SEC Historical Society
Interview with Marc Wyatt
Conducted on October 4, 2022, by Kenneth Durr

Ken Durr:

This is an interview with Marc Wyatt for the SEC Historical Society's Virtual Museum and Archive on the History of Financial Regulation. Today is October 4, 2022, and I'm Kenneth Durr. Marc, good to talk to you.

Marc Wyatt:

Ken, thanks so much for having me.

Ken Durr:

Well, let's go back to some background and talk about your education. You did your undergrad at Delaware, is that right?

Marc Wyatt:

I did. Fighting Blue Hens, graduated from University of Delaware in 1990.

Ken Durr:

Okay. What was your undergrad degree?

Marc Wyatt:

Degree in economics and a minor in history.

Ken Durr:

Oh, okay. So were you looking at a business career early on?

Marc Wyatt:

I was. I was intrigued by Wall Street. University of Delaware is a fine institution. It doesn't necessarily have the ties, back in the day, with the larger Wall Street firms. So I was fortunate enough to get an internship, which I highly recommend everyone try, not only in the field that you think you want to be a part of, but in fields a little bit more further afield from that so you can understand what you really like and don't like. By the way, I think that's true today. Companies aren't exactly what they say on their website and the candidates are more than what they have on their resume and transcript. So it's a good chance for everybody to calibrate over a short period of time to see if there's a fit. I did get an opportunity to intern on Wall Street with Lehman Brothers, and I was fortunate enough to find a team and a group that really clicked with me and could allow me to bring my emerging skillset to the table. So after I left University of Delaware, I went back to Lehman Brothers.

Ken Durr:

Okay. So was it the MBA after Lehman Brothers?

Marc Wyatt:

Yes. So back in the day, I don't think it's as pronounced as it is now, there was kind of a two-year treadmill you got on and there was an expectation that you'd go back and get your MBA. So I did. I put my two years at

Lehman and then left to go get my MBA down at Duke University's Fuqua School of Business, which growing up in Maryland and being a University of Maryland fan, was a little bit difficult for some of my friends to understand. But I made some lifelong friends, had a phenomenal education and really enjoyed my time down in Durham, North Carolina.

Ken Durr:

The MBA makes a lot of sense for your career trajectory. How about the Chartered Financial Analyst part?

Marc Wyatt:

Well, that came about after my MBA, and when you're running in the circles of investment banking, which I was doing at the time, and people were talking about other professional accreditations they were looking to get, a few friends of mine were more on the research side than on the investment banking side, and a lot of their mentors and leaders were encouraging them to take the CFA. I had talked to some people in investment banking and some of the more seasoned people in my group, and they were all talking about how hard it was for people to go back and learn how to study for the CFA and they wish they would've done it sooner coming out of school. So one of the things that I took advantage of was I still had the muscle memory of being able to consume a lot of information and prepare for a test. So took advantage of just being out of college to study for the CFA. I took lot of practice tests and then took the CFA.

So if I had to equate the knowledge between the MBA and the CFA, I thought I really enjoyed my MBA as much for the content that I got, but also the connections that I made, Ken. Obviously the CFA, it's a series of tests, but I thought the content there was very robust and very applicable across a variety of financial jobs that you could take being analyst, being an investment banker, et cetera. It was a grind, I'm not going to say it wasn't. My wife still makes fun of me jumping up very early on Saturday mornings to go over to the test centers to practice with my backpack on, but I found the combination of the two to be helpful for me. That said, everybody has a different palate. So I'd encourage people to taste the flavor, whether they like the MBA or the CFA.

Ken Durr:

Great. Well, let's move into sort of post education then. You packed a lot in there at the beginning. You went to Alex Brown first, was that right?

Marc Wyatt:

Yes, being born and raised in Baltimore, full disclosure, Alex Brown at the time was one of the preeminent investment banks for growth companies. I was fortunate to have the opportunity to come back to Baltimore for work for Alex Brown, where I was in the Transportation and Aerospace Group working with a very tight group of investment bankers and taking companies public, doing secondary offerings, the occasional debt offerings. Alex Brown was primarily an equity shop at the time that I joined it, and then having a very robust M&A franchise. Case and point, one of the advertisements Alex Brown ran in the Wall Street Journal was a picture of Babe Ruth. Everybody thinks of Babe Ruth as this power hitter. He also happened to be very good pitcher. So the ad for Alex Brown at the time was, yes, you may know us as an equity shop, but we also have M&A and other capabilities. So I very much enjoyed that. Again, I was here in Baltimore and traveling all over the country and the world for that matter, taking companies public and raising capital in the transportation group.

Ken Durr:

Ultimately, you ended up in Europe for a while, right?

Marc Wyatt:

I did. So that's an interesting transition. So Alex Brown got bought by Bankers Trust, and at the time, Bankers Trust was looking to expand their geographic footprint in the sectors they covered. So they aligned me with a senior managing director and a junior banker. The three of us went over to establish the Transportation Aerospace Group in London for Bankers Trust.

A lot of work, a lot of travel, but a lot of learning as well, and being able to juxtapose the US capital markets and how they've evolved and then going over to Europe and seeing how things are done in those markets. At the time, people thought of Europe as one, and the EU is trying to push it as one economy, but there are nuances in every one of those markets. I can tell you now in my job here, but also the time from the investment banking perspective, it was important for us to understand the capital markets in each country. Those local relationships matter. So when you were with Bankers Trust, or BT Alex Brown at the time, you were really leveraging some regional relationship manager to introduce you to clients to make sure that there was that local flavor, which was always important to winning business.

Ken Durr:

It must have given you a fresh perspective on the US markets as well to be immersed in the London markets.

Marc Wyatt:

It did, and I want to be deferential to everybody, but it did make me respect how powerful the US capital markets really were in terms of not only the sheer size that they can bring to the market and the size of offerings that you could bring and now the size of blocks that I'm dealing with today, but also that there's a great deal of pride in Europe about each one of their markets, each one of their exchanges, each one of their corporate national champions, and being able to pick up on that and position them accordingly was art and science, Ken. So that was very intriguing, and then looking at how the various regulators dealt with filings at the time, how they dealt with disclosure, rights offerings were big over in Europe, et cetera, versus the way we do capital raises here. So it was very educational and I learned a lot from my colleagues at BT Alex Brown.

Ken Durr:

At some point, you made the transition into hedge funds and portfolio management. Is that right?

Marc Wyatt:

That's correct. So just to close the loop on that, so I was at BT Alex Brown, and then I believe it was less than a year and a half later, Deutsche Bank buys BT Alex Brown, and so a bulge bracket was kind of thrust upon me from an investment banking standpoint. So I took a step back and said, well, wait a minute, if bulge bracket is the way the world's going—my wife and I wanted to stay in London a little bit longer—I looked around and asked myself the question about which one of my friends who when we left business school are still with the same company they were with, and a handful of my friends were at Merrill Lynch. So I called them up and said, “Why have you stayed?” They describe the culture. I was fortunate enough to get connected with a woman named Teresa Miles.

So I ended up working for Teresa in the Media and Communications Group at Merrill Lynch, and I was doing a lot of the privatizations of their cable assets. So the PTTs (postal, telegraph and telephone companies), Deutsche Bank, British Telecom, France Telecom, they were splitting off their telephony businesses versus their internet businesses and their cable businesses. I was on the team that was doing the privatization of the cable assets. In those deals, being an investment banker, we typically go around and at the time we were stretching the capital structures. So the business models didn't actually grow to the way that the projections were laid out, and a lot of these had to go into some form of restructuring. I then was involved in a couple of the restructurings, and where value broke was largely at the mezzanine or the high yield debt that we put on these companies, and that was held by hedge funds.

So I would be in the room where we're trying to restructure these deals and number of hedge funds, and some of this would get contentious. Professional, but sometimes when economics are involved, negotiations can get animated and loud. I remember very vividly, I got a call from one of these hedge funds and they said, "Well, can we go to lunch?" I called my wife and I said, "Well, if I'm not back in three hours, I'm in a trunk in Surrey," but it ended up being that they were looking for someone to help grow their office, and I was very fortunate to join Stark Investments at the time. That's how I made the jump from investment banking to asset management. I've been very fortunate in my career for a number of reasons, not the least of which I've been who lucky in terms of the people I've worked with, both in private sector and at the SEC, which we'll eventually get to.

People often ask me, "what was the transition like going from investment banking to managing money at a hedge fund?" I give the example, I went from having headaches to stomach aches. So when you're in a client facing organization such as investment banking, you have a lot of headaches because clients have a lot of never ending demands, and then when you move over to the asset management industry, and you're managing money and you have a P&L every day, and you can see how well you do every day, investment banking has league tables, hedge funds and asset managers have P&L every day and they can see their performance or lack thereof, and I enjoyed it. I was lucky to work with a great group of people and enjoy my time managing money with Stark.

Ken Durr:

You were there for quite a while, I guess, right?

Marc Wyatt:

Yes, we were there in London for 12 years, and then the great financial crisis happened, and like most large hedge funds, we experienced some redemptions. The firm was looking to reposition their resources and assets around the globe, but my wife and I made a decision that we wanted to come back to Baltimore. So I told my partners it was time for me to head back home. Very amicable. I couldn't have been more pleased with the way they treated me as we made that transition. So I came back to Baltimore and the next phase is going to be getting to the SEC, but the reason why that came about was, if we had to go back in history, my wife would change our wedding vows for richer, for poorer, for better, for worse, but just not all day long. So she was itching me to go find something to do.

As I took inventory on my career, as we just articulated with this journey, Ken, I had investment banking and capital markets experience in my junior days and formative days in both Lehman and Merrill and Alex Brown, I had asset management experience with some world class investors at Stakr Investments, and as I tried to put a mosaic together about what's going to be shaping the industry going forward, it was really apparent to me that regulations were going to be exceedingly impactful, and I thought of maybe an opportunity for me to go see how the sausage was made. So that's where I threw my hat in the ring to see if there was an opportunity at the SEC.

Ken Durr:

So the idea being that with the financial crisis, regulation is going to become more stringent, more complicated, that sort of thing?

Marc Wyatt:

Yes, it wasn't going to dissipate or go away. If you're a student of history, it's not going to be exact, but it's certainly going to rhyme, and given the evolution of the markets and how quickly they are innovating, it was important for the regulations to do their best to keep up. So again, as I took inventory, I said, wow, it'll be great to see how they make the decisions. How do they factor various constituents' thoughts, even within the SEC, just to be able to get a front row seat?

So I applied to be a senior specialized examiner, which was as a result largely of Dodd-Frank. My role was in private funds. As a result of Dodd-Frank, the private funds were having to register with the SEC. I applaud the Commission at the time for looking to get additional subject matter expertise. So that's what I was brought on to help the staff across the board, mainly in examinations, but I was a resource and an expert on anything if they needed something related to hedge funds or private funds. That's how I joined the Commission.

Ken Durr:

The SEC position was pretty new at the time, and some of the concern was, well, how is the SEC going to get these senior specialized examiners to come in from these high paying private sector jobs? You would've been pretty early in that period. Tell me about some of the people you came in with and what was the general esprit de corps? The general motivations that people were sharing at that point?

Marc Wyatt:

I want to be clear, the senior specialized examiners were brought in to just add industry expertise. So not only did the SEC have people with extensive financial market expertise, but I remember they brought in people with oil and gas expertise, people with degrees in geology. So the things that surprised me, Ken, was that people weren't territorial or saying, "Oh, we do this," and obviously we have regions that operate their exam. I'm sorry, they manage within their regions, but if there was expertise in San Francisco and it was needed in our Dallas office, I mean Marshall Gandy could pick up the phone and say, "Hey, I want to take advantage of a resource in San Francisco," and Jina Choi, the regional officer out there would say, "Sure, have at it," and similarly with the private fund unit, what we were trying to do was we were trying to supplement, not supplant, the skillsets that were already in the Commission.

So I was always blown away by how deep their knowledge was. I'd always heard the criticism in my time with the industry, people saying that the business is outpacing the industry, people would say, "You don't know our business. You're from the federal government. You're not going to understand our business." I think what we did with the private fund units and other units within the SEC was to prove to people that we do know your business and we are going to be more risk aware when we do our examination. So you asked who I came board with. I think a great example is Igor Rozenblit who I started the private fund unit with. Igor was there when I arrived. He comes from a private equity background. I think Drew Bowden at the time was running the IA/IC program and he saw the opportunity to combine our skillsets and have that be a centralized resource to be deployed across the entire exam program.

So in other words, we would take best practices for previous exams, toolkits, what have you, and tailor them to not only the funds that we were examining, but to the risks inherent in those business. So there wasn't one universal toolkit that we'd go into a real estate private equity fund and then say, well, that same toolkit is going to be applicable to a quant hedge fund. We were lucky to have people in region that had a lot of expertise, and particularly in our New York office where people wanted to give back after having some lucrative careers, people would say, "Yeah, I'm going to go back and be a senior specialized examiner and help ensure our capital markets remain the envy of the world," and they were very accretive and helpful in setting the staff up to do more with the limited resources that any regulator has, much less the SEC with the largest capital markets to have to regulate.

Ken Durr:

So the two of you set up this private funds unit. How big was the unit? Did you have staff attorneys, people like that?

Marc Wyatt:

First it was just the two of us. So like everything else we had to prove our worth, and much like every organization, the SEC allocates resources based on what they see as a return on investment. So I think Igor and I, we over indexed to making sure that people saw value in having this specialization within. Then we did a handful of internal hires because there were people that had this expertise and had focused in regions, in let's say the Boston office or the Philly office, and we supplemented that again with some really impressive external hires, former general counsels and chief compliance officers from some hedge funds and some private equity.

So the team at its peak, I would say we were probably about twelve. Igor will have a better memory of that. I don't want to make it sound as though those twelve did all the private fund exams. Those twelve were resources. Any examiner in the IA/IC program at the time could be called upon to join an exam with a hedge fund, and if they came upon something that was either novel or anomalous or gave them pause, we were there to just be a resource. To run our slide rule over it and say, “Yeah, let's dig in here,” or you know what, 'Nothing to see here. You're better off moving on to the next high-risk registrants you have.” So that twelve was simply the people who are more day to day focused on it, Ken.

Ken Durr:

Okay. So did you do phone calls, conference calls? Did you get on the plane and go down and help with the exam?

Marc Wyatt:

Oh heck yes. We jumped on planes, trains, and automobiles. We'd go all over, and to me that was the best part, the engagement with the registrants. In the old days, I'm dating myself, but people know who's coming. So if you're a registrant and you get a letter that says you're going to be examined and here's the team that's coming in, you know as sure as the day is long, senior people in that room are saying, “Do a LinkedIn search or a Google search about who these people are.” I'm sure Igor went through the same thing, and look, those backgrounds of the staff are impressive enough. There are people with decades of experience who could probably cite, line and verse, the 40 Act and all of the rules necessary, but I remember pretty vividly going into some of my first exams and just sliding a business card across the table and you'd see the senior person kind of, “Oh, you're the person who's supposed to know our business.”

They'd test me a bit to see if I really knew my stuff, and then it would take the temperature down a bit, just like, okay, you get the joke, you know what we're trying to do here. You have a job to do as a regulator, and I think that was helpful, and I'm sure Igor and Jen Duggans got the same type of response when they went in. Overall, I hope what we did is we helped allocate time and resources in the most efficient way in private fund examinations because the goal is not to sit there and drink their coffee in a conference room for months trying to look for something.

From our perspective the goal was to focus on the high-risk areas. Let's test those high-risk areas. If those tests warrant that we drill down deeper, then yes, let's roll up our sleeves and get them a little better. If not, there are other registrants that we need to spend time on. So that's where I liked getting to know the registrant base and as well as the staff. I mean those were how you learned how people in the regions really knew their region and what the high-risk areas in their regions were and marrying that with subject matter expertise—again, in air quotes, subject matter expertise—that combination, to me, really unlocked the efficiencies that I think we were all striving for.

Ken Durr:

There have been some changes with probably a greater home office presence coming out to the regions just in the last few years. How were your relations with the folks in the regions? How did the home office people work with the regions?

Marc Wyatt:

I was always felt like I was met with a very strong welcoming environment. Each one of those, everybody talks about, and we'll get into this when I'm elevated to the leader of OCIE, but each of the regional offices has a different personality because each one of those regions has a different personality. So people said, "Oh, an examination in Dallas doesn't feel exactly the same as an examination in Miami." Well the people in Dallas aren't exactly clones of the people in Miami. So yes, they will have variations of it, but they also wanted to give you a feel of what they're contributing to the capital markets in their areas.

We all sit there and think about, oh, capital markets, it's New York Stock Exchange, it's NASDAQ, et cetera. There are market participants across the country, both in providing advice in public companies and across the full spectrum. I would say our regional offices, were proud of the corporations and registrants in their footprint and wanted to make sure that they could stay proud so there wasn't anything nefarious going on in their region. So, the cop on the beat, and we always used to talk about OCIE being the eyes and ears of the Commission, and it's true. I mean we are dealing with these people on a more frequent basis than other parts of the Commission.

Ken Durr:

Let's talk about something pretty big that you got involved in fairly quickly and that's the whole presence exam initiative. Give me a little bit on where that came from. It was private funds in particular.

Marc Wyatt:

So one of the ideas, and I think Drew Bowden was spearheading this as he was departing, and the thought process there was we have people who are going to be newly registered with the Commission and the number of registrations was growing exponentially over my time there. So we'll get into the numbers I think in a bit, but it was more difficult for us to keep pace, because obviously the SEC didn't get an unlimited budget, they were handed a budget from Congress. The Chair at the time then has to allocate down to the staff, and the exam program certainly wasn't growing commensurate with the number of new registrants and RIAs, et cetera. So the thought process behind the presence exam was, again, we don't have to go in and do a soup-to-nuts examination of every new registrant. But inside of a three- or six-month period, we wanted to send them a letter and just introduce ourselves as the regulator and having been a fairly educated consumer of document requests, what I would call a fairly light document request.

Just, "Here's a couple things, we've set this up. Can you send this to us?" And we'd run our slide rule over it. The compliance manual was always an easy one to take a look at. So if you would do a presence exam, "Hey, we're going to do this, we'll do it remotely. Send us your compliance exam. We could have people who look at it and you can pretty short order, look at the AUM, look at the filings, look at what they had and then see if their compliance manual was fit for purpose or not.

Ken Durr:

What's an AUM?

Marc Wyatt:

Assets under management.

Ken Durr:

Oh, of course.

Marc Wyatt:

I will not speak in acronyms. I promised you I wouldn't do that, and I just broke that promise.

Ken Durr:

It's okay.

Marc Wyatt:

The most important thing to me, and Drew may have a different perspective on this, was let them know you are regulated, and with that regulation is an expectation, and we work in an industry that specifically on the IA/IC side and the private fund side, I'm trying not to get all noble, but your industry's supposed to help people achieve goals. It's supposed to help people save for college, help people save for retirement, et cetera, and we wanted to let you know we take your responsibility very seriously and part of that is being compliant with the federal securities laws. So it wasn't intended to be a kind of shot across the bow, but to me it was kind of like, here's a reminder. You're in this business, you're newly registered with us, welcome, but as a result there is a responsibility to be a good market participant and here's our expectations of you as a regulator, as if you didn't know, but we just wanted to remind you.

Ken Durr:

Well, it became something like a shot across the bow though, because Drew called on you and others to pull together what became the sunshine speech. Talk about the process. Talk about how you pulled that together and of course how it was received and your response.

Marc Wyatt:

So the sunshine speech really came about, yes, there's presence exams and that was supplemented by ongoing risk exams. So the sunshine speech wasn't just as a result of presence exams. What we also had were some really smart people like Jim Reese and others who would help us put together risk profiles of the registrant base. That was overall registrant base, and then you drill down into the IA/IC registrants, and I'll drill down even further and say on the private side, and within that private framework there was some high-risk identification of a couple key issues: fees, disclosures and what have you. They let us do not just presence exams, but risk exams, and while we're doing those risk exams, there were themes that came out. Again, as the "Eyes and Ears of the SEC." It was those themes and findings that then led to the sunshine speech.

Now that got a lot of press, and I think for a number of reasons. One, people in the industry tried to look at it as though, "Oh, here is a regulator with a newly given mandate as Dodd-Frank with sophisticated investors who's now trying to make a case or a point about something." First of all, no one at the SEC said to Congress, "Can we please regulate private funds? That would be really a lot of fun. Can we do that?" It came down from Congress. So we had to meet that mandate. Second of all, the sophisticated investor dialogue, I have a little bit of a different viewpoint on that, Ken.

Yes, they are sophisticated investors in terms of the GPs, and the people that are running these GPs and these investments, but they're investing on behalf of endowments and those endowments are helping first responders, teachers like my mother. So when they say, "Oh, you're going after someone who is a sophisticated investor," yeah, but if that's sophisticated investor's doing harm, that end user is actually a mom and pop who had expectations about how their endowment or their portfolio would perform and deliver results for their financial goals. So to me, Drew's point on the sunshine speech was just that. Sunshine is a very strong disinfectant, and he wasn't saying it as if the private fund industry had a lot of ills to cure. He was more highlighting that if we can share with you what you're seeing, give you some opportunities to self-correct, therefore we won't have that issue with this because you could take preemptive measures before we even cross your threshold.

So that sunshine, everybody's like, “Oh, he's pointing at them.” He's like, “No, I'm pointing at myself saying I want to be very transparent, and what I'm telling you is what I see as the key risks.” If you choose to take a chance and say, well, A) I'm going to play the odds they don't examine me. B) if they do examine me, they're not going to focus on that, and then C) I'll be able to snow them over with a whole bunch of paperwork or just jargon and they'll go away because they don't understand my business. Drew was basically putting the industry on notice that that's not going to happen. So I will be blunt as always, I was really surprised about the response to the sunshine speech. I don't think Drew or Igor was, but I was.

Ken Durr:

Because there was such substantial backlash?

Marc Wyatt:

Yes, and he was very prescriptive in areas that he saw of potential violations of the federal securities laws.

Ken Durr:

Right. You talked about themes that emerged and those were the themes that came out. Can you remind me what some of the big ones were?

Marc Wyatt:

Yes, fees and expenses. Some of the funds historically would have several funds operating at one time and some of those funds may have different fee structures, and Drew was just highlighting, be careful how you make allocations of investments to ensure that it's on an appropriate basis and not always favoring ones that benefit the GP or the person making the allocation. He was very clear on valuations, making sure you had robust frameworks for valuations that can be justified over a cycle. Let me pull on that thread for a second there. When Drew spoke about valuations, I thought there was an unfair retort from the industry about how do you know how to value a company? What are you going to tell me it shouldn't be eight times EV/EBITDA. Drew was never saying here's one right way to value a company.

Drew was just trying to suggest if you're going to choose a framework—and we didn't say that you had to set these in stone—but if you choose a framework, make sure you're consistent across. The other theme that was coming across is people were cherry picking their comparable companies. So you'd see the comparable company list changing, which was always keeping the valuation at a relatively high basis rather than having some consistency and/or flipping between, I’m going to do, back in the day, I'm going to do EV to revenue and then EV/EBITDA and then, no, I'm going back to revenue and just jumping back, whatever suited a more beneficial valuation.

And conflicts of interest, as I mentioned before. At least we tried to be fairly clear. We're not saying you purposefully have this conflict and you had this nefarious attempt to try and do ill, but if you don't take a clinical look about your business, it may have grown and you don't realize you have an inherent conflict that you just haven't addressed, and it wasn't out of malice, it was just out of growth or some business opportunity. So we wanted the registrant base to take a fresh look and step back and say, okay, where is our business model? Where do we make our money? How are we charging for that? How are we making decisions about allocations, et cetera. So those are the ones that I recall in the sunshine speech. I'm sure there were others that were...

There was something in it for everyone, Ken. That's I think what made it so impactful. When Drew had made the decision and I was being elevated to acting, he said to Igor and myself, he said, “You guys have to do a follow-up,” this is Drew talking, “because the industry deserves it.” I told him we were going to follow up, and then that's where I gave the “Look Back and a Look Forward” speech for the exam program and highlighted some of the findings since the sunshine speech until now, until the time when I gave the speech.

Ken Durr:

I wanted to get to that because you and Igor had established the private funds unit, so you're looking at these newly regulated entities. How did your private funds and examinations change from that early period, given what you're learning during the presence exams and all that? How did that develop over time?

Marc Wyatt:

So I think there were a couple of things. One, you get a lot of tips, complaints, and referrals when you're at the Commission. I'm going to get the number wrong, but I think they get close to 30,000 tips and complaints and referrals every year. If you just do the simple math, a fair portion of them, not all, but some small portion would then go into the private funds cohort, and so you had to run those to ground. In the post-Madoff world, you had to go look at those. So they steered some of the examinations. So I'm giving you “why did we go examine some people?” Tips, complaints and referrals were one of them, and look, some of those tips, complaints, referrals, again, just former employees. Okay, we'll take a look at that. Some of them are neighbors who are unhappy about a fence being put too far onto their property and they're going to try and call out a friend and make some salacious comments.

So you got to weight these things appropriately. So you had those. Then you had cause exams whereby if I go back to the risk team, Jim Reese’s team, they would say, “Hey, this private fund has had three chief operating officers in the past year.” They've had tremendous growth, and we want to make sure that they have the commensurate compliance framework for that growth. Oh, by the way, the same can hold true on the downside. If people had a good economic model for a number of years and then for whatever reason, some reasons maybe outside of their controls, assets under management or the pile of money they're managing starts to shrink dramatically. Some people may take shortcuts to try and retain a given economic base. So my point is tips and complaints and referrals, some of them. Some of them would be for those cause exams that risk would identify.

Then we would go and say, okay, here's some behaviors that we want to go look at, and we would choose funds that were operating in a high degree of velocity in that behavior. Now, again, I want to be very balanced here. There are some funds in the private space that anytime you pulled out a risk area you wanted to go examine, that fund could be a good candidate for that. In other words, you could just go and look at valuations, conflicts, fees, you name it, at only a handful of funds, and that wouldn't be fair to them. So we tried to say, “Hey look, if you've been highlighted in one risk area, let's make sure that we're not following them up and then a year later with another risk area.” So that's where we went and look, we also wanted to test some thesis. Igor would say, “Hey, I think I have a theme of blank.”

Again, we'd be very judicious in who we chose and we'd go out and press that thesis and there were times he'd come back and say, “That wasn't accurate.” So therefore we don't have to continue down that train of thought or that examination framework. Also, the exam toolkits were evolving. So you asked how it evolved. It evolved from a very broad, “Okay, let's make sure we get at least these modules in when we go to every exam,” to by the time we were a little bit more seasoned and knowing what we wanted to look at, they could be very refined and therefore more effective in looking at the highest risk areas and more efficient from the resources dedicated to doing an examination of that. Now by the way, if we go into something and find something in that very specific area, it may lead to examinations of adjacent area because when there's smoke, there's fire.

So that's where I think everything evolved. I think we got a little bit more... I shouldn't say that. I believe under Igor's leadership, we got a lot more efficient knowing what we're looking at, and deploying the resources more effectively, and then coming back to the lab, distilling it, and sharing it. Anybody on the national exam team at the time could benefit from every examination result. Not only that, but they didn't have to traffic through every findings letter. We would have meetings and share, national meetings, Igor would speak. We'd have Jane Jarcho, Kevin Goodman or John Polise, et cetera. These leaders would speak and say, “These are the themes that I'm finding.” The people in the regions would similarly say what they're finding. So the point is dissemination of that information, allow the entire exam staff to benefit from every exam, and to see if there were lessons learned that they could apply to either current exam or their future risk based exams.

Ken Durr:

You're also developing the national exam analytics tool at this point, which is, I take it, an attempt to bring this information together for everybody and to consolidate a lot of rapidly developing information. Is that right?

Marc Wyatt:

That's exactly right. So the national exam analytics tool we called NEAT. That was a way that we could ingest trade blotters. So going way back in the day, the way a trade blotter would get examined is you would ask for just all the fields, and we were very prescriptive about what fields and how we wanted the data to come in. Then the exam staff would use, I'm not saying they didn't use any quantitative tools, but I'm going to oversimplify it to give you how NEAT came to be so effective. There was pattern recognition requirements so that you were relying upon certain examiners who had gone through a countless blotter reviews and they could highlight areas of focus. What we did with the quantitative team up in New York is we tried to take it out of everybody's brain and put it into an analytical tool.

So what would happen, instead of an exam staff saying, “Oh, I'm going to take this in, I'm going to pop it up on Excel and let me pour over it for three days, look for cross trades, look for trading in close proximity, all those kinds of things,” you would take that same data, and sometimes it could be very voluminous data for some of the registrants that we were examining, and enter it into NEAT. Then NEAT would pop up and say, “Based on the criteria and what we see here, here are the three things that you should look at. Here's trades in this date range that look anomalous. Here's what appears to be elevated trading activity,” when historically they hadn't traded with that type of velocity in the past. It didn't say, “Input your blotter into NEAT and out spits a findings letter. That's not what happened.

All it said to the exam staff is, “Hey, you might want to look here,” and that didn't prohibit the exam staff from looking anywhere else. It just helped them refine what they were going to be looking at. That tool continued to evolve while I was there. I'm sure it did under Pete. I'm sure it did under Dan, and I'm sure it is under Richard. So that is continual improvement, to try and optimize what can be very tedious. I mean, trade blotters are tremendous files. Again, I want to stress, it was just to say, look here, not automating a finding letter.

Ken Durr:

You mentioned quantitative staff in New York. Was that the New York Regional Office where people were doing this work?

Marc Wyatt:

Yes.

Ken Durr:

Okay, so they developed the basics of this?

Marc Wyatt:

Yes, with the staff. So they were the lab, if you will, and then the scientists were throughout the exam staff. Then you have, just like everything else in my experience in this business, when you deploy a tool, some people are going to be reluctant to use it and say, I don't know this, I don't trust it. And if you can just get a couple of power users in each region, that kind of testimonial helps get broader adoption. Now, at the time, we were very adamant that "Please use the exam tool." We spent a lot of money getting it, but to me it was kind of like that old Life cereal commercial. A couple of the regions would have people that are like, "I'm never doing that," and then finally when they used it, they're like, "Hey, he likes it. Hey Mikey." I mean we had literally that type of epiphany with people. The team up in New York was run by a guy named Elcin Yildirim, who was a quant himself. I believe he's still with the staff up in New York.

He built a quantitative team to do exactly what we were just talking about, but not solely related to the trade blotter. So he was attracting a tremendous amount of talent because he set a bar very high for quants, and if you were able to get entry into Elcin's team, you were considered at the upper echelon. So what ended up happening after NEAT got created and he did some of his other magic, problems showed up on his doorstep. And as a result of those problems showing up on his doorstep, he and his team would triage them, prioritize them and say, "We're going to create the following tools to help the staff be more effective." He liaised a lot, at the time he was within the exam staff, but I know he had liaised a lot with other parts of the organization like trading and markets, like DERA at the time, the Department of Economic and Risk Analysis.

So my point being the exam staff wasn't siloed, and that's another thing that surprised me about the Commission. I didn't have to say, "Oh, who's my OCIE expert?" I could ask the question, "Oh, who is the expert?" and they'd get together and these people would get in a room and, look, I should have said this at the outset, the comments I make are my own and don't reflect those of the Commission, the Commissioners and their staff. In my humble opinion, the reason why that disclaimer gets provided is because people within the staff disagree with one another, and these are seasoned people who have been doing it, who get the joke, and that's what I like. I liked being in those rooms where we're really debating things and having people, practitioners, with lawyers, with accountants, with quants and those types of things, that's how we made better tools and decisions.

Ken Durr:

Yes. Well this would've happened a lot more because at this point you're becoming acting director.

Marc Wyatt:

Yes.

Ken Durr:

Was that a surprise or were you kind of on that path?

Marc Wyatt:

It was a surprise. So I hope Drew will forgive me for this. Drew asked me to become the deputy director and I was really enjoying the work I was doing with Igor and I thought we were making a big impact. I was flattered. I mean I was really flattered. Drew did a great job positioning it, getting it to work with other parts of the organization like the broker dealers, FINRA, PCAOB, MSRB. So my aperture just went out really wide as a result of being deputy director. I was drinking from a fire hydrant. We as a leadership team had phenomenal subject matter experts leading each one of those teams.

Then my world got rocked when Drew was like, “Well I'm leaving.” Mary Jo said, “I'm going to name you acting director,” which, again, I was very flattered, and it was a tough role. Any acting role is tough. I don't care whether it's in the federal government or it's in any type of large organization because at least in my experience, there's a lot of decisions that have to get made. You want to be decisive, but you also don't want one of those decisions to be the ones why someone says, “Well, that's why he shouldn't be the permanent director.” So the acting role gave me an opportunity to get my sea legs under me as a leader of a very large established organization.

The average tenure of the staff when I joined was roughly 20 years. So these are very seasoned professionals who have been doing this a long time. They had just watched a couple of directors turn over. Lori was director for a very long time, and then Carlo came in, and again, relative to Lori, he was quick. Drew was relatively quick. I'm not saying that it was overt, but I can surely appreciate if someone who's been there a long time looked at me and said, “Okay, young buck, I'll wait you out. So let's see what you want to do. I'll see if I agree with it. If I don't, eh, we'll move or maybe we won't move.” Being acting was a challenge, but also I think that challenge made me see exactly what I wanted to do if I were to get the opportunity. If Mary Jo were to give me the opportunity, I knew, okay, these are the action steps that I wanted to take.

Ken Durr:

So you're kind of making a list.

Marc Wyatt:

Yes, but that makes it sound like I'm making a list of people. No, I was making a list of projects and initiatives that if given the green light, I would try to get buy-in from the team and be able to deliver to Mary Jo on her behalf because it's her Commission.

Ken Durr:

Well, we just got done talking about the quants and the quantitative analytics unit is one of the things that happens when you're in there, right?

Marc Wyatt:

The quant unit predated me a bit, but I think the way we used it was trending in that direction anyway, so I can't take credit for how it was getting... It was doing what it said on the tin, Ken, and as a result of that, it got more and more, like I said, projects just dumped on their doorstep. But then we were able to supplement it because, just like any large organization, we had unlimited needs and wants and a small budget. When you have to go in, specifically with technology budgets, and arm wrestle with other parts of the organization, Elcin and team gave me a whole lot of ammo to say, “No, no, no, this is why we should grow this team,” and that's why I was able to get that attention within the Commission. So that was the quantitative. The one that we created, a number of things that we did to change it, was the risk team under Pete Driscoll, and that was just to formalize a lot of—

Ken Durr:

That's the Office of Risk and Strategy, right?

Marc Wyatt:

That's correct.

Ken Durr:

Okay. Give me some background on that and how that was different.

Marc Wyatt:

It really formalized what was being done a little bit behind the scenes, and there were a number of reasons for that. The Commission is, I like to think, a very forward-looking organization. So they're trying to anticipate things, but at the same time they have to respond to market conditions and crises. So back in my days when I was managing money, we would gather around the room on Monday mornings and we would say, “Please don't share with me what's right in the portfolio. Please pick it apart and say, 'Hey, we've got the following that's wrong. Here's our biggest risks,'” and someone in that meeting might say, “I think a big risk is an alien invasion,” and we would say, “Thank you for that.” We put a very small probability on it, but now it's in our risk inventory.

When I was working with Pete, we would say to ourselves what's our big risk? What are our big risks in the next month, next quarter, the next year? We just realized that there wasn't some systematic way that we could inventory and prioritize. Pete's background is very impressive, but he's got accounting background and risk background and had been with the SEC in Chicago office and then was in D.C. He was Drew's managing executive, and he could shift through the noise to find the signal. Pete would say, “Hey, in my conversations with registrants, with the exam staff, with other risk people in the industry, here's the biggest risks that we have.” So that would help us say, okay, if there was a risk, if so, what are we going to do about it?

That's what we would then say, “With these risks, we'll prioritize them, if they need to be disclosed in our national priorities, we'll dedicate resource for staff. We'll create specific kits and then we'll follow up and say, ‘Hey, we said this was a big risk. Did it happen?’” Because if it didn't, we want to know why, and obviously for the sanctity of the market, sometimes we're glad they didn't happen, but also, did we get something wrong? Did we think this was going to be a big risk, stack a whole bunch of resources about it and then found out it wasn't? So that's where that group came about.

Ken Durr:

We talked about quants and we got to the Office of Risk and Strategy. Other sort of leading-edge kind of things: cyber security, technology controls. You had Reg SCI come in at some point here. These are all things that weren't anywhere close to being in the toolbox, just a little while ago.

Marc Wyatt:

That's very true. So Reg SCI, I'm going to get the number wrong, but if I recall correctly, somewhere like a 750-page ruling, and it created a lot of hubbub because it had a lot of things in it that sounded very prescriptive, that the registrants impacted by Reg SCI were afraid that we'd come in with a 750-page document and say, “Okay, we're going to go soup-to-nuts, run all over your organization and ring you up front, left, and center,” because they didn't have time to comply. I mean, the rule came out, they read it, they're trying to comply, they're trying to get their houses in order. So I would like to think, maybe those that were examined in early days would disagree with this, but I thought we were fairly careful about going out. So Ed Schmidt was running the technology controls program at the teim and that team got stood up as a result of Reg SCI.

That was largely to try and, again, supplement skill sets with people who knew technology better than the average bear. How's a stack line up, where you have permissioning, all that kind of stuff. So Ed did a good job about getting a team stood up, getting them trained up about what we need to do, and working with the legal folks on the staff about the true requirements of the rules. It's written in the rule, but you’ve got to make sure that you're interpreting it and appropriately putting it in practice. So what we collectively decided on Reg SCI was just like we took from Pete in the risk-based framework, let's not try and go down a 300 point checklist on

Reg SCI. Let's go talk to a registrant, figure out where their high risks are, and then learn from them what they're doing to mitigate those risks.

If we were comfortable that they were taking the right actions on their biggest risks, there was no sense for us trying to go down to number 11, talking about permissioning in a test environment in a BCP site. That's not the big risk. Let's get to the big nuggets, make sure that we were getting them, what we saw as their key risks, and there was a lot of back and forth. I think we struck the tone right by being transparent, letting them know where we saw the key risk areas, and I think as a result, people tightened their security. I know as a result, they tightened their security. It was difficult for us to see how the technology spend changed because there was so much else going on in the industry. We could sit there and say, "Hey, look, tech budgets had grown up X," and we could say, "Oh, that's a result of trying to comply with SCI," but in all reality, data was going through the roof, complexities going through the roof, interoperability was becoming more important.

So there were a variety of factors, but as people were trying to make those decisions, they now had a regulatory framework and a chief compliance officer hopefully was looking to say, "Hey, here's what we need to do to make sure that we're in compliance with Reg SCI while you have that open and you're making these changes, our code or protocols, our permissioning or what have you."

Ken Durr:

You're talking about a process where the exam program is kind of helping the people in the markets along in a way, offering some advice, that kind of thing. Historically, that's always been the case to some extent. What were some of the outreach programs that you undertook or that you beefed up while you were director?

Marc Wyatt:

That's one of the things I was really surprised at, Ken, is the outreach. I'm not just talking about comment letters coming into the secretary. I'm talking about literally having outreach where registrants can come engage with staff on a no names basis. Mavis Kelly at the time, I remember down in D.C., she would have all these signs in her office about OCIE Outreach, and when we went out to the regions, we would bring them out and set them up and have conferences and be an open forum. I can see why people may have reluctance about, "Hey, I don't want to talk to a regulator about where the line is, or I have a problem," et cetera, but I was surprised how often they did. I was pleased that we elevated that to some formal outreach to some of the large registrants. So with our colleagues in IM, like Norm Champ or David Grimm, we would go out and meet with the leadership of the largest asset managers, the largest broker dealers.

We would open the meeting by saying, "Look, we're here to be a more effective regulator. You are a market participant. You will see things that we don't see, and we want to build a relationship so the first time we meet with you isn't under a mushroom cloud. So we want to really make sure that we understand your business, and we also want to understand if the industry's taking on new business and you're choosing not to participate in that, why is that? Is there a risk you see inherent in it? Is there a conflict you see inherent in it?" So the regular outreach was phenomenal. This large firm engagement outreach was good. I do think people underestimate the speeches, but I do think they're an important way of communicating with the registrant base.

Ken Durr:

Do you mean the speeches you would make, or officers?

Marc Wyatt:

Anybody on the staff making speeches. Look, we would work with any one of the Commissioners or any one of the other directors, any leader at the SEC, and if they wanted data from OCIE, we would provide it to them, and if they needed perspective about where we saw risk, we would provide it to them. So we were the eyes and ears of the Commission. So as a result of that, we wanted to make sure that everybody had the opportunity to consume what we were seeing. We tried to distill it as best we could and get those themes that we talked about with Jim Reese and the risk teams, et cetera, but the outreach I thought was powerful. I mean, learning things from the registrant base, they would be very candid. I mean, it was what worked and what didn't work.

Everybody talks about what is an effective exam, and I said this in one of my speeches. If you ask the average registrant what's an effective exam, they'll say any examination that doesn't include my firm. In reality, an effective exam should be getting to the heart of the riskiest matters that you have, ensuring that there's nothing that could harm investors and nothing nefarious that could harm the capital markets either. The outreach really was, it helped inform a lot. I think Norm got a lot out of it. Dave got a lot out of it, and we'd come back and share that with the likes of Keith Higgins or Steve Luparello or you name it. We would share it with other people.

Ken Durr:

One last smaller initiative was a retiree initiative that I think that was on your plate early on. Tell me a little bit about that one.

Marc Wyatt:

Yes, it was as a result of demographics, because we had a lot of, still do have a lot of, Americans who are retiring and had put their money to work with a variety of advisors to serve a purpose, and that time was coming due. What we wanted to ensure was, A) were they getting the right amount of disclosure that they needed for the risk they were taking. B) as people may have been transitioning from one manager to another, were they, again, being fully disclosed and were people being transparent about what services they were going to provide and how it was going to change versus what they may have previously been consuming? Also, it's sad, but it also is a community that's often targeted by nefarious actors. So we wanted to make sure that we were doing our utmost, again, back to the outreach and transparency, make sure we were holding outreach with the investors.

So we would go to parts of the country where more of the population may be in their retirement age and say, “Here are the frauds that could be perpetrated against you.” We were trying to arm them and their caregivers with warning signs and just more information so they could be a little bit more astute as they were engaging in what should be some of the happiest days of their lives and not wanting them to have a completely catastrophic outcome. Amongst the things that I experienced at OCIE, that's probably one of the more personal gut-wrenching ones that I saw in terms of the amount of affinity fraud that would take a place in a group or a community and how people would just, to their own family and friends, leave people just shattered, all in chase of the almighty dollar, Ken. That was pretty hard to see.

Ken Durr:

Okay. Well let's shift gears then. The big thing that we haven't talked about, and it really is the big thing, which is the investment advisor/investment company challenge. OCIE had been dealing with this for more than a decade at least. Give me some of the background on this long-term problem and how you started to grapple with it as you came in.

Marc Wyatt:

Well you touched on so many of them in your earlier questioning - Risk aware, limited resources, leveraging the staff's expertise and trying to make sure that we were getting the highest return on investment for the assets that we deployed. So when we sat back and looked at the industry as a whole and the resources that we had dedicated to them within the broker dealer program, they have an SRO or self-regulatory organization in FINRA. FINRA is a very strong regulator. They have tremendous amount of resources. We talked to the registrant base. The frequency of a FINRA exam was roughly 3X or 4X what we were getting to in the broker dealer program. So what you may have a registrant, go through a FINRA exam and then you'd have the SEC come in in a short period of time thereafter, be it a year or year and a half, what have you.

Then the registrant basically says, “Why am I going through this twice?” You just had a self-regulatory agency come through here. If they found something, then yes, we may come in to say, okay, we have to look at this ourselves and maybe have an Enforcement referral, et cetera, but on the other side, on the IA/IC, there was no such SRO. That responsibility was all SEC, specifically OCIE. We were responsible for that and we had an examination rate I think when I sat down in the seat, roughly 12% to 15%. So if you do the math, that's roughly every eight years, wasn't true, but that's what people would say, when people would get examined. So we had a fairly sizable, the IA/IC program was fairly large under Jane Jarcho. We had a fairly large BD program, broker dealer program rather, with examiners in there.

What we went forth to Chair White and the Commissioners, we’re saying, “Allow us to re-deploy those resources.” Take them out of the broker dealer program and make these examiners part of the IA/IC program and create another unit that will be totally focused on making sure FINRA is doing their best. So instead of going out and chasing the broker dealers, which they still do, which is important, but it's just a smaller group of people doing it, this was saying to FINRA, okay, we're going to make sure that you are that cop on the beat and really get into how they're deploying their technology, how they're using examinations, feeding what we're learning from our examinations, making sure they're being risk based as well. So the challenge was trying to get that exam staff to buy in to moving over because despite my comments earlier about it being collaborative, which it was, you wore a broker dealer hat as a member of the staff or you wore an IA/IC hat.

I don't think we ever had a softball game where they played each other, but if we would've put bats and bases out there, they would've got at it at some point. My point being, there was a little bit of, “Hey, I'm this part of the group and you’re that part of the organization,” We were essentially telling people that, “yes, you've been a wonderful broker dealer examiner for 20 years. We're now asking you to move over to the IA/IC program and learn.” A lot of the skills, intuition, frameworks that you develop there are going to be applicable to the IA/IC program. What we were pleased to find is when we first made the announcement, I'll never forget, there was an audible gasp in the room. So after I made the announcement, I had to say to everybody, “Okay, everybody breathe. Everyone breathe.”

I thought we did a fairly good job. When you talk about making that move, there were months, if not a year, of planning behind it, working closely with Jane Jarcho, with John Polise, with Kevin Goodman, with the whole leadership, Pete Driscoll, just trying to make sure that we optimize the resources, creating the right framework, creating the right career path, working with Greg Gillman in the union and making sure that we were giving them opportunities as well to help shape this. I thought it was going to be an outright fist fight, honestly did. I thought it was going to be a drag out, take forever. After the initial shock wore off and after you could give the rationale for it, people got the joke and then people bought in, and I was very pleased when we did the first, I think it was an indicative survey. Where would you like to go, FSIO, stay the BD program or go to IA/IC?

Ken Durr:

Right, FISIO.

Marc Wyatt:

FINRA, what is that acronym? We have too many acronyms. FINRA and Securities Industry Oversight, I believe.

Ken Durr:

It's the oversight program.

Marc Wyatt:

It's the oversight of FINRA. So I was surprised how many people self-selected to go over to the IA/IC, and I was very proud of that. I think that was a testament to them saying, "Yeah, we understand where the SEC has its biggest risk." So if you're sitting in the Commission and the chair owns this, I'm sorry, the Commissioners own it, but also directors own it, that headline risk is omnipresent, right? You wake up and you see the *Wall Street Journal* and we miss something collectively, that's not good for any of us. So what I like to think is these great examiners who've been doing this a long time said, "Yeah, I understand that's the biggest risk and I'm willing to take my toolkit, my experience, my intuition, and go on the coal face and help the cause." So I was very, very pleased about that.

We did end up getting the exam rate to go up. Now I want to be very clear, that is a result of a number of factors. Presence exam elevated it. More risk targeted exams elevated it. I also think from that perspective, we were able to put OCIE in a slightly better place. I inherited a great organization. I think we just optimized that great organization from a structural design and risk awareness perspective, and then I think honestly Pete Driscoll took it to another took it to another level.

Ken Durr:

You're describing a big redeployment exercise essentially. Was that redeployment finished by the time you were getting ready to head out, would you say?

Marc Wyatt:

Largely it was finished. I think you can argue they were buttoning down some of the last kind of retraining and supplementing people's toolkits, et cetera. Yes, that was by and large complete. That's another thing that surprised me, how quickly once people bought in, they mobilized, they got on the ground and got things running, and that's a testament to the regional offices as well because if you think through that, they're running their own office and then here comes some clown in OCIE saying, "Hey, I'm going to change some of the stripes on your team." They were well aware we were doing it, and it wasn't a surprise to them, but they had to live with the data headache. We had it in D.C., in F Street, but making sure that you're taking in consideration what could happen with Marshall Gandy's team down in Dallas or Eric Bustillo's crew in Miami, or Walter Jospin's office in Atlanta, et cetera.

Ken Durr:

Let's back up a little bit. You talked about the solution, you came to that problem, but there's some other solutions discussed. There was the idea of third-party exams, for example, which I think was something that you were suggesting would be a good idea. Talk about how that gathered strength or didn't in the SEC. What were the pros and cons?

Marc Wyatt:

Well, I think the genesis of it was just that coverage rate. I could scream until I'm blue in the face that the rate really doesn't matter, that we are pursuing the highest risk registrants and/or informing the Commission with the exams. So the number, while important, shouldn't be the sole determining factor of success of an examinations program, but again, when you compare it to the exam rate of FINRA, it sticks out like a sore thumb on the IA/IC. So you had very smart people, Mary Jo included, saying, what could we do to try and get that rate up? There was never going to be the concept of an SRO for the IA/IC just because there wasn't a natural affiliation between the investment company people, RIAs, et cetera. You couldn't find one existing organization to say—by the way, getting them to do that would be a different discussion—there wasn't a natural person to go to or a point company to do that.

So there was consideration of who do we have our teams? Could we have third parties go in and conduct exams, and then those exam results would be filed with the Commission and our teams would, in addition to doing exams, we could set up a group that would review the reviewers to say, “Oh, as a result of that, this is where we need to go.” So we wouldn't acquiesce and say, oh, they are an extension of OCIE. We would say, here are the factors or risks we want you to look for. Go examine for them, bring them back. A concept that was easily applicable was kind of like an auditor. The auditor goes in, does a review, says here's things to improve, et cetera, but if things are so egregious, you may have escalation as a result of that audit.

Same principles could hold here, but what we were struggling with was getting buy-in from people, the industry didn't want it because they were saying, who would it be? Would it be people from the PCOB community? Would it be something like equivalent to a rating agency type of thing? So any time you introduce a new body that's going to come in and then give information to your regulator, I don't begrudge them for having consternation about that. Then it was also, what authority do we give, under what authority are we going to monitor them, how do we make sure that they don't become a captured extension of the registrant base?

I think there were mixed feelings within the building about having that power extended to someone outside of our agency, and I respect that a lot. I just, for my own two cents, liked more data that was in the exact form that we wanted it and risk aware when we wanted it. So that could have been very good. By the way, on data, while I was at the SEC and obviously with Reg SCI, data for any regulator is a mixed bag because, yes, you always want it, but when you have it, you have to have a means by which you're going to consume it because as I mentioned with that headline risk, if you don't consume it and something happens, a market participant will say, “Wait a minute, you had that. You should have seen that. It was right there in that filing or that series of filings where you should have seen that.”

So data is always, I understand why people want it. I just want people to be very careful about what that optionality doesn't only go one way, it can cut the other way as well. Getting back to the third party exams, a lot of work went into it. A lot of work across IM, across DERA. A lot of smart people spent a lot of time trying to get it done. In the end, there are certain areas where I think there is a prioritization that every chair and every Commission needs to take, and I just think we didn't have it baked enough and it wasn't going to be a panacea enough for people to want to push it through. If it had all the aspects of the magic bullet, you could do all the things that in my utopian world it would've been able to provide, I think we would've been able to do it, but smart people were able to poke holes in that and say, well that's not going to happen, so therefore, it never came to fruition.

Ken Durr:

So the Commission wasn't really sure about it.

Marc Wyatt:

Yes, in my dialogue, because based on the Sunshine Act, the discussions you have with Commissioners are bilateral. So they're not talking to one another, “Hey, I don't like it, I don't like it.” The concerns you would get from certain Commissioners, and look, sometimes I was flattered. They were looking to say, “Well they're not OCIE, and so I don't want someone else, not OCIE, going in there.” They like the product that we're putting out. So I just do think there was a calculation that said, you don't want to burn political capital in that, and other things were done. Look, the work was put in place. If a future chair decides they want to blow the dust off of it and get it going, I mean that wouldn't be the first time that work had been put in and then it gets revived as a result of either a new regime and/or a new crisis.

Ken Durr:

So you've done this reallocation to tackle the investment advisor issue and that leaves you with the broker dealer exams. Is it correct that you're essentially really down to an oversight position there?

Marc Wyatt:

I can speak to when I left, it was supplemented with a group who was still doing a broker dealer and an exchange exam. So it wasn't solely based on Kevin Goodman at the time was running FSIO. It wasn't solely based on overseeing them. We had a guy named John Polise was running a group that also could go into other broker dealers in addition to FSIO, but to me that was more a statement of where do we have risk? Where are we going to make our reliance? If we're going to rely on FINRA, let's make darn sure that they're doing exactly what we need them to do and kind of be in their kitchen with a lot more voracity than historically we would've had the opportunity to do.

Ken Durr:

By having examiners who could go in and do the exam themselves.

Marc Wyatt:

Yes. I always used to, and it may be inappropriate for me to say this, but I'll just let you have it. I always asked registrants, where do you rank the SEC in terms of all the regulators you have? Specifically, this is more acute if you're doing some of the larger broker dealer and banks, et cetera. They would always say the Fed, Treasury, OCC, and even FINRA, they're always in here. We pretty much could call that conference room right there the Fed conference room. FINRA's in here. We would be in there, and so we're not an afterthought, but we didn't have the frontal lobe the way some of the other regulators had. So my point to that was, if FINRA's already in there, they already have that kind of market share in terms of the mindset, let's make sure they're spending that mind share on the right risk that they have.

A lot of the people I think who are running, Richard Ketchum had just left, Robert Cook had just come in, I think they had a good leadership team who kind of got the joke and I was just saying to myself why don't we be as good as a regulator of them and let our resources go fill that hole? It wasn't a hole, Ken. It was close the gap. That, again, perceived, oh, the number's too low. People ask about Enforcement and OCIE's relationship with Enforcement, and we talk about the exams, and at the time I was at the Commission when I was leaving the Commission, I remember fairly distinctly, people were always saying, “Oh, you're just a leading edge for Enforcement.” No, no. We make our own assessments. We make referrals and our partners in Enforcement make a decision whether or not they want to take on that referral.

So if you go through the exams at the time, we would have roughly ten percent, maybe twelve percent of our exams would get referred to Enforcement. We would have roughly ten percent to twelve percent of exams that would have no findings letter, and I know people are going to look at this and say there's no such thing as a no findings letter. I can tell you there is a no findings letter, and we give them out ten percent to twelve percent. The rest of the time, we have a finding of some sort. People look at that and go, “You've got to be kidding me. Seventy-five to eighty percent of the time you have a finding.” I say, well let's be careful about that because it is a finding. What does that mean?

I've been a consumer of legal financial services for close to thirty-four years. Holy smokes. I have never handed a contract to a lawyer and he or she handed it back to me and say, “Marc, that's a beautiful contract. I don't have any comments on it.” I have never gone through a public company audit and have the auditor come back and say, “I don't have anything to suggest to you. You've got this accounting stuff sussed. We're going to just leave here and just having had no ink left our pen.” This doesn't happen. What is the SEC made up of, specifically in the exam program? We're lawyers, we're accountants, we're quants and market practitioners. There's always areas for improvement. So let me just go back to that seventy-five percent to eighty percent. It could be as simple as, yes, you can tighten the following up. There's an area for you to do a little bit of enhancement there. If you're a registrant and you get that type of letter, that's an opportunity for you to be better serving your clients as a result of that. That's kind of a good outcome for all market participants.

Ken Durr:

Yes, that's great. I think we've covered everything on my agenda. Is there anything that springs to mind that we should touch on?

Marc Wyatt:

I would be remiss if I didn't say that my days at the Commission were some of my best days in my career. I think the work that the staff does is very important. It's very hard, but it's thankless. As a market participant myself now, I thank them for the staff when I was there, for the friendship and camaraderie. I still talk to a number of them, but I also thank the existing staff because I know they're going through the same stuff that we went through at the time, and they're the ones who are keeping the United States capital markets the envy of the world. So I just want to say thanks.

Ken Durr:

Yes. So what was the next step after you decided to leave and why did you decide to head out?

Marc Wyatt:

I'm born and raised in Baltimore, as you know, or as I said. So T. Rowe Price is a name that I'd known forever, and when I got the opportunity to join T. Rowe, I was over the moon. It was a shockingly hard decision for someone who was loading computers destined for T. Rowe in the loading dock in Dobbins Road when I was sixteen years old. So having this opportunity is just a once in a lifetime opportunity, so I took it. Mary Jo, and actually Mike Pivovar was the Chair when I left, couldn't have been more gracious in my departure. But it's helped shaped how I look at risk, it's helped shaped how I look at regulation, and it's helped shaped how I manage and try to deal with people.

Ken Durr:

So good experience all around.

Marc Wyatt:

Highly recommend it.

Ken Durr:

Well Marc, thanks so much for talking to me today. Your enthusiasm is palpable even though it's been a few years since you've been there.

Marc Wyatt:

Well, I appreciate the opportunity, Ken. I really appreciate all you're doing to keep OCIE's story going. So thank you so much.

Ken Durr:

All right, take care.

Marc Wyatt:

And you.