wanted to list. Then someone would be picked. I can't remember whether they flipped a coin or rolled a dice or took numbers out of a hat. One exchange would start, say, "I'll take this one." It was just like kids picking two baseball teams. That offended the sensibilities of the Justice Department and they told the SEC they didn't like that.

So that was the beginning of the competition between exchanges. The allocation system, we called it the allocation system, was done away with and exchanges were allowed to competitively list and encouraged, basically, competitive trade. It wasn't as successful as they hoped it would be, because what would happen is whoever had the natural order flow for that option security, he already had the business. If someone wanted to compete for it, they would come in and they'd have to put their capital at risk and lose money at the beginning, with the hope of taking away the order flow.

But the response from the guy from the order flow was to drop his fees and make tighter markets. So the guy who’s challenging had to follow that down and was losing more money. So in a practical sense, a lot of what the SEC hoped to get, and Justice Department hoped to get, they didn't get. But they got some of it.

KD: So different exchanges, like AMEX would handle, do most of the market on certain options. CBOE would do most of the—

DC: One of our market makers would say, "Gee, so-and-so is hot on the AMEX and there's a lot of volume. Boy, I'd like to trade that one." You'd say, "Go ahead, no one's going to stop you." SEC and Justice Department alleged that the exchanges had collaborated to prevent that competition from going on. I know it didn't collaborate. That may have been because we were the big winner most of the time, but I know we didn't collaborate.

But there was one of the exchange heads that was at a meeting in Washington who said, this is long after I had gone, "Well, that was all pursuant to the agreement." (Laughter.) What agreement he was referring to, I don't know. So after I left, there were some big changes. But you've got to get those from other people.

KD: Yes, the Justice Department was interested again.

DC: When I left, I left a memo with our board of directors that said four things basically have to happen that I haven't been able to complete: One, the exchange needs to go electronic. We had just made an agreement with a Swiss exchange to take their electronic system for free. It will cost us one million dollars to put a GUI on the front and we will have that system.

KD: A GUI?

DC: It's an interface. You take the Swiss interface and change it to an American interface and CBOE adapt it. There's a name for the GUI and I'm just blank. Anyway, OCC had a brand new clearing package. The three of us agreed we would take on the Swiss system. We would market it around the world, in conjunction with OCC, with their brand new system, margining system, and then we'd split the profits three ways. That contract was signed and before the board when I left. But the floor guys were fighting them fiercely.

Secondly was you'd better complete—you're doing a review on competitiveness. I said the Justice Department has got a team put together who are finishing up revolutionizing the NASD and where are they going to look to find other competitive market maker systems they think aren't competitive? We'll be the next target and we'd better finish that up and make sure everything is right.

Thirdly, you're going to have to seriously limit the floor directors dragging their heels. That may mean a restructure. But anyway, I left those three things and the new chairman came in. Bill Brodsky obviously didn't want to fight with the floor to start. So they let that whole electronic system so we would've been electronic. I left in '97. We would've been electronic in '98. There never would have been a competing exchange coming in. The CBOE now has about a third of the volume, instead of 70 percent. It's amazing. But I understand why he didn't want to go ahead. Then the floor directors, once they'd done that, they held their ground. You know, "give me two more years of the open outcry."

KD: Plus he didn't want to put his head on the block first thing.

DC: Right, first thing, yes.

KD: He wouldn't have lasted very long. The institutional market, one of the things you see during your years is ticking up something like 5 percent. Did that just happen or is that something that the CBOE and the dealer options exchange made happen?

DC: No, we had a marketing team; retail, we have an options institute, which trained, which continuously gave courses to brokers and customers who wanted to know the retail business. Then we had a small team of people who went out to the institutions. I'd go along occasionally, if it was CalPERS or someone like that, , they were the cat's meow back then. We would go call or our team would go call on the institutions.

The institutions, all of a sudden, had ways to hedge their portfolio they'd never had before. S&P 500s, the underlying—they could hedge their risk in the S&P 500 option contract. They can increase their exposure much more easily by using that. Then more sophisticated users, guys with computers started creating entire new uses for the options at the institutional level.

KD: So was CalPERs one of the early big ones?

DC: I wouldn't pick them. I don't know who I'd pick.

KD: You'd think once somebody showed that it could be done, that others would jump on board.

DC: Everyone heard about it. Everyone knew about it. It was spreading, as you say, 5 percent a year isn't a very hot growth rate.

KD: No, it's not too hot, but it's not bad.

DC: Remember, we didn't have mutual funds. The first mutual fund was Manhattan Fund and that was in the sixties. Mutual funds were growing dramatically during that period. They'd had a slow start and so now you have institutional investors, other than traditional portfolios of tax exempt organizations. Corporate pension funds are always there, but now you've got mutual funds. Some of them were created to take more risk and this is a wonderful vehicle for it.

KD: Something else that you were involved in, I think you looked at a couple of merger opportunities.

DC: Of the CBOE? We went and talked to the New York Stock Exchange. We thought that could make real sense, because they didn't have a business. Then they developed a small option business; a good one, but small. I went and talked to them about getting together and we ended up buying their option business, rather than their wanting to merge. Both organizations thought very highly of themselves. That meant in a merger each side wants more control than the other.

Hopefully New York and Deutsche Borse could figure that out. I don't think they're going to get the deal done. I think the NASDAQ bid probably won't win from NASDAQ, but it's probably broke enough that Deutsche Bank regulators have time to line up their forces. So we talked to them. We went and talked to Philadelphia about merging with Philadelphia.

KD: You came pretty close on that, didn't you?

DC: We came close. We came close. Again, there was a feeling in Philadelphia that they didn't want to lose the identity of the Philadelphia exchange. The community leaders were talking with the people at the exchange saying, "Look, you're one of the institutions that we point to, the historic institutions in our city. You have to have some civic pride here," and all of those things went into the decision not to do it. In terms of trade, we made some very good offers. They wish they'd taken them now. But, you know, all of that went into play. They didn't want to be the Philadelphia division of the CBOE.

KD: We talked a little bit about technology. Anything else we should touch on in the CBOE years?

DC: In my years we implemented a lot of new technology, which was basically automating the floor, the order delivery systems, over great resistance. Market makers were allowed to have access to their firms electronically, directly. It was always a fight. They didn't want anyone to be able to contact, get information on or send it off the floor. We fought that. You've got to put in electronic routing systems. We were in this great big data system. The volume and the electronics of the computer generated quotes that now exist. Have you talked to Ed Joyce at all?

KD: No, I haven't.

DC: He'd be a wonderful person. He's currently the President and COO and Ed has been there from the beginning. He can give you the current statistics, compared to the old statistics. It's 1,000 times the number of quotes that were going out when I left there. I made that number up, but it's that kind of magnitude. You'll probably find I understated them. Of course, now they run an electronic trading system. We had one, but didn't sign the deal. I thought when I left that that's the best thing I'd done in my eleven years at the exchange.

KD: Did you suspect that it would be really difficult to make that happen, though, given the kind of support that—

DC: I thought I could have made it happen and I didn't know Bill couldn't.

KD: Or would choose not to.

DC: Yes, but, those guys in New York, the two guys who built the exchange in New York, Gary Katz and—anyway, when we acquired the New York Stock Exchange, we offered them jobs, but they thought they were low level jobs and therefore, they turned them down. They were running the New York Stock Exchange option business. They then created the competitor. They had a three year advantage. They were taking away business electronically and the firms all wanted electronics. The CBOE lost over half of its market share. CBOE kept their index business, but on the equity markets they don't do any more than the new exchange does.

KD: Maybe it took that to convince the floor members that this was the next step. Did you retire for any period of time, then, after the CBOE?

DC: I retired in the spring; I guess it was around March. They paid me through September, which was the end of my contract. I told them that we were at a time when the issues were so big they needed someone who was going to be there for ten years and had a vision. I didn't see myself, at that point in time, ten more years, now I'd be seventy-eight years old, almost. I gave notice and they said, "We'll pay you through September. When we find the right guy, he'll come on board, and you'll get paid through the end of September."

They found the right guy. They got a committee and they got Bill Brodsky and I retired in March. A good friend of mine, who ran the Chicago Corporation, a guy named Jack Wing, who had been part of the special study, Ralph Saul's right-hand guy—this whole thing keeps going like that—said to me, "You know, we were acquired by ABN AMRO," and he said, "They could really use you. We could use you. Why don't you come over and join us?"

I went over to be the CEO of their financial services company, which had a big series of brokerage offices in Illinois and Michigan; and then to be vice chairman of their capital markets group. They were trying to build a competitive capital markets group. Most of my time was devoted to running a brokerage firm. I did that for seven years.

KD: Was that LaSalle Bank?

DC: That was LaSalle Bank, which subsequently was acquired by ABN AMRO. LaSalle acquired the Chicago Corporation. I joined LaSalle bank then. That was it. I retired in 2004 and that was the end of my active business career. I said to my bride, "Where do you want to live now that we're going to retire. I've picked the spots for the last five moves. What do you want to do, go back to Switzerland or London or New York?" She says, "I don't know." I said, "Well, what if I got hit by a bus tomorrow?" She said, "I'd go home to Little Rock, Arkansas." There we were, in Little Rock. It's a nice place to live. I miss not having things to do every day. I went almost fifty years with very few vacations, working sixty to eighty hours a week.

When I came to the CBOE, I'd come in at 7:30. There's no one there but the cleaning crew. I'd go up to my office and I'd do things I had to do and about 8:00 a few people would show up. Eight-thirty a majority of them showed up and the general counsel would show up around nine. I kept showing up at 7:30. Most of the people caught on, so I finally said, "Look, let's make it 8:00," and everyone but the general counsel caught on.

Wally Auch didn’t hold the staff to the tough schedules demanded for good service to our members.

I called the counsel in and I said, "You know, everyone's figured out that we start work at eight around here. You obviously have missed that." He said, "I'm the general counsel and lawyers don't go to work early. They stay late." I said, "But you don't stay late." He looked at me and he said, "Well, I'm not going to come to work at 8:00." I said, "Well, that's good. You ought to find someplace where you don't have to go to work at 8:00.” You know, we had a market that opened at 8:30. Member firms were on the phone trying to find people to solve problems.

I always look back on my early years at the good fortune I had to work for Irv Pollack and Joe Levin, who were our two day-to-day bosses. They were assistant General Counsels. Young people could never have found two better people. Every lawyer I know who worked there feels the same way. We were in writing briefs until midnight. Irv was in there with us until midnight. We'd say, "Irv, we need a citation for this." He'd say, "Oh, you got it," and call out the numbers in the federal code or what case it was. You know, it was a wonderful atmosphere. Then when I went to work for Funston and Etherington, that was a great environment.

But in both environments, I learned to work hard and I learned a lot of values which I think really helped me in good stead as I went through my business years. I think one of the most important lessons I learned is it wasn't about me. It was about them. It was about us. As I listen to people on the political stage, the speeches where it's "I" and "me" and all of that, I mean, no wonder the place is in a mess. It was like a big family at the CBOE for eleven years. It was like a big family at Shearson. You knew everybody. You knew their dog, Spot. You cared about them and that's the way it was with the people I worked with at the SEC. That's because our mentors were like that.

So you learned something every manager should earn. You don't do the best for the organization by being a commanding general and dictator and taking credit for everything. In fact, if you take credit for nothing, it would work better if you gave it to everyone else, it will work better.

KD: That's a great sentiment to end on. Thank you so much for all your time.

DC: Okay. Nice to meet you.

[End of Interview]