

Securities and Exchange Commission Historical Society
Interview with Grace Vogel
Conducted on September 9, 2013 by William Thomas

WT: This is an interview with Grace Vogel for the SEC Historical Society's virtual museum and archive of the history of financial regulation. I'm William Thomas, and today's date is September 9th, 2013.

So first off, thank you very much for taking the time to speak with me today. I think we'll just start with a little basic background, where you're from, what kind of familial background you had, what expectations you may have had for where you would go in your life and your education and that sort of thing.

GV: I grew up in New York City, went to New York City public schools, went to college at the State University of New York in Albany. I chose accounting as a major thinking that it would be a good thing from a job perspective to learn a trade and that there would always be jobs for accountants. As I was graduating from school, most of the accounting majors were going to the Big Eight accounting firms. I actually had an interest in Wall Street, and therefore, when I saw that the NASD was recruiting on campus in Albany, I decided to apply for the position.

WT: What did your parents do? Was there anything in particular that led you in that direction?

GV: No. My mother worked in real estate and my father was a produce inspector, so they had no ties.

WT: So you didn't have any interest in going into securities or anything like that until you ended up in it with the NASD?

GV: That's right.

WT: Okay.

GV: I always had an interest in the markets and how the markets worked, but instead of being a finance or an economics major I chose the major of accounting, knowing that it was more practical.

WT: Right. So then, tell me a little bit about arriving at NASD then. What was the job like? What was the interview process like?

GV: The NASD ran a training program so many individuals were recruited right out of college with a bachelor's degree in either finance or accounting. There were several of us who graduated from the same class at Albany that were hired at the same time and were in the same training program.

WT: I might have asked, was there anything in particular that brought you to SUNY Albany?

GV: Well, I was interested in a state school for financial reasons. My intention was to spend a little bit of time there and to transfer, but I made very good friends and the idea of transferring wasn't as interesting to me after I had gotten comfortable there. I chose Albany because it had a very good business school at the time. And I'm actually still connected to the school. I serve on the board of a program we've established, working with John Malitzis in our (FINRA's) market reg group. We've worked in establishing a program that offers a major and minor in financial market regulation, so the work that we do now to train individuals in our training program, much of the background that they need coming into that training program they are actually getting in college, which has worked well.

WT: So I've interrupted us from the NASD then, so I'll let you continue on with that. They had a training program you were saying.

GV: They had a training program, and there were a number of us who came out of SUNY Albany; there were graduates from other schools as well. We at the time spent three weeks down here in Washington, in this building, actually, in a class, then went back out into the field, did some on-the-job training and then came back, I believe it was six months later, to do more classroom training.

WT: Were you hired for a particular job, or did that come after the end of the training?

GV: It was a particular job as an examiner.

WT: Could you tell me a little bit about your duties then, as an examiner?

GV: We were responsible for visiting the member firms and reviewing their books and records for compliance with various SEC rules, as well as NASD.

WT: Okay, and what was the work environment there like? And this particular interview is, of course, for the upcoming Women Regulators Gallery, at least in part, and so we're interested in particular in your experiences as a woman but I mean it in both senses.

GV: Well, there weren't very many women in the job at the time. I think there may have been less than a handful of women who were examiners at the time. And I do remember going to a member firm, a small broker-dealer, and having a good dialogue with the sole proprietor of that broker-dealer, when I asked for his bank statements and bank reconciliations the response I got was, "My wife doesn't see this information, so why should I show it to you?" I'm pretty certain if it was a male examiner on the other side of the table it would have been a very different dialogue.

WT: On the whole, how was the experience? Was it comfortable there, or was it in general a male dominated environment?

GV: It was certainly a male dominated environment, but women were made to feel welcome and comfortable.

WT: Right. So, I'm correct that you were only there for a couple of years before moving up to managing director of Member Firm Regulation at NYSE?

GV: Well, I actually started as a coordinator at the NYSE.

WT: Okay. I thought it seemed like quite the leap.

GV: I started as a finance coordinator at the New York Stock Exchange. I moved over because it was a better opportunity to deal with larger firms, and I was the second female coordinator hired at the New York Stock Exchange, and I believe there were two female examiners at the time at the New York Stock Exchange, both of whom were not allowed to travel because that was a problem back then. This is early '80s and it was a problem for the female examiners to travel with the men.

WT: I see.

GV: I don't remember at what point that changed. I guess as we started hiring more women the rules changed. But I do remember coming into the New York Stock Exchange and dealing with a lot of the large firms. In the '80s, there were a number of crises in the industry. There was always something happening and much of the job of the coordinator

was to determine what was happening in the marketplace and what the impact was to the member firm from a financial and operational perspective. This was before we had computers where you could send an e-mail to say the market dropped a certain number of points, or the Hunt silver crisis occurred, what's the impact to the firm? So, it was a phone conversation.

And I remember many of the larger firms pushing back, in that they were not very comfortable and asked a lot of questions as to why am I asking and really tried to deter the conversation. I found that it was very important to be prepared, so I was reading the *Wall Street Journal* from cover to cover every day to make sure I understood what was happening in the marketplace and thought through the impact of any of the events that were occurring, and then anticipated the next question that I would get from the person on the other end of the phone in order to be prepared, to avoid being intimidated by those questions coming back.

WT: What's the larger rationale for trying to establish the impact on firms? I ask the question because you say that there was also pushback, and so I don't quite see why they would be pushing back if you were interested in the impact on them.

GV: We were responsible for ensuring the financial soundness, or in assessing the financial soundness of the firms and their operational capabilities, and there were often times when firms may have sustained a significant loss or there were problems that were encountered.

They did not historically have a very up front and comfortable relationship with the regulators because they were concerned about potential enforcement action.

WT: I suppose they would be eager not to look vulnerable as well.

GV: That's correct.

WT: Were there any mentor figures either going all the way back to Albany or in your first couple of jobs with the NASD or the New York Stock Exchange, women or otherwise, role models?

GV: I can't say I had any individual mentors but I certainly worked for people over time, or worked with people over time, who I learned a lot from and those individuals certainly shaped my career. For the most part they were men, not women, but I learned from a person that I worked for at J.P. Morgan to be very concise in asking questions, getting right to the point in making statements, being well prepared for meetings, always anticipating the next question and being prepared to respond to that question, thinking through the impact of various decisions.

WT: So as a coordinator, then, in assessing the impacts of say market movements on firms would that be a heavily quantitative sort of analysis where you'd draw heavily on your accounting background, or would it be more of a general qualitative sort of thing?

GV: It was really a combination of both. Many times I would get a qualitative response, but I would often want to work through the T accounts to understand the quantitative impact and that was helpful because at times I wasn't getting the complete story. So, being able to ask follow-up questions and to ask the firm to take a step back and walk me through journal entries, or walk me through how something specifically worked was helpful in really getting an understanding of the problem or the situation.

WT: Did that cover your time? Now, you actually did then move up to the managing director.

GV: Yes, I was finance coordinator, senior finance coordinator, then a surveillance director and then managing director, with responsibility for both the surveillance, which is the coordinator program, as well as the examiner program, one specific portion of it at NYSE.

WT: So there were indeed pretty good opportunities for advancement then. You were right in moving over.

GV: That's right. There were opportunities for advancement.

WT: And you generally found those to be open, going back to the gender question?

GV: Yes. I actually question, looking back in hindsight, whether or not being a woman was favorable at the time since there were so few women, and I think over the years there has

been a push to recognize women and to promote women to the extent that they are competent.

WT: You feel that was beginning at that time.

GV: Yes, absolutely.

WT: Okay. Who are some of the people around you, especially that you worked for before you moved into the managing director position?

GV: I worked for John Fazio and Peter Kowalewski, under Bob Bishop and then Dave Marcus, Ed Kwalwasser, all at the New York Stock Exchange at the time.

WT: So tell me a little bit then, when did you become managing director of Member Firm Regulation? We don't need to be precise. You were there from '79 to '93.

GV: Yes, so maybe '85.

WT: '85, okay. So tell me a little bit more about that role.

GV: That was a managerial role, not the first because as the surveillance director I had a managerial role also but with a much smaller team, so that was the first managerial role that I had with a larger team. My experience has shown that people get promoted

because of their technical expertise and no one necessarily trains you to be a manager. You learn to be a manager on the job. And that was a challenging role because of the technical expertise that was needed, but also because of the managerial capability.

WT: How was your own transition into that role, did you find it natural or was it more of a learning process?

GV: I found that it was absolutely a learning process. I enjoyed doing it, although I always found that it was much easier to solve the technical problems than to solve the human resource problems, and as I look back on my career, the problems that have kept me awake the longest at night were the people problems as opposed to the technical problems. It seems like the technical problems were generally easier to solve and less heart wrenching than people problems.

WT: Was it a fractious environment, or was it more harmonious?

GV: It was a harmonious environment, but there are always issues when it comes to people. I think it's important—I've always felt that I want the people who work for me to enjoy the work that they do and the people that they work with, given that we all spend a lot more time in the office than we do with our families and our friends, and I always try to build camaraderie across the teams and to strive for the team to work well together.

WT: And so obviously the late 1980s, you have of course the crash in '87 and that sort of thing, can you tell me, were you deeply involved in trying to respond to that? I would suppose so.

GV: Yes, I remember exactly where I was because I was speaking at a conference hosted by the Securities Industry Association. The Internal Audit Division had a conference in Florida and I was speaking at that conference when the market took a turn and I remember commandeering the staff and trying to assess the damages upon the firms. And it was certainly a challenging period of time.

WT: Was there a response with new rules at that level?

GV: Coming out of the market break, from the standpoint of financial and operational rules, I don't believe that there were. There may have been marketplace, like the circuit breaker rules that resulted from that market break, but from a financial standpoint I don't recall there being any changes to the rules, to either NYSE rules at the time or SEC rules.

WT: Right. Could you clarify for me, are you in a rulemaking position then in this position, or is it more enforcement of the rules?

GV: We informed. It was examination and surveillance and we informed policymaking.

WT: Okay, and did you have a lot of contact with, say, the SEC in that position?

GV: Yes, we had probably daily contact with the SEC; with I guess it was the predecessor to Trading and Markets at the time, so we would share information. Since the NYSE had coordinators assigned to each of the member firms, we were able to get information from the firms on the impact of the market break and we would share that information with the SEC.

WT: Now, when you say you had a coordinator, I assume that each coordinator has a number of member firms obviously, otherwise that would be a lot of coordinators.

GV: Yes, we had a lot of member firms in those days. The numbers have dwindled significantly over the years.

WT: So what would you regard then as the most pressing issues that you dealt with over the course of your time in that job?

GV: Well, I was at the New York Stock Exchange during the junk bond crisis at Drexel, and the indictment of Michael Milken and then the liquidation of Drexel Burnham Lambert as a New York Stock Exchange member firm, so that was certainly challenging. I worked very closely with the SEC on that. Mike Macchiaroli, who's in Trading and Markets at the SEC, spent quite a bit of time in my office in New York. We visited the firm several times a week and were continuously getting updates from them with respect to the

transfer of customer accounts and the liquidation of firm assets - that's going back to 1990.

WT: Okay, so is there anything else we should cover before we move to J.P. Morgan, or do you think that we get a general idea?

GV: I think that may cover highlights.

WT: All right. Well then, why don't we discuss the circumstances that brought you to J.P. Morgan; that was as chief accounting officer, is that correct?

GV: I started at J.P. Morgan as the head of the regulatory reporting group in the broker-dealer. Over the years when I was at the New York Stock Exchange I had been approached many times about jobs in the industry and I had always said that I wasn't interested. I think I had gotten to the point where I felt that I had learned a lot at the NYSE and was getting a little bored, and when J.P. Morgan approached me I had the ability, it was an inflection point to say well, I could spend the rest of my career at the New York Stock Exchange or I could take advantage of an opportunity at a first class firm. These opportunities don't come along that often, so I made the decision to leave the New York Stock Exchange and join Morgan.

WT: I know the self-regulating organizations tend to be sort of regarded as a midway point pay wise between say the SEC and the private firm. I mean I assume that that was a fairly healthy pay, if you don't mind me saying.

GV: There was a significant increase, but I really moved to expand my skill set, to see how business was really done, to really learn more about what went on inside a firm, and as I look back now and reflect I think I make a much better regulator having worked at a firm or two firms and I think that it would be great for every regulator to have spent some time at a member firm to understand how things are done and to see what happens in real life to have a sense as to what goes on. It gives you a very different perspective.

WT: Right. That was going to be my next question. So you were approached by J.P. Morgan then, to come into this position, and so the culture I assume, obviously the work is different, the culture I assume is also very different.

GV: The culture was very different. I actually loved J.P. Morgan as an organization, huge collection of very bright people, and the teamwork was exemplary. The culture was about how we succeed as an organization as opposed to how do I get ahead; very, very team oriented. Individuals were compensated based upon their teamwork. It was really a priority and very, very smart people wanting to do the right thing. The motto, doing a first class business in a first class way – certainly I saw it every day.

WT: Were you brought in specifically to assist in compliance, would it be, or just for your skills in general?

GV: The organization at the time was transforming from a commercial bank to an investment bank. Their business had been primarily lending to investment-grade companies, and as the capital markets changed and investment-grade companies were able to access the capital markets themselves they really didn't need J.P. Morgan, so Morgan was transforming from a commercial bank to an investment bank and they were looking for someone with the regulatory expertise on the financial side, financial and operational side, which is why I was brought in.

J.P. Morgan, historically, hired individuals right out of school. I was known as a midcareer hire because I came with fifteen years of experience. I was brought into the broker-dealer, J.P. Morgan Securities, Inc. at the time, to head up the regulatory reporting group, which was part of the financial organization.

WT: Right, and versus the New York Stock Exchange, would there be say more women or less or about the same?

GV: There were a lot more women.

WT: At J.P. Morgan?

GV: At J.P. Morgan.

WT: Okay, that's interesting.

GV: Yes. I think Morgan was really ahead of the times in terms of its recognition of women.
The person that I worked for was a woman.

WT: Who was that?

GV: Debbie Cuny. The general counsel of the broker-dealer was a woman; the treasurer of the broker-dealer was a woman, so there were a lot of women in senior positions at the organization.

WT: Okay, so I gather a very comfortable environment then too?

GV: Yes.

WT: So, I have it that you were both chief accounting officer and chief financial officer. You went from first the accounting to finance.

GV: I was the head of regulatory reporting at the broker-dealer, then I picked up bank regulatory reporting, then I became the chief financial officer of the broker-dealer and several years later expanded my responsibility to include the monthly closing process, the

public reporting side, the accounting policy side; that was the chief accounting officer role.

WT: Now, of course accounting is having kind of an interesting history in the 1990s. Of course in some companies they have the aggressive accounting, like in Enron for example, that ultimately explodes. Were you witness to that in some way in that role? Could you see changes in accounting standards taking place either at the firm or beyond it?

GV: Well, there are a couple of different ways I can answer that. We had front office individuals who worked with public and private companies to help them structure transactions, sometimes to get certain accounting treatment, so I was involved in many discussions with business people about whether or not certain structures should be reported on or off balance sheet.

And then with respect to J.P. Morgan's own accounting there was a lot going on during that time period. There were questions at the time with respect to the bank's allowance for loan losses. It was a very benign credit environment for many years and Morgan had built up accounting reserves as a result of the emerging markets LDC crisis, and we were one of the banks that were questioned by the SEC with respect to the size of the allowance for loan losses and whether or not it was appropriate to maintain such large reserves. So those are two ways in which I got involved in some of these discussions in what was going on.

WT: Right, right, and of course this is, if I understand properly, the period when say the derivatives market begins to expand as well, and I know that presents certain accounting challenges which we later learned about rather dramatically. How about on that end?

GV: J.P. Morgan was cutting edge in terms of being a derivatives house, structured derivative transactions for their clients as well as for their own balance sheet. And we worked very closely with the Fed with respect to capital treatment of transactions for our own account, and had an advisory role with respect to the treatment of certain transactions on behalf of clients. It was an interesting time, very cutting edge, very, very interesting. I remember having many conversations with our partners at Pricewaterhouse, asking them for guidance, and there was never a textbook answer that could be given to us.

WT: Right. Did you have to deal, in your position, in depth with like more technical elements to it? I know that there are a lot of advanced mathematics to the calculation of risks on derivatives and that sort of thing.

GV: Members of my staff and members of the risk team got more involved in the calculations.

WT: Okay, so you had a large staff of quants, so to speak.

GV: We had quants within J.P. Morgan that did not report to me, but yes, because many of the reserves were based upon, and some of the pieces of the risk based capital, were derived

from models. We used value at risk models and other models to compute our regulatory capital, and models were also used in some instances to determine the level of reserves that would be maintained.

WT: Right. Should we move onto Citibank then?

GV: Sure.

WT: All right. So you make the move. How does that come about?

GV: I was at J.P. Morgan at the time of the merger with Chase, and about a week or so after the merger was announced I got a call from the controller of Citibank asking me to get together with him. I actually worked with him on a number of different committees. There was a New York Clearinghouse Financial Reporting Committee and the controllers of the top twenty-five banks in the country had an ad hoc group called COBAR, Committee on Bank Accounting & Reporting that got together a couple times a year to discuss common issues, so I had had some interaction with the controller of Citibank and I guess he used the merger of J.P. Morgan and Chase as an opportunity to see if I'd be interested in moving over to Citi.

WT: And evidently you were.

GV: And I was, yes, and I think the culture at Chase was very different than the J.P. Morgan culture.

WT: Could you tell me a little bit about that?

GV: J.P. Morgan I thought did a very good job of moving people into different roles, so you would do a job for a few years and then your job would be expanded, or you would do something completely different.

WT: It was really satisfying your initial motivation for going there, which was to expand your horizons.

GV: Yes, and I think J.P. Morgan's philosophy, from a people perspective, was that if we hire bright people they can do anything and they don't necessarily need to be experts in a certain area. They bring a different perspective and can add value to whatever role they take on.

I think Chase's philosophy was a bit different, probably because it was an organization that, unlike J.P. Morgan that grew organically, Chase grew through mergers. So every few years, there was another merger with Chemical Bank, and Manufacturers Hanover, and Texas Bank of Commerce. Chase represented an amalgam of different organizations, different banks, and I think that individuals in the organization felt comfortable being an expert in what they knew because they felt that the longer they sat in their chair the more

likely, when there was the next merger, they would have a job. Very different cultures.

The idea of moving to Citi to take on a different role was something that interested me at the time.

WT: Okay, so tell me about your arrival then. You came in as deputy controller.

GV: Yes, and it was an interesting time.

WT: Yes. This is in February of 2001, so we're dealing with the end of the dot-com bubble here, I suppose.

GV: Right, the end of the dot-com bubble, dealt with the crisis in Argentina, the Citigroup Global Markets, fall out from Enron and WorldCom, so there was no rest for the weary. It was a busy time, a lot going on.

WT: I'll imagine.

GV: At the same time we were putting in a new accounting system so that was part of the responsibility that I had, working to put in a new consolidation system.

WT: Could you tell me a little bit about your team then? I assume you're managing over quite a bit of personnel here.

GV: There were several different groups that had responsibility for the consolidated closing process, the public reporting, which included the earnings release, the 10-Q, the 10-K and the regulatory reporting. Citi was a much more global organization than J.P. Morgan in terms of its presence around the globe, so I felt that there was always someone working. The TV commercial says that the Citi never sleeps, and the Citi never slept. Between Asia and Europe and Latin America, there was always something going on.

WT: And I imagine you have a lot of different people who are dealing with a lot of different systems too, so you have to coordinate that in some way, I suppose.

GV: Yes, we had a lot of conference calls at all hours of the day and night. Citi's business was a lot broader because J.P. Morgan at the time didn't have a retail business, so when I was at Citi I really got to learn about the retail banking part of the business, which was all new to me, and I found that interesting.

WT: You found it similar to the J.P. Morgan culture insofar as being able to get involved? I mean, I suppose at that position you have to be involved in pretty much everything.

GV: The culture was a bit different than the J.P. Morgan culture, because Citi also did a lot of acquisitions so there were a lot of different cultures that had been merged together. It was very bright people, though, and a very dynamic organization, very strong leadership, under Sandy Weill at the time. I worked with a very small group of people in the corporate office. Todd Thomson was the CFO at the time, and there was a small group of

people which included our investor relations group;, there was a lot of camaraderie across the team and it was a close-knit group. Despite the hard work we had a good time.

WT: Were some of the vulnerabilities that would later strike after you left evident at that time, or in the aftermath of 2008 I mean of course?

GV: Immediately prior to my being hired at Citigroup, Citi had acquired a company called Associates, which was one of the largest subprime lenders in the country, so I think from a vulnerability standpoint there was concern that should the economy turn, the losses could increase. There was no question.

WT: Of course, you left in 2004 and so the housing bubble at that time was just in its initial stages, ongoing, right. So this is also, I guess, where you would have met Richard Ketchum's acquaintance?

GV: Yes, I actually though knew Rick from his days at the SEC. When I was at the New York Stock Exchange and had worked on the liquidation of Drexel, as well as some other things that had come up during my tenure at the New York Stock Exchange, I did have the occasion to speak to and meet with Rick from time to time.

WT: What was his position at the time?

GV: He was the director of the predecessor to the Trading and Markets Division.

WT: Okay.

GV: I'm trying to remember the predecessor name to Trading and Markets. My primary contact was Mike Macchiaroli, who had responsibility for broker-dealer financial responsibility rules, Mike reported to Bob Colby, and then I think Mark Fitterman was in the mix there for a period of time, and they reported to Rick Ketchum who ran the division.

WT: Right, and then he came to Citi in 2003 I think. I have it written down but not on anything with me. We don't need to get the precise date, but I believe he was only there for about a year.

GV: He was only there for nine months actually, so I think you're right, he did come in 2003 and he left in March of 2004, I believe.

WT: Right. And so this is part of very large moves back at the New York Stock Exchange, of which you were a part. So, why don't we, unless there's anything more at Citi that we want to discuss?

GV: Right. So, I actually had occasion to see Rick again at Citi. He was general counsel of the corporate and investment bank. I think there were a couple of items that we were

working on where our paths crossed. And then in the spring of 2007, the senior ranks at the New York Stock Exchange were changing. This is after the Grasso –

WT: You mean 2004?

GV: 2004, yes, right. This is when Grasso left the Exchange and a number of other senior level positions turned over, and Rick came in as the chief regulatory officer of the New York and was looking to fill positions, head of member regulation, and the head of enforcement at the time. And he called me to ask me if I'd be interested in returning to the New York Stock Exchange, and a couple of times I told him no and then he said, "Well, let's get together for breakfast. I just want to get your thoughts on the position and what you would do, and maybe get some names from you as to other people." So we got together and the job that I said I wasn't interested in sounded a lot more interesting after we had a face-to-face meeting.

WT: What was the pitch?

GV: I think Rick's views and my views of regulation and the place that Member Firm Regulation should fill, the philosophy about regulation, were very much aligned.

WT: Okay. Could you I guess elaborate on that particular philosophy, if you could?

GV: Yes, the philosophy of partnering with the firms to educate them, to help them do the right thing, as opposed to catch them on the back end and take disciplinary action. I always felt that it was better to spend the time up front in trying to avoid the mishaps rather than coming in at the back end to clean up a mess.

WT: Of course this is in some ways what you're doing when you arrive. I mean you mentioned Dick Grasso, and there were also the issues over the analyst broker relationships, I believe, the specialist front running issue at the time. Can you talk a little bit about the situation when you arrived, what the priorities were? I assume there was a sense of mission, arriving as part of Rick Ketchum's new team.

GV: There was. There was a lot of work to be done in terms of rulemaking. It's unfortunate that a lot of our rulemaking results from violative conduct and we resort to developing very specific rules to prevent that conduct in the future. But we were working on new supervisory rules at the time I arrived. I think they had just been adopted, and this annual CEO certification that resulted from problems of a broker, whose name is Gruttadauria, who had been in a supervisory role.

Those rules, which were not very well liked by the industry, were being rolled out at the time. It required firms to have a chief compliance officer that did a review of all of the controls, and had the CEO assert to the reasonableness of the controls at the broker-dealer. We had the research scandal, which required us to write specific rules on research and develop an examination, a certification for research analysts.

WT: I probably should have brought up Sarbanes-Oxley when we were still at Citi, but I assume that's obviously quite relevant here as well.

GV: Yes.

WT: I mean maybe you can talk about that in both locations and whether there was an attitudinal difference between the two environments.

GV: The Sarbanes-Oxley requirements at Citigroup were not as transformational as one might think, because as a bank Citibank had a responsibility under FDICIA, which is the FDIC-something Act. I can't remember now what FDICIA stands for. I'll have to back and research that; drawing a blank.

So Citigroup always had a responsibility under FDICIA to documents controls and to conduct testing with respect to controls, and even though it was only technically the bank that was responsible for it, it had been rolled out for the most part company-wide so the adoption of Sarbanes-Oxley was not as significant as it was for public companies that were not banks.

The New York Stock Exchange rule on CEO certification and the review of compliance controls was known by some as the Sarbanes-Oxley of compliance, because the rules were very similar in terms of documenting policies and procedures and conducting

testing to determine whether or not those policies and procedures were operating effectively.

My rejoining the New York Stock Exchange was interesting because the organization had been around for 200 and some-odd, maybe 212 years, maybe a little more than that, and it hadn't really changed. It was a membership organization and had grown over the years moving from the buttonwood tree into the physical location on Wall Street, but for the most part it was the New York Stock Exchange and wasn't very significantly different year over year. I joined in 2004, and then in 2005 there was the merger with Archipelago and the New York Stock Exchange became a public company, which was a dramatic change from the standpoint of regulation because there was a lot of concern by the industry, and rightfully so, of having a regulator that was owned by a public company.

New York Stock Exchange set up member regulation as a separate not-for-profit subsidiary under the New York Stock Exchange; then in 2007 there was the merger with Euronext, which was certainly interesting, now becoming an international company. I think there were a lot of challenges raised by the New York Stock Exchange becoming public and having the regulatory group as a subsidiary, which is likely one of the events that precipitated the merger with the NASD to form FINRA.

WT: So, take me inside, a little bit, of NYSE regulation, and first of all let's talk about the relationship with the Stock Exchange as a whole, but also I want to talk about the team that was there with you and I guess your perceptions of it.

GV: Rick was able to form his own team and it was a very close-knit group that worked very well together. Susan Merrill, who was head of Enforcement, and I joined at about the same time. Robert Marchman was heading up Market Surveillance.

WT: He was already there, right?

GV: He was already there. He had been in enforcement for a number of years and had just recently moved over to head up the market regulation group.

WT: What was your position in relation to his position?

GV: We were equal, so I had responsibility for member regulation; he had responsibility for market regulation. I guess the tag for FINRA is investor protection, market integrity, so I look at market surveillance as primarily responsible for market integrity whereas member regulation is responsible for investor protection. But we both cross. We just have primary and secondary responsibilities.

WT: Okay, and what was your position's relationship to the position that you had when you left way back in 1993? You were managing director at the time, now you're executive vice president.

GV: So I now had responsibility for the entire group of member regulation.

WT: Okay, so John Malitzis also came over from Citi, right?

GV: Yes.

WT: Okay, and then just to kind of fill out the team I guess on the NASD side, there's Mary Shapiro and Elisse Walter, who later come in through FINRA, is that correct?

GV: They were at the NASD.

WT: Right. Was there a lot of communication across that, because it just seems to me that when you see some of the same names pop up, especially after 2007, it makes you wonder about the personal/professional connections before that.

GV: Yes. Well, Mary worked for Rick years ago. A number of Mary's staff at the NASD had followed her from the CFTC. There was a very close-knit group of individuals that worked together. Because of all the new regulations on the research side resulting from the scandals - the IPO scandals, the research scandals, there was a lot of regulation that NYSE was working on and NASD was working on and the industry was really drowning, trying to keep up with the pace of regulation. And whereas we tried to coordinate as much as possible and harmonize as much as possible, there were times that there were nuances or real differences in the rules.

The New York Stock Exchange primarily had the responsibility for the larger firms and had a much smaller base of membership, whereas the NASD had several thousand firms that varied in size dramatically. So a number of the rules that were promulgated by the NASD were geared to their diverse set of members, whereas NYSE generally had to worry only about larger firms, so there were some disparities in the rules and the industry was clamoring for harmonization.

So in the 2005, '06, '07 time frame, there was a lot of coordination between NASD and NYSE on the rulemaking side. There was also a lot more collaboration on the examinations side and sharing of information. The New York Stock Exchange was the designated examining authority for almost all of its members, which meant that the financial and operational program, responsibility for compliance with the financial and operational rules was the responsibility of the NYSE, and the NASD examiners' domain was the sales practice rules. But NYSE also had a role in sales practices and had a rule book that had many sales practice rules, and we did as best we could to coordinate with the NASD so that we were not looking at the same thing at each firm.

WT: And the relationship with the member firms you said earlier was tense in this period? I would suppose so.

GV: It was, and the member firms were clamoring for more coordination so that we were not duplicating what the other regulator was doing.

WT: Okay. If I could come back just to revisit the women regulator theme, were you at all conscious of those sorts of issues at this point or did it just seem like it wasn't really something there? I mean you're in a group of powerful women, did it occur to you?

GV: No, I think by this point women were as equal as men and a lot of the issues that had been faced earlier on were no longer existent.

WT: Right, okay. So you're responding to the scandals of the early 2000s and the new rule making, but you also have a number of changes that you have to keep up with in the market that are novel as well. We were talking a little bit about derivatives earlier. There's also, of course, electronic trading, high frequency trading. And then if you look up your name in the *Wall Street Journal*, you also have a host of more piecemeal issues like cash sweeps come up, client spending. Could you tell me a little bit about kind of the internal process of keeping up with what's going on in the market and with member firms?

GV: I think that the challenge of every regulator is to keep pace with the membership and the activities of the broker-dealers, and it truly is a challenge. We always end up several paces behind. The question is what that distance is. So having the coordinator program, both NYSE and NASD started ahead of the curve, or emerging regulatory issues groups, to try to stay on top of new products and new practices at firms in order to identify issues that started cropping up before they became problems. Through various intelligence, either having regular meetings with firms to understand changes to their businesses, new

products, reading newspaper articles, just talking to people, being an investor yourself, we tried to identify and we continue to try to identify practices that could be troublesome and look at them to determine what could go wrong and what controls should a firm have in place to try to mitigate problems in the area.

And sometimes we'll do a thematic sweep of firms, from an examination standpoint, to look at an area and identify what they're doing and try to come up with best practices that we can then give back to the member firms to say this is something we identified as a potential problem. These are strong practices that we observed, that when we recommend, if you don't have them, if you haven't adopted them, that you should consider adopting.

WT: So, if we're talking about a specific case like say the cash sweeps issue, which I understand is where a firm would put an investor into either low yield bank deposits rather than something more favorable to them, how would something like that unfold?

GV: Well, we noticed a change in the industry, and the change came about as more of the broker-dealers became affiliated with banks. So if I go back to the beginning of my career, there were very few bank affiliated broker-dealers. We had a lot more independent broker-dealers. There's been a huge consolidation in the industry, but there were a lot fewer broker-dealers that had affiliated banks. I guess it was in the 2000s that it became –

WT: Well, that's associated with the repeal of Glass-Steagall, am I correct?

GV: Yes, to some extent.

WT: Okay.

GV: In fact, I was at J.P. Morgan at the time dealing with what was called Section 20, which limited the amount of revenue that the broker-dealer could earn from ineligible sources, which were securities type activity. But there was the ability to have affiliated banks, as long as they weren't doing underwriting business or trading in ineligible securities.

Through the 2000s it became fashionable for almost every bank to have a broker-dealer, and whereas back in the 1980s it is my guess, Merrill Lynch set up the CMA account and had a sweep where customers' free credit balances, excess cash, pending reinvestment would be swept to a money market fund so it didn't sit there idly. The broker-dealers in the 2000s, now that they had an affiliated bank, identified the opportunity to sweep to a bank deposit as opposed to a money market fund that in many instances was unaffiliated with the broker-dealer, so it was "let's keep the assets in our same corporate structure."

WT: Does that come up to your attention through complaints at first then, or is it something that you detect through other means?

GV: I think through the examination program and through ongoing dialogue with the member firms, and through individuals on staff having accounts at brokerage firms and noticing the change in practice. We did a review of practices and identified some issues at the firms relative to disclosure that could have been better. We had concerns relative to those sweeps into banks that exceeded the FDIC protection and how good the disclosure was to the customers at the time. And we also wanted customers to understand how much they were earning on those deposits and what they could have earned had their money stayed in the mutual fund or been invested in another product.

WT: Why don't we talk a little bit about electronic trading and the rise of I guess the e-world as it were, in general? I mean I know that it's really in this period when it becomes a real pressing issue from a regulatory standpoint, is that correct?

GV: Yes, and continues to be a pressing issue today. I don't think we have any answers. Much of the work that FINRA does with respect to electronic trading, those reviews are conducted by our market regulation group. Where member regulation gets involved is looking at cyber security and the potential for loss as a result of pump and dump schemes, so an individual going into a customer account, intruding into a customer's account and selling high quality stocks and investing in penny stocks and pumping the price of those penny stocks up and then selling them high. And we are very concerned about customer assets being removed from their account because of hackers who are accessing the accounts.

WT: I even ran across an old interview with you from 2005 where email retention was even a major question above and beyond.

GV: Email retention is a challenge for firms. We actually, at the New York Stock Exchange, put together a group to look at the supervision of electronic communications because it was challenging for firms. Member firms have an obligation to supervise what their employees are doing and when everything was documented in a letter it was much easier to supervise. Then came faxes; as long as you had control over who was using the fax machine and you kept the copies, that was easy. Then we went to emails.

WT: And people have private email accounts and that sort of thing.

GV: Private email accounts were a problem. Initially the social networking sites were closed and people were not allowed to use Facebook or LinkedIn for business purposes. Now that's changed at many firms, you've got reps who are out there on Twitter.

WT: And I reckon smartphones as well.

GV: Yup. So, yes, electronic communications has changed so dramatically over the last five years and it really is a challenge for firms to be able to supervise those communications.

WT: What are some of the things that are I guess brewing right now in that respect, as far as the regulatory side of things is concerned?

GV: We continue to look at liquidity and leverage for the larger internationally active firms. We have concerns about outsourcing. We had proposed a rule several years ago and we are making some modifications.

WT: Are we still talking about the electronic communications or are we just –

GV: No, this is past that. Sorry.

WT: Oh, sorry. Okay. I was kind of referring to that.

GV: Oh, to electronic communications?

WT: Yes.

GV: I think on the electronic communications front, firms generally find a vendor who is able to retain all of the communications. If you can't retain it, then you can't use it for business purposes. But finding a vendor who can properly retain all the tweets and all of the entries to Facebook, and then being able to search the data in order to review it from a supervision standpoint is a challenge.

WT: At the time, I know, I mentioned in 2005 you were talking about issues with Morgan Stanley, I think it was actually a couple years later that they were being quite evasive

about the availability of their email records saying that they had been destroyed in the September 11th attacks, but in fact that was not true, I guess?

GV: Yes, I don't remember the specific facts related to that.

WT: Okay, all right.

GV: I do believe there was an enforcement action against the firm so it should be in the public record.

WT: It certainly is.

GV: I don't remember all the details. But we continue to have firms that have problems retaining records, not necessarily because they intended to violate the record-keeping rules, but because their vendor was inept or they didn't choose to pay for a complete service and there was a breakdown in communication as to what they thought they were getting and what they actually got.

WT: So you were mentioning leverage a couple questions ago, so of course this brings us up to the big topic of the financial crisis and the aftermath of that. Actually the roots of that, of course, were not incredibly visible before that. I mean I actually found a reference where you were saying that the leverage was adequate, which was sometime in early 2007 I

believe, and then of course in 2008 it's clear that that was not true. Can you take me through? I guess it must have been a shock from your position, the crisis.

GV: Well, I think the markets were functioning effectively until all of a sudden, and I think it was for a very short period of time that the markets ceased to function. And when we looked at the size of the balance sheets and the leverage of firms, I didn't have an appreciation for how much of the securitization activity floated through the pipes on a regular basis and never hit the balance sheet of the firms, so while the sausage is being made it's moving along and the securitizations are happening and the broker-dealer doesn't have to reflect any of that on their balance sheet.

As a result of the crisis, the credit markets dried up completely and securitizations that were in process ended up on the books of the broker-dealers. And also there were securities where the broker-dealer was the underwriter or the market maker, and they didn't necessarily have a contractual obligation to repurchase those securities but because they wanted to retain a relationship with the customers they made the decision to repurchase those securities and hold them on their balance sheet.

There was also a presumption in the SEC's capital rule that stood up pretty well until the credit crisis, that if a debt security had two investment grade ratings that there was a presumption of marketability and therefore liquidity, so investors would always be there to purchase investment grade securities. I think that we were very surprised, I was very surprised, after Lehman imploded that there were investment grade securities that no one

wanted. The municipal auction rate securities were a great example. Billions of dollars of those securities came back onto the balance sheet of the investment banks. No one's lost any money on those securities, but it was a liquidity problem at the time. There's a product that was sold for many years as a money market equivalent because it always had been, and then all of a sudden when the credit markets froze no one wanted to purchase an auction rate security.

WT: Because of the uncertainty surrounding the risk assessments?

GV: Because the remarketing agents had made the decision. My recollection was that every seven days there was an auction and therefore they could be put back to the broker-dealer and resold, and because of all else that was going on at the time and the balance sheets of the investment banks were growing, they decided to call off the auction and therefore that put feature was no longer available.

So there was a lot going on at that period of time that was very, very temporary and was more about liquidity rather than credit quality. Although, the fact that the rating agencies got the ratings wrong on a lot of the debt and therefore the presumption that investment grade securities would always be marketable was a good assumption for a long period of time, but we had a period in the market where not only were investment grade securities not marketable, but the securities we thought were investment grade really weren't investment grade.

WT: So, what are the options in response to that from a regulatory perspective? I would presume that the emphasis would be on trying to increase the transparency of the risk, but are there stronger approaches that you have taken? I mean we'll get to I guess the big legislation in a minute.

GV: Well, the SEC has taken out the reference, or is in the process of taking out the reference, to NRSRO, Nationally Recognized Statistical Rating Agency from their rules so that broker-dealers need to make independent credit decisions without relying on the rating agencies.

Obviously, as you said, Dodd-Frank is in reaction. We've done quite a bit of work with firms with respect to liquidity and having dedicated liquidity at the broker-dealer to withstand stress events. The Basel capital initiatives are requiring each of the firms to have a larger capital base. We have added to our alert criteria, criteria for leverage, putting firms on heightened monitoring when their leverage exceeds a certain level. I think we have a better understanding now of the composition of firms' inventory and their repo counterparties, concentration of repo counterparties and maturities.

WT: Now, FINRA is created right around this same time. What can you tell me about that transition to the new organization, is it severe or was it, outside of the day-to-day work of harmonizing the rules and that sort of thing, a fairly natural process?

GV: We were two regulatory organizations with very similar missions, with staffs of people who were very committed to regulation and doing the right thing for investors. So from that perspective, it was an easy transition because of the common mission. We spent quite a bit of time looking at the technology, looking at the way we do things and trying to choose the best of both. And we're actually now rolling out new examination technology that will really take us to a different level. It's been several years in the making but will really move us to a risk-based program that will allow the coordinators and examiners more flexibility in conducting their exams, will help the coordinators and examiners identify the risks that may be at the firms and therefore be able to tailor the examination programs to those risks. It's been a lot of hard work by a large number of people to get us where we are. Hopefully by the end of this year we'll be there.

WT: And coming back to the legislation of Dodd-Frank, there's also the Jobs Act as well. Obviously at the SEC the impact of that is quite steep; is that reflected here at FINRA as well?

GV: We have responsibility for funding portals, so there is work being done to look at what rules should apply to funding portals as a process for them to become members of FINRA, so there's been a tailored membership process. I have not been involved directly in those discussions.

WT: But one doesn't run into the same backlogs, for example, of rules that need to be made that one sees at the SEC?

GV: That's a good question. We certainly have work that needs to be done and rules that are in various stages. We also have recently hired a chief economist who will be responsible for conducting the economic analysis around each of the rules that we propose which adds another layer of complexity to the rulemaking process, so that means that it will take us longer to adopt new rules because we need to look at the cost-benefit relationship.

WT: Now, another thing we were talking earlier about, the group that came to the NYSE in 2004, it seems that that group has maintained a certain continuity. If you look at FINRA's senior leadership today, a lot of those people are still around. Has that been your sense, that there's been actually fairly extraordinary continuity from the perspective of, I guess, historical comparison?

GV: Yes, I think that the senior team of people have been for the most part consistent. I think people work well together, and again, they're passionate about regulation and wanting to protect the investing public so I think that's to Rick's credit.

WT: All right. Well, I guess that's about all the historical questions I have. I was noticing, just in my research that the issue of the summer, and it's been brewing for some time, are the dark pools. Is that more of a market regulatory issue rather than member firm regulation?

GV: That is more of a market regulation issue. We are all for transparency in the markets, and I think having the dark pools does not coincide with that. But I think if you do an interview with Tom Gira or John Malitzis, you can hear all about dark pools.

WT: All right. So, then I guess I'll just return one last time then to the theme of women regulators, and maybe you can give me some general thoughts on trends that you may have seen over the course of your career. I mean I think one could extract it from this interview, but just to summarize.

GV: Well, I would say we've come a long way. When I look back at when I started in the industry in 1977 there were very few women in senior positions, and I guess it's timely in that within the last week I actually read the obituary of Muriel Siebert, who was the first woman to hold a seat on the New York Stock Exchange. And I hadn't realized what she went through as a woman, being able to obtain that first seat on the New York Stock Exchange and really paving the way for others.

I've continued in member regulation with a training class. I started at the NASD in a training class in 1977, New York Stock Exchange began their first training class twenty-six years ago in June. I think there may have been one or two years when I was not here, when the industry had financial problems that the Exchange didn't hire trainees. But almost continuously, so twenty-three, twenty-four out of the twenty-six years we've had training programs of various sizes and the number of women in those classes has continued to increase. We see a lot more female candidates.

WT: Roughly, what proportion?

GV: I would say it's probably 50 percent now.

WT: Yes? Excellent.

GV: So I think a lot of the issues that we faced early on are really nonexistent today, and I think maybe some of the opportunities that were afforded to me result from organizations wanting to elevate –

WT: Making a concerted effort.

GV: Making a concerted effort to promote qualified women to managerial positions.

WT: Well, unless you have anything else you would like to add in, that's all I have.

GV: Okay. Well, thank you.

WT: Thank you very much.

[End of Interview]