Securities and Exchange Commission Historical Society
Interview with Kathryn Fulton
Conducted on July 6, 2012, by James Stocker

JS: This is an interview with Kathryn Fulton for the SEC Historical Society's virtual museum and archive of the history of financial regulation. I'm James Stocker. Today is July 6, 2012. We're talking in Ms. Fulton's office at BlackRock's government offices in downtown Washington, D.C. Ms. Fulton, thanks very much for talking with me today.

KF: I'm happy to be here.

JS: We have got a lot to talk about, so I'll just jump right in. How did you get started in a career doing government relations for financial firms?

KF: I started working right after college at Morgan Stanley in New York. I was in the analyst program, in a generalist pool of analysts. I started out in the capital markets area, working in private placements. During my second year, I was a generalist in corporate finance and corporate coverage.

JS: If you don't mind going back just a little bit, I know you went to Amherst College.

KF: Right.

JS: Would you mind telling me what you studied there?

KF: I studied international political science. It had nothing to do with U.S. political issues. I wrote a thesis on Northern Ireland. It was not directly related to what I ended up pursuing for a career.

JS: Did you take any courses in business or finance?

KF: No, Amherst is a liberal arts college, so it was not a pre-business curriculum. I didn't take economics. I was straight down the line liberal arts, but I majored in political science. I focused on international issues in that context. I didn't take a lot of American government, or anything related to American political processes, except I took a lot of diplomatic history. So that probably gave me some sense of how things in Washington worked, just because of how important diplomacy is.

JS: When you went to do your interview at Morgan Stanley, did they ask you about your background in finance, how well you would understand that?

KF: I graduated in 1983 and analyst programs were just getting momentum at that point in the investment banks. My priority after college was to get a job, which is why I did not gravitate toward graduate school, although I thought I might eventually attend graduate school. A lot of companies recruited on campus, and I talked to several, a wide variety – advertising, etc.

The investment banking positions were very competitive, and we had a lottery. I didn't think I could make the lottery, just by virtue of the fact that I thought that maybe they were seeking economics majors or math majors, etc. What happened for me was that Morgan Stanley was very thorough, and they called the college and they said, "Give us some names of people whom we should meet who did not seek an interview." I thought that was impressive. That's how my name made it onto the schedule, and I was the last person on the schedule for both Morgan Stanley and Merrill Lynch – the same program.

I got offers from both. What became clear to me was that it was great to have people who were math whizzes and had an economics background, but what they were really seeking were people who had a good liberal arts background and who could speak and write and get along well with others, and juggle a lot of conflicting requirements, and work hard – really hard. I think I was able to demonstrate those qualities, and so it became clear to me that it wasn't math whizzes they were seeking. They were looking for people who would work well with others, who would be part of a team, etc.

I started at Morgan Stanley in capital markets and private placements. There were about thirty-five or so analysts in my class at that time. There were people who were quantitative, and there were people with backgrounds similar to mine, and they put us in suitable positions. So it was wonderful. It was just an incredibly quick immersion. They were very supportive. There was a lot of very smart people, and it was very good built-in network of friends, because there were so many people right out of college in the same position.

JS: How did you go from being an analyst to working more directly on government affairs?

KF: During my second year, a lot of people end up going to graduate school or business school – that was the path. There was a woman who was an analyst in the government affairs group whom I knew, and she asked me if I'd be interested in taking her slot as a third year, because some people would stay on. That appealed to me a lot, given my interests. That's how it happened. I ended up interviewing for her position, because she had a fellowship after her analyst experience. She didn't go on to graduate school right away. She ended up getting a fellowship.

It tapped into what I was most interested in – the intersection of policy and financial services. It was a great fit for me, personally, just because it checked a lot of boxes in terms of things that I was interested in. It was a very important spot even then. I think companies were starting to get serious about Washington at that point and a lot of Morgan Stanley's competitors already had substantial offices down here in D.C. Goldman Sachs has always had a major office, the money center banks. This was prior to the repeal of Glass-Steagall. The securities industry had a very strong trade association – Securities Industry Association, and Morgan Stanley was active with that. There were a lot of issues right out of the box.

JS: If I can ask you, were you dealing mostly with the Congress, or did you also interact with the SEC, with the Federal Reserve, and other agencies?

KF: In those days, it was mostly Congress. When I started, Morgan Stanley was very much immersed in their efforts to help Conrail maintain its independence. The government affairs function was small. It was my boss and I and a couple of support staff – that's it. The privatization of Conrail consumed these efforts for the first year or two that I was doing government affairs for Morgan Stanley. There were tax issues and other financial issues, but it was a major corporate priority to help Conrail. I spent most of my first year or almost two years working on Conrail.

JS: I want to ask you about Conrail, but first just let me ask you a general question. I understand that the government affairs office for Morgan Stanley was in New York.

KF: Right.

JS: Was that an obstacle to your work at all, because you weren't in Washington, and you couldn't just go out to lunch with these people every day, or things like that?

KF: I think there are different models, and ultimately Morgan Stanley decided it was important to be here. It was not an obstacle, because I was down here a lot, as was my boss at the time, Bill Harman. We were constantly on the shuttle, coming back and forth. I do think there's an advantage to being here. Was it a real drawback for Morgan Stanley? I don't think it was a seriously negative drawback and, as I said earlier, the trade association was extremely strong here. There was a good bit of dependence on the SIA to help represent Morgan Stanley.

JS: Let's talk about the Conrail issue in a little bit more depth. Conrail at this time was the largest rail company in the United States, and it was owned partially by the government at this time, right?

KF: There was a long history. There might have been a government investment in it, but it was not a controlling investment. The predecessors to Conrail had had some troubles, prior to the time we were working on it. It was a north-south freight railroad. There were also east-west freight railroads. At the time, Mrs. Dole was transportation secretary under President Reagan, and she was concerned about Conrail's troubled history, and was not convinced it could stand alone and be viable on its own.

Morgan Stanley as its investment banker was championing Conrail's interest in staying independent. She championed an effort to sell Conrail to Norfolk Southern, which hoped to have the opportunity to purchase it. This was all about keeping Conrail independent. It was one of the early efforts with grassroots activities. Anne Wexler's firm, Wexler Reynolds Harrison & Schule, created a coalition to keep Conrail independent. It was one of the early grassroots efforts that included shippers and manufacturers that had an interest in competitive pricing, because you would only have one north-south railroad.

JS: As part of that, they put together a group of investors that would go in and actually purchase the company?

KF: Right, there was a syndicate that was created.

JS: Was it Morgan Stanley that put them together?

KF: There were different ideas that were floated at different times for how to keep Conrail independent. As I recall, there was a group of investors, and Norfolk Southern had some too.

Ultimately at the end, the shares were sold to the public, after a long battle. I think the investor interest and the investment commitments were used to demonstrate that Conrail could be viable on its own. It was quite a battle – the whole town was either on one side or the other. We were up against the Administration. It was one of President Reagan's priorities to accomplish this. It was, as I said, an early case study in how grassroots work, and the labor community was important.

JS: Were you in touch with labor leaders?

KF: I wasn't. I spent a lot of time with the grassroots efforts, and a lot of time on the Hill. Congressman Dennis Eckart from Ohio was a champion who worked with us, because he had a lot of union employees in Ohio who were worried about job loss. That was the other concern – you had labor which was very concerned about what would happen to them if there were only one railroad. Then you had the feeder railroads who had concerns, too. It was an interesting immersion in the whole railway system in the United States. It's huge.

JS: Absolutely.

KF: I had no idea how it all worked, and it was fascinating. It was also a great case study in how Washington works, because of all the different interests and allegiances. A lot of people I met during that period, I still am in touch with. It was a great experience for me.

JS: Another issue that was important for Morgan Stanley in the 1980s was the junk bond market. Now, as I understand it, in 1984, Morgan Stanley started to get into junk bonds, and established a unit on junk bonds. Did that affect your work at all?

KF: I did not start in government affairs there until '85. The whole junk bond issue relates closely to the concerns about M&A and hostile takeovers. Morgan Stanley was involved in an effort with Goldman, Lehman, and First Boston to give some perspective on mergers and acquisitions and because Congress, as is often the case, was very concerned about hostile takeovers funded by junk bonds. I was involved in that in the context of the Capital Markets Group. Bob Rubin was the person for Goldman. Bruce Wasserstein – all these people we're familiar with were central figures at these firms at that time and were active on this issue.

JS: Was this a registered lobbying group, an NGO, or was it just kind of an informal coalition?

KF: It was an informal coalition. I don't think they registered as a specific group – you have to recall that the lobbying disclosure requirements were different then. We didn't have as many requirements, although all these people were active in Washington and the SIA at the time. As I said earlier, Goldman had an established office here, so we collaborated closely with them on a lot of efforts to oppose legislation to limit takeovers or limit the way takeovers are financed. There was a focus on oil mergers. That was a particular area of concern.

JS: Why oil mergers in particular?

KF: Because I think there was the concern about hostile takeovers. There were firms that didn't want to be taken over, so they would go to Congress to try to support themselves in that effort. Then there was the consumer impact the way there is now, with concerns about energy prices in event there are takeovers. Morgan Stanley had a lot of clients in the oil space, as did all the other investment banks, so the oil merger issue was a particular focus. That came to a head before I started in the group. That was 1984. I started in 1985. Conrail, as I said, consumed a lot of our early efforts.

JS: Now when you worked on these issues, did you feel like you were getting into the nitty gritty of the legislative process? Were you reading draft legislation and making comments on it? Or were there other groups that were doing that?

KF: I was twenty-two years old, so I was not exactly writing the bills. As you probably know, the staff at the Congress has an inordinate amount of influence, and I spent a lot of time with the staff and learned a lot about the process. In college, I did not study much about how laws are enacted and the different steps they have to go through. So it was a good education for me to understand the committee process and the different steps that people have to take to move bills through the process in the House and the Senate.

JS: How did you learn about this?

KF: I learned it from the staff on the Hill.

JS: Just talking to people?

KF: Yes, and understanding, "Well, what happens if one bill is different from the other?" They said, "We have a conference to reconcile." "Well, how does the conference work, and how are people named to a conference and what are the rules in the House versus the Senate?" It's a very important area to know. Before you can understand how laws get enacted, you have to know what the rules are. You also have to know what the different points are in the process for influencing it.

So you have the committee process. You have hearings. You have markups. You have amendments and markups. You have House rules and the House Rules Committee, but you don't have a rules committee in the Senate. The rules in the Senate and the House are very different.

Then you learn all about the budget process, which was important with Conrail. You talk about the role of OMB and the fact that OMB has to review everything the Administration moves, and there has to be cost-benefit analysis and all that. That was a whole education, understanding how OMB worked.

It was immersion and listening to staff and spending time with staff who understood it, and asking a lot of questions. I was not at the table rolling up my sleeves and writing bills. Not at that stage. Maybe later on I was a little more involved in that.

JS: You mentioned that the rules on lobbying were more relaxed back then, so you didn't have to register as a lobbyist.

KF: You did have to register. I don't ever remember registering when I was working at Morgan Stanley, maybe because I didn't trip the then-requirement for the amount of time spent in Washington. Now it's fairly strict in terms of the amount of contacts you have, the amount of time you spend. We had to file a report twice a year and we have been doing that since the LDA passed. I do remember that there were more relaxed rules about entertaining staff.

JS: You could call up a staff member and say, "Let me take you out to lunch. I want to talk to you. I want to know a little more about this bill."

KF: I'm trying to remember. I think there were limits on how much you could spend, but the rules were fairly generous. There was a good bit of that, and then the staff was able to travel a lot, too, which a lot of them miss. I miss it, too – it's not that I want to spend that much time at these events, but it was a good way to get to know people, and it's too bad that it's become so stigmatized.

JS: Just to go back to other issues during this period. One important piece of legislation that was passed was the Tax Reform Act of 1986. Did you end up working on that?

KF: Yes, there were a lot of provisions of the '86 Act that affected investment, investment income, clients for Morgan Stanley and Morgan Stanley itself. I think a lot of the work that we did then at Morgan Stanley was in collaboration with the industry. There might have been a couple of provisions that were uniquely important to Morgan Stanley. I can't remember whether we worked on any rifle-shot issues for Morgan Stanley, but we participated with the industry efforts to promote tax reform.

JS: Would you often coordinate with the Securities Industry Association? Would you have meetings with them and discuss what issues and priorities you would work on?

KF: They still do. They have government representatives meetings. They are several committees that Morgan Stanley populated. My boss at the time was very active with the Regulatory Committee. They have a New York office, too, so they would have several meetings in New York and a lot of meetings here. They were very active. So we spent a lot of time on that. They had a PAC. Morgan Stanley had a PAC. We would try to support their political activities, too.

JS: Sorry to keep jumping around. I want to go back to junk bonds for just one second. During the 1980s, there were a number of different scandals in the junk bond industry. I don't believe that any of them involved Morgan Stanley directly, but was this still an issue that you were concerned about?

KF: As you can see from current events, Congress tends to react very strongly to news items, particularly related to bad behavior. It's very episodic, what Congress chooses to focus on. When the Drexel situation emerged, this coincided closely with their focus on junk bonds, and then they pounced on efforts to restrict the use of junk bonds. There was also, as you recall, the savings and loan crisis around that time. There were many concerns in Congress about savings and loans' investment in junk bonds.

It's all headline-related. Then you had the insider trading scandals at some of the firms where Governor Giuliani – he was the U.S. attorney then – handcuffed people and walked them off trading floors during working hours. That would be the backdrop for Congress looking at Wall Street. It's not all that different than today, because you have got these bad incidents that drive behavior here. It was Ivan Boesky, et al., and then it was the oil mergers. When there's wrongdoing, as in Boesky and Milken, then there's a lot of activity.

JS: People start getting upset. You mentioned the savings and loan crisis. Did Morgan Stanley have any interest in savings and loans?

KF: I'm sure they did. I'm not sure they had clients involved. I think they might have been doing some advisory work for the Resolution Trust Corp. There was a lot of interest. I don't remember our being tapped for government affairs work directly during the savings and loan crisis. But everyone was affected by that, because all the investment banks had financial institutions groups with clients who were in distress and probably helped finance some of the restructuring and were involved in the RTC. That's my guess.

JS: One final issue that I want to ask you about. One of the big battles of this period in the banking industry was efforts to push back against Glass-Steagall. Where did Morgan Stanley stand in that debate?

KF: Morgan Stanley was aligned very closely with the SIA, which felt that Glass-Steagall was extremely important to keep in place.

JS: As an investment bank, of course.

KF: Right, but as a history professor, you'll appreciate this. There was a strong argument to be made that the vitality of the U.S. capital markets was attributed to the fact that we did have this firm separation. Morgan Stanley put out a lot of concerns about the extent to which commercial banks would tie lending to the ability to do business. The concerns related to exposure of the insured deposit base to risk-taking activities. A lot of this is familiar in the context of the recent financial crisis – whether it was appropriate for insured entities to be taking risks with essentially the deposit base. So the whole argument was based on, "Do you want a segment of the financial world that can take risks with no consequence for taxpayers? Or do you want to have a business that's safer, that doesn't take the risk, that protects the taxpayer base?"

JS: Right, that sounds familiar.

KF: That was it. That was the fundamental argument. Obviously Morgan Stanley benefited from the current model. Morgan Stanley was created by Glass-Steagall, because it was a spinoff from J.P. Morgan. Two partners from J.P. Morgan, Morgan and Stanley, left J.P. Morgan to create Morgan Stanley. It was a unique story in that regard.

JS: It was a core interest at the firm.

KF: It was a jihad for the securities industry at that time, because that was the issue for the SIA – to beat back efforts to repeal it.

JS: Did you find yourself working on specific pieces of legislation during this period?

KF: In almost every Congress there were efforts to address Glass-Steagall. The one that was probably most aggressive was in 1990-91, which was pending when I left Morgan Stanley to go to the SEC. But there were multiple efforts over the years. They created a Section 23 affiliate of commercial banks to allow commercial banks to engage in investment banking through this affiliate that was walled off with a firewall. It was a big battle to even allow them to have that separate affiliate. That was a preview of the ultimate efforts to repeal Glass-Steagall.

JS: In 1991, you moved from Morgan Stanley over to the SEC. Why this move?

KF: My predecessor at the SEC was a friend of mine, Mitch Delk, who had gone from First Boston to the SEC. I met him when he was at First Boston when we worked on a few SIA-related matters. He just put a feeler out to me to gauge whether I'd be interested. It definitely tapped my interest, because I'd come to enjoy Washington and was very immersed in this space.

If you are interested in financial services, policy, and Washington, the SEC is an attractive spot, though my parents were appalled at the notion of leaving Morgan Stanley, because I had just been promoted to vice president, and I was happy there. I loved New York. But it was a very appealing opportunity. Richard Breeden called me, and I came down to talk to him.

JS: Did you know him at that time?

KF: No. I knew of him. He was a prominent figure in our world at that time, and I really didn't know anyone well at the SEC, because I'd spent a lot of my time on the Hill. I knew the same Hill people that were working with the SEC. I came down to talk to him, and it was just a very attractive opportunity for me to be basically his right hand in the context of the Hill. For the SEC, the legislative affairs position is a very important spot. Not only do you manage the legislative issues, but you also manage their appropriation, and ensure that they get funded every year. That's a big priority, and a challenge.

JS: What are some of the other differences working for a government agency, as compared to the private sector?

KF: The priorities are different. I think that it's important to point out that there's a very strong sense of mission at the SEC and other government agencies, which I think is very admirable. I think it's easy to convert from representing a client on the private sector side to representing the government and feeling unequivocally committed to your new clients, which is basically the U.S. taxpayer. It's a very strong pull. For me it was.

The SEC has that very strong sense of mission as part of the draw. I think that people feel that way in the private sector as well, but there's something unique to representing your government, and in this case, representing investors and investor interests. That would be the case in a lot of other government agencies, too. There's a lot of career staff, who stay there their whole careers. There's also a healthy mix of people who come in and out, which I support. I mean, I support the recusal requirements.

JS: Was it always obvious who was career staff and who was there just for a few years?

KF: Not always. There are some very talented career staff throughout the government, and we are fortunate they are there. They have the institutional knowledge, and they are willing to work for less money. They feel a sense of mission, I think, which motivates them more than if they were supporting a private sector endeavor. Sometimes you see a stereotypical bureaucratic approach, but there are a lot of talented people who are career staff, as well, and they helped me enormously, because I parachuted in there with no experience there or in Washington at all. Most people who take those positions have worked on the Hill, and I hadn't. I'd worked in and around the Hill, but I had not worked on the Hill.

JS: Was there a steep learning curve?

KF: Not too steep, just because I'd spent all that time at Morgan Stanley. I had been at Morgan Stanley eight years when I got there. Fortunately for me, I had good relationships on the Hill that mattered to the SEC. The key committees for them are the Senate Banking and at that time, House Banking Committee, House Energy and Commerce, before the change that pulled securities oversight from the Energy and Commerce Committee, which was then chaired by John Dingell, who was the most important person to the SEC, along with Ed Markey.

The appropriations process was brand new to me. I'd done very little with appropriations. I owe a great debt to the career staff because they would come into my office and sit down and say, "Okay, here's how this works. Here's how that works. Here's the timing of when we have to focus on different things." The amount of testimony that we did was enormous.

JS: A major part of your duties was helping to prepare testimony?

KF: It was huge, and I couldn't do it alone. I had the career staff in the divisions basically prepare the testimony and help prepare the Chairman or whomever was testifying.

JS: Your title was the Director of the Office of Legislative Affairs. Did you have a staff?

KF: I had career staff, actually. I had a deputy who was the person who tracked all the correspondence and helped track all the testimony preparation, and then I had someone who worked with him on all the legislative correspondence. Then we had two support staff, and two women who worked in the Chairman's office, who did nothing but Congressional correspondence, because the volume is just enormous. I wonder whether they have more people now than when I was there, because the amount of inquiries is great.

JS: We were talking about your job duties in general. You helped prepare Congressional testimony, you monitored events on the Hill for the SEC, you oversaw communications with the Congress. Anything else I'm missing?

KF: The appropriations. The SEC appropriation process had to be completed, ideally every year, which was not always the case. Because it was an independent agency, we dealt with the administration, but not in the formal OMB process. We didn't have to get testimony cleared and letters cleared, which other cabinet agencies have to do, but we ended up sharing it with them as a courtesy. They would clear testimony through us from other agencies, so the OMB-White House relationship was mostly mine too, just because the Hill piece was important.

JS: Probably one of the first issues that you dealt with was Salomon Brothers, is that correct?

KF: Yes. (Laughter.)

JS: Can you tell me a little bit about that?

KF: That was the summer I arrived. It was pretty dramatic. Richard and I had gone up to New York to meet with John Gutfreund that spring or summer. We were in his office and chatting away, and we had a tour of the trading floor. Then later when this all blew up, I had to give a deposition about what was discussed.

JS: Just to set the context, it was in August 1991 that it was revealed that Salomon had committed misconduct in regards to the auctions of government securities.

KF: I started in June.

JS: So this was right after you got there.

KF: Right.

JS: So from your end, what had to be done? You just needed to go to Congress about this issue?

KF: This was not all that dissimilar to the recent J.P Morgan news related to their trading loss. Immediately the committees compete over who is going to get their witness first. One of the things that struck me immediately that Warren Buffett was a major investor in

Salomon, and he became their point person. He became the person who testified on their behalf during this period.

The Senate Banking and House Energy and Commerce Committees fought over who was going to get Buffett first. And who was going to get the SEC first. Who was going to have the first hearing? So we were in the middle of that, and that was awkward because part of my job was to try to keep the Hill happy with us. It was just interesting.

The first thing was that as often happens, the Hill ends up competing with the SEC on enforcement matters. At the time Chairman Dingell's oversight and investigation subcommittee was very aggressive, as you may recall, on many fronts. They would often shadow what the SEC was doing on certain matters. They opened their own inquiry into Salomon. They opened inquiries into Drexel. They had their own parallel efforts. That became challenging for the SEC Enforcement division, who would come up to me and say, "Can you do something about this, because they're asking for the same material we are."

JS: Was there ever a possibility of a joint investigation?

KF: No, they never did anything jointly, but we cooperated with Dingell's staff as well as we could without compromising our own efforts. Unfortunately, you can never be sure of confidentiality, and so they had to be very careful about how much they coordinated with them.

JS: Was the SEC pushing for some new legislation of the government securities market?

KF: Yes, there was legislation that was pending at the time this happened. I'm trying to remember. Then this was something that put a fine point on it. The SEC was seeking better disclosure in the government securities space. There was something called an audit trail that they were pushing. Cantor Fitzgerald was involved in this debate. They ended up testifying that they relied on a very antiquated system for tracking the government securities market.

The SEC was supportive of legislation to promote better transparency. As is often the case, when you have legislation pending and you have an episode that helps to make your case – that's how it panned out. Richard ended up testifying on government securities several times. Then, in conjunction with that, there was some early scrutiny of Fannie and Freddie's involvement. The SEC produced a joint report with Treasury and the Fed that called for a few recommendations related to the GSEs that were highly controversial at the time.

JS: But those weren't implemented?

KF: No.

JS: I wonder why.

KF: They were, as you know, extremely powerful. It was an early preview of how powerful they were at pushing back on efforts to reform them. At the time, one of the recommendations was to require them to register with the SEC.

JS: This is the 1992 Joint Report on the Government Securities Market.

KF: Yes. There were some specific recommendations related to the GSEs, including registering with the SEC, which ultimately during the most recent round helped disclose some of the true nature of Fannie and Freddie's issues, when they had to disclose to the SEC, because prior to that, they didn't have to file anything with the SEC. They didn't have to use the same accounting requirements.

JS: Was there any thought of an effort within the SEC to try to push the Congress to pass this legislation?

KF: (Laughter.) I'm laughing just because I have a vivid memory of Richard testifying on this issue. Jim Leach, who was chairman of the House Banking Committee, was supportive. There was a whole set of members who were just ready to pounce, and they did on Breeden and on Leach for this. This was, as I said, an early indicator of how powerful the GSEs were at beating back recommendations they did not support. I think Richard and Arthur too were very good at measuring which issues they could move forward. I think Richard knew that it was not going to bear fruit if the SEC continued to push it, because you obviously need members to sponsor it.

JS: In government securities in general, was there a change on this issue after Arthur Levitt took over?

KF: As I recall, and you may have the timeline, I thought the bill passed while he was there.

JS: I think it was in '93.

KF: It took a while. For Arthur, it was not a high priority, other than just supporting the movement of the bill.

JS: Let me ask you in general about the differences in personality between Richard Breeden and Arthur Levitt.

KF: They are different. Richard is a trained attorney, and he spent a lot of time in Washington prior to being appointed SEC Chairman. He was President Bush's point person on the S&L crisis, so he came in with an enormous amount of background and knowledge about Washington and the process, as well as about the substantive issues, particularly related to Glass-Steagall and all the financial reform issues, because he had become the expert for President Bush.

His personality – as a very knowledgeable, thorough lawyer – was extremely detail-oriented. Prior to testifying, he'd be at the office until 1:00 or 2:00 in the morning, just pouring over the testimony, every word of it, making sure he felt comfortable with it. Then he'd go home with the briefing book that we'd prepared for him with all the Q&A, and he obviously stayed up reading that, because he never got a question he couldn't answer – never.

He was just extremely thorough and a workhorse who drove us hard, too, but it was always gratifying to know that on the morning of a hearing, he was not going to get a question he couldn't answer. He was a perfectionist, because he would refine his words until the very last minute. This was challenging for me, because the staff wanted the final draft the night before, so they could write questions. So it was challenging, but it was also very gratifying, because every hearing was like a final exam.

JS: Was Arthur Levitt a little bit more hands-off?

KF: Arthur was very thorough. He was an extremely good manager of people and of his own time. He was very efficient with his time. He was very sensitive in terms of being punctual and providing things in a timely manner. He ran it in a very businesslike way. I think he brought his business background and his leadership background to this position. It was a different style. Both were very effective styles, for different reasons.

Both of them did well on the Hill. Richard was very well respected for protecting the mission of the agency, as was Arthur. Neither of them was afraid to take on tough people and tough issues in defense of the agency's mission. I think both of them had that quality. I would say that Arthur had more of a CEO style, in terms of how he managed the agency, because he had been a CEO. He had been head of some major organizations.

JS: Did you notice a big change in the tone on the Hill after the 1994 elections?

KF: Yes. (Laughter.)

JS: I guess these are easy questions. How did it affect the SEC, I guess I should ask?

KF: Very dramatically, I would say. I had friends on the Republican side who called me and said, "Don't expect to get any further increases in your appropriation." Fast-forward when unfortunate things happened at the SEC and some of it was attributed to the lack of resources, I'd go back to them and say, "Well, it started a long time ago, where there was not a lot of interest in supporting the SEC's appropriation and resources."

My job changed dramatically just because we had been dealing with a certain set of leaders who oversaw the SEC. Then you make an abrupt shift to the Republicans. John Dingell had been the main person for us for so many years, as had Ed Markey. Fortunately, we had a bipartisan approach to things, so we had good relationships with the Republicans, as well, even when they told him they were not going to increase our budget. So, yes, it was a big deal.

JS: I'm going to jump back and ask you about just a couple of more issues that you may have worked on during this period. The first is efforts to regulate investment advisors. Can you tell me a little bit about how that played on the Hill?

KF: I think was another episodic issue. There had been a longstanding effort to increase the oversight of investment advisors, because there were so many registered and so few resources from the SEC's standpoint to inspect them often enough. There was an ongoing effort and then, boom, we had a big enforcement action. Steven Wymer, who was a notorious investment advisor, just had a terrible story that made it to the press. That helped make the case for more resources. It was all a matter of resources.

How do you expect the SEC to inspect the number of investment advisors out there without adequate resources? You end up focusing on the bigger players with assets under management. But some of the worst transgressions are done by the smaller guys, who know that they are not under as much scrutiny.

JS: They think they can fly under the radar.

KF: That was a big issue, and it was pending at the time when Bill Clinton won the White House. That was one of the reasons why I wanted to stay, because that was an unfinished effort.

JS: You thought about leaving after Bush went out of office?

KF: You have to think about it, because there is always the possibility of turnover when there is an Administration change. The SEC is independent and you are subject to the call of the Chair. There was a transition, and there were some Clinton transition people that we helped, which was interesting. Richard left soon after President Clinton was elected. We had Mary Schapiro as acting Chairman, and then we had some transition people in the Chairman's office. They were being briefed up on the SEC and personnel matters, etc.

JS: It was a little bit unsure for a while. Was there a moment when Arthur Levitt called and asked if you wanted to stay on?

KF: I was fortunate to work with him right off the bat on his confirmation, which is a very intense time to get to know someone. I had an offer to go back to Morgan Stanley, but he asked me to stay on with him. I was happy to do it, just because I had only been there eighteen months at that point, and I was enjoying the job. So I was very happy to stay. I also knew the head of President Clinton's legislative office, Howard Paster, very well. He had been a mentor of mine because he had been with Timmons & Company, which was Morgan Stanley's lobbying firm. He called to ask if I was happy and wanted to stay, because even though the SEC is independent, it is helpful to have White House support. I was very fortunate and I was happy to stay, because I'd only been there a short time.

JS: I want to ask you about just a couple of other issues before we move on. Another big issue during this period was the supervision of municipal bonds. We talked a little bit about that. Did you work very closely with the Congress on that issue?

KF: This was a major priority of Arthur's, right at the beginning of his term. I think just because he'd seen some serious abuses in his prior life. This became a real cause of his, early on in his tenure, and he created the Office of Municipal Securities at the SEC to focus attention on it. He championed the effort to crack down on pay-to-play. That was an area of interest for Congress, but it was really Arthur's issue.

There was a lot that he did as Chairman to push that that didn't require Congress. Ultimately, it did, but it was not a tough sell. It was not one of those things where we had to convince people just because there are some serious abuses. He had had this exposure to it, and he came in with this desire to change the way it was done. It was a great example of his bringing his prior experience to the table.

JS: Another issue was the ongoing efforts to repeal Glass-Steagall. It obviously did not happen while you were there, but there were a number of efforts to bills that would push back this barrier. Where did the SEC stand on that? Were they supportive of it? Or was there division within?

KF: This was a challenge because it was a priority of the Clinton administration. I'm trying to remember. Arthur was skilled at getting along with everyone.

JS: You think there was a little bit of finessing of the issue?

KF: I sensed a change in tone from what it might have been ten years prior, just because things had evolved, and priorities were shifting. I don't remember it being a big priority of Arthur's. I don't remember his saying, "We have got to support the Administration on this." What was the year that it was enacted?

JS: It was finally enacted in 1999 with Gramm-Leach-Bliley. You had already left by then.

KF: Gramm-Leach-Bliley was a major priority after I left. I left in '96. Prior to that, it was not a hot topic for Arthur, as far as I can recall.

JS: One last area that I wanted to ask you about. You have already mentioned it a couple of time: appropriations. Obviously, there were a number of battles fought during this period over the SEC budget. Tell me a little bit about this notion of self-funding that was coming into play at this time.

KF: This was a major priority for Richard, because he had seen some of this prior to coming to the SEC. The SEC at the time, and I'm not familiar with how their fees work now and how much they generate in surplus, but with the booming economy and booming number of deals, the SEC takes in a lot of fee revenue that is way more than they use to fund the agency. This surplus goes to OMB, and Richard used to say they used it for funding bee farms. It used to just upset him that this enormous amount of money was going toward things completely unrelated to the SEC.

Enforcement disgorgement was different. Enforcement fines were in a separate account. That was not really the issue. The issue was the corporation finance fees that came in for filings and for M&A filings.

JS: One of the criticisms of this idea of self-funding was that the SEC is going to be much harsher on enforcement, because they're going to try to get these disgorgement penalties.

KF: It did become a real issue for some members of Congress who were concerned that the SEC wouldn't be subject to the discipline of the appropriations process. To the extent that you become self-funded, you become less accountable to Congress, because you are not dependent on it for an appropriation. However, one could counter argue that it is probably a good thing for the SEC to be immune to political winds, so you are not going to get a call in 1994 to say, "We're going to bleed you dry," in terms of your appropriation.

JS: But Congress had other controls?

KF: There were some powerful members who were very concerned about keeping a check on the SEC. That ultimately undermined a self-funding effort. At one time, I think it was 94' or '95, there came a point where certain members wanted to call attention to this situation by raising a point of order on the SEC's appropriation, just because the fees could be construed as a tax. This is relevant right now. A fee becomes a tax when the revenue raised is not used to fund the effort that the fee was charged for. So a point of order was raised on the SEC's appropriations in the fall of '95, and the appropriations were threatened at that point. They had to reach a resolution on it, so it came to a head. This was after Richard; this was during Arthur's tenure.

JS: There was also another issue in 1994, when there was a battle over the appropriations bill, and President Clinton threatened to shut down the organization if it was not adequately funded?

KF: There are different times where the SEC's appropriation has gotten some attention. That fall of '95, when the point of order was raised – it was basically an exercise to make a point, but it did stop the SEC from getting their appropriations for a while.

JS: Would you say that the majority of staff members and maybe Commissioners at the time supported self-funding?

KF: I think there was a lot of support at the agency for it, just because it is always a challenge to wonder every year what the SEC's going to receive in appropriations, and whether there'll be some holdback based on something completely unrelated, because the member of Congress is upset about something. There was also this keen awareness of how much the SEC was contributing to the federal bottom line, and they were not getting anything for it. I would say, yes, there was a lot of support. Linda Quinn was head of Corporation Finance at the time, under Chairmen Breeden and Levitt; she was very supportive.

JS: Another major issue from this period was the issue of litigation reform. What was the SEC's take on that?

KF: It is still a very controversial issue. Historically the SEC took the position that it was important for investors to have significant ability to bring cases to supplement the SEC's efforts, because the SEC has limited resources. The notion that an investor can threaten a case was viewed as an important check on behavior and as an important way to supplement the SEC's resources. So historically, the SEC had been very supportive of investor rights to redress their grievances through the courts.

But there were some abuses, as there often are, on behalf of investors. Investor lawsuits became quite aggressive and prevalent in certain sectors, and certain law firms became well known for filing lawsuits as soon as a stock price dropped. They would have boilerplate complaints. They would just change the name of the firms and just file the complaint.

JS: There was certainly this perception out there that many law firms were just ready to sue as soon as a stock dropped. Do you think that was a fair perception?

KF: Yes, as soon as their stock dropped, but sometimes there were cases – and they were good at describing them – where they would be tracking these buying and selling behaviors of senior officials, and they would demonstrate that a senior official dumped a bunch of stock before a bad announcement. Investors obviously are not privy to the announcement, so there were some good points to be made. They were very good at it. They would often come up to the Hill and testify with timelines. You can imagine that the firms that were the victims of the lawsuits felt very besieged and beleaguered, and thought it was a real drag on their growth. So they had some strong support on the Hill.

Another strong voice on this was the accounting firms, because in our system there is joint and several liability. In the context of securities litigation, as is often the case, if a firm has been sued and it does not have the resources, the other entities involved in the case – and in this case, often it is the accounting firms who verify the veracity of the financial information – they are jointly and severally liable, too. The accounting firms would end up being the last people standing with deep pockets and ended up having to pay a great deal. The accounting firms were making the case that their viability was undermined by this process. They were very aggressively seeking reform, as well.

The counter to that is, "You guys should verify the numbers. You have a very important role in this system." Audited financials are required for a firm to go public, so the auditors have an incredibly important role in our system. The auditors' argument may be, "Well, right, but if these guys give us the wrong numbers or the wrong information, how can we be sure of what we're getting?" They had some very serious arguments, and I think probably their strongest is that we all have an interest in a very strong auditing profession. The fact that they were subject to these enormous dollars for these lawsuits was significant.

Then you have the Silicon Valley community, who were very politically active, and who were particularly focused on forward-looking statements. The new startups were concerned about being sued for their predictions they would make about their futures.

JS: What effect did the 1994 elections have on all this? Do you think that was an impetus for change?

KF: I think that that helped, because the House flipping to the Republicans helped promote the case of the defendant community. I believe it might even have been in the Contract with America.

JS: I think it might have been, too.

KF: At the time, Chris Cox – later SEC Chairman – was a strong proponent of this. Inside the SEC building, there were some strong divisions about this. Some Commissioners were more supportive of reform than others. The Enforcement division, as you might expect, was supportive of investors' ability to bring cases. It was quite a spirited debate.

JS: At the end of the day, though, the legislation was passed in 1995?

KF: And it was vetoed by President Clinton. It was the only veto that was overridden. I think my personal opinion was that President Clinton was right to veto the bill.

JS: Do you think most of the Commissioners at the SEC agreed? Arthur Levitt, for instance?

KF: I would not want to put words in Arthur's mouth. I don't know, in retrospect, what he would say about that. He was supportive of trying to strike a balance, and I think that was what everyone was trying to do. It's just, how do you get that balance without undermining investors' rights? As I said at the outset, how is it changing behavior? At the end of the day, you want to have a check on bad behavior. The risk of litigation is usually a good check on that.

But some of the things that happened subsequent to it, like Enron, put a fine point on why the legislation may not have been – I should read President Clinton's veto message again for what motivated him. They took a very thoughtful approach to it. He had been a law professor; he read the bill himself. His counsel was calling us all the time and asking us questions, so this was not just a political exercise for him. He got into the weeds on it. It was an interesting process.

JS: At the beginning of 1996, you moved on from the SEC to General Electric Company. Will you tell me a little bit about your work there?

KF: I started with GE in the Washington office. I was technically an employee of GE Capital, but the GE Washington office was a very collaborative office. While I wore the GE Capital hat, it was all about GE as a corporate entity. Everyone worked closely together.

JS: You weren't working just on financial issues?

KF: No. I was the point on financial issues, but there was a very strong sense, as you might expect with GE, of teamwork. The head of the office at the time was really good at promoting that kind of collaborative approach. For me it was a great opportunity to learn about a lot of other issues. The team ended up helping me with my issues, because we had, at the time, Democratic and Republican specialists. They had relationships that were important to my work, even though they might not be the substantive expert. It was a great setup for me.

JS: What sorts of issues were you working on during these years?

KF: GE had a lot of consumer finance issues, so from the outset, there were some significant credit card issues, which ended up being an issue the whole time I was there, for different reasons. I remember not long after I started, GE announced it was going to charge a fee for people who didn't carry a balance. You can see why the quantitative people might have thought that was a good idea, because they weren't making money from people who paid off their balance. But here it was very explosive, because you are basically penalizing people for behaving responsibly. It was quite a firestorm. I remember Congressman Joe Kennedy really pounced on GE for this.

JS: So a lot of times you felt like you had to sort of defend the company policy?

KF: Yes. I think to GE's credit, they realized the error quickly and withdrew it, but it was an interesting exercise and an early preview of some of the hostility toward credit card practices, which just escalated over the years. Another major issue at the time was all about mortgage finance, because GE had a mortgage insurance company at the time. This was '96. They were very concerned about the GSEs and the competitive pressures that they were feeling from them.

JS: So they saw the GSEs as competitors?

KF: They were a partner, and the GSEs' charter basically created mortgage insurance, because they weren't able to purchase mortgages with less than 20 percent down payment without mortgage insurance. It was an important synergistic relationship. But what became a concern for GE and other mortgage insurers was the threat that the GSEs would want to provide their own mortgage insurance. This is what happened in 1998.

Freddie Mac inserted some language into their appropriations bill via handwriting in the margin that would have allowed them to self-insure. This set off enormous concerns, not just for the mortgage insurance community, but with the rest of the mortgage community, because if they are willing to take on mortgage insurance, then what's next? What became clearer was that the GSEs wanted to be a one-stop shop for all things related to mortgage events. That's what gave rise to FM Watch, the whole effort to start to question the GSE's advantages.

JS: That was supported by the rest of the industry.

KF: GE was a very strong proponent of this at the outset. The others were AIG, Wells Fargo, and Chase Mortgage. It was very controversial, as we discussed earlier. The GSEs were very powerful here. The language in the margin was beaten back, but not easily. There was obviously a process breach in that they had been able to insert the language in the dark of night.

The stock prices of the publicly traded mortgage insurers tanked the next day, because you could see the immediate impact. If the GSEs could self-insure, then the private sector mortgage insurers could not compete, price-wise, because the GSEs would have a government subsidized pricing model. The GSEs would always underprice, so it would have put the MIs out of business. GE had a significant MI business, but it was not their whole business, whereas the independent publicly traded mortgage insurers, their stocks plummeted the next day.

It was a scramble and it was undone, but the experience was quite formative for everyone involved, because it became clear that an effort had to be undertaken to try to contain the GSEs. That was a major area of interest. Then aviation finance was also a big area of interest.

JS: Tell me about that. I'm not familiar with it.

KF: GE and AIG were the two largest aircraft leasing companies. I think GE still is one of the largest and since AIG's troubles during the financial crisis, I don't know what's happened to their aircraft leasing.

JS: They still have the business, to my knowledge. I could be wrong about that.

KF: GE and AIG were one and two at the time, and I think GE owned one out of every eight aircraft in the world, so there were a lot of financial issues related to aircraft leasing. After 9/11, it became a very high priority, because you may recall that immediately after the tragedy, there was a lot of concern and questions about terrorism insurance.

The weekend after 9/11, GE was faced with having to ground their entire fleet of aircraft because they could not be assured of having insurance to cover them in the event of another terrorist attack. Then there were lots of tax issues at GE. That was one of the team issues that I worked on. One of the most important for GE Capital was deferral, the so-called Subpart F, which is still topical, because it has been an extender over the years. It basically allows U.S. financial firms to defer the U.S. tax owed on active financial services income derived from overseas operations until it is repatriated. It is a huge issue for GE Capital as a global entity and for others, too. We worked a lot on that initially, because that was when it was first enacted. That was a major issue for GE Capital, but also for GE corporate tax. That was an issue that we all worked on together.

JS: I hate to move on, since I know this is a ten-year period and there was a lot –

KF: Eleven.

JS: Eleven-year period, excuse me. There was obviously a lot that happened there. The next stage of your career was very interesting, too. You moved to Barclays Capital, where you were the director of government relations. You started at the beginning of 2007, right as the financial crisis was breaking out. Did Barclays have a general strategy towards government relations management during this period?

KF: Barclays Bank had someone here for a long time, whom I joined. They had one person here, and it was interesting to come from an iconic American company to a foreign entity. It is very different, because you are treated differently. Even though you employ a lot of Americans, if you are not a U.S. flag company, it's a different relationship. You have an overseas parent. You are not a U.S. flag company, so it's just different. It's not like you are building appliances in Louisville. You are not perceived as an American constituent as much.

JS: So you were treated a little bit differently on the Hill when you went to talk to people?

KF: Yes, but you are still bringing U.S. employees to the table. You are bringing expertise. Barclays was a part of SIFMA – SIA had become SIFMA. At the time they had Barclays Global Investors, as well, so they had an asset management business. They had a mortgage platform, so given my experience with mortgage issues, I spent a lot of time on that, as the crisis unfolded, which was unfortunate, but interesting. They also had a robust commodities business. Just recently, there was a lot of focus on the impact of Wall Street on energy prices, so that was an interesting exercise.

JS: Did you also work on the issue of special purpose entities?

KF: Yes. During the crisis, there was some interest in creating some SPEs and Barclays was involved in discussing with Treasury some different options.

JS: The giant issue during this period was the acquisition of Lehman Brothers.

KF: Yes, which was not something we were involved in at all. That was a very important strategic call for Barclays Capital and catapulted Barclays as an investment banking entity, once they were able to acquire Lehman's best assets. That is really what that was.

My colleague at Barclays and I moved into Lehman's Washington office, and it contracted a good bit. They'd had a lot of research people here, which they decided to exit. Lehman had a sophisticated operation. I had worked with them a lot over the years. They had a very good reputation in Washington.

JS: So when the Barclays' upper management was dealing with the U.S. government, they were doing that personally, not through the government relations office?

KF: As you have seen and read in some of the books during that period, these were very high-level conversations.

JS: In June 2009, you moved over to H&R Block. What issues was H&R Block concerned about?

KF: Richard Breeden, my old boss at the SEC, recruited me. His equity firm had a significant stake in Block and they had rescued Block from bankruptcy a couple of years previously, because Block had gotten into subprime mortgages in a significant way, and had done very well, and then suffered the way a lot of other people did. So Richard asked me to help in the Washington office. He asked me to take over the office.

At the time, they were particularly concerned about President Obama's interest in simplifying the tax return, particularly for low income taxpayers, to the point where the IRS would basically prepare your return for you and send it to you. For H&R Block and

Jackson-Hewitt and other tax preparers, that is their core business. This was basically a survival issue for H&R Block. This was an Austin Goolsbee idea. He had been close to the president and was Chief Economic Advisor. He was really pushing this as an efficiency move, for the IRS, and also from their perspective, they thought it was a fairness issue for this particular taxpayer.

The average income of H&R Block's customer is $35,000, so this was squarely hitting at the heart of Block's business model. That was a pretty high priority right out of the box to collaborate with others to make the case that it is really not in the taxpayer's interest to have the government prepare your return. I think the chief argument you would make is, "Do you really think the government wants to maximize your refund?" Block is all about trying to find the most possible for you – obviously legally – that you are entitled to. You have that, and then you tap the conservative nerve when you have the IRS expanding in that fashion. Then it is a resources issue, too. In order for the IRS to do this, it would take an enormous amount of resources to create the systems required for that.

JS: Software and all of that.

KF: That was a very high priority, and then around the same time, the IRS initiated an effort to oversee tax preparers, which Block actually welcomed. Every tax season, Block, who trains their people very thoroughly and regularly tests them, we're competing against people who hung out shingles and then disappeared. Block was supportive of an effort to elevate the standards of tax preparers.

There were a lot of discussions about testing and whether Block's tests would be acceptable, along with certification. So, while Block supported it, they were also concerned that there was an additional layer on top of what they required of their employees. Then one of the major issues was refund anticipation loans, which the Obama Administration was opposed to generally. It's controversial in that they are issued with high interest rate loans.

JS: Was Block actually giving these loans out themselves?

KF: They had a partner. They could have issued the loans, if they were allowed, because they had a thrift. But the IRS prohibited them, which is unfortunate, because I'm convinced that if Block had been able to offer RALs on its own, they could have kept the rate lower. For Block, the long-term customer relationship of the tax prep is more important. The RAL is an important piece of it, but they want to keep that tax prep customer for a long time. They would have an interest in keeping the RAL rate reasonable. The IRS would never allow it, because from their perspective, they did not want the customer to feel compelled to do the tax prep just because the RAL was offered. It was controversial.

Because there was a reliance on an outside bank, Block and others who had the same situation were not as influential in determining what the rates were. There was a lot of focus on this in states and it was viewed as a predatory loan. The maximum that could be charged was 36 percent, which is a high rate, but it's a short-term loan. They are extremely popular at this income level, because it is probably the most important financial transaction of the whole year for this community.

This community is largely unbanked. Because Block has a bank, they pioneered this effort to load refunds onto a debit card, and it was very popular. In fact, I think Treasury has been talking more to Block and others about the debit card loading approach for refunds. There was a visceral reaction to RALs, which, I can understand it, but I came to appreciate how important this transaction was for this community. Right before I left, there was a concerted effort to crack down on RALs across the Administration and, basically, the OCC prohibited Block's partner, HSBC, from offering them. Block is no longer able to offer them.

JS: Did Block take a position on reforming the general oversight of consumer finance?

KF: I think there was an expectation in the Consumer Financial Protection Bureau under Dodd-Frank would likely focus on refund loans and refund checks. That's just something we tracked because we knew it would be on their list, but we didn't lobby the CFPB.

Block also had a Tax Institute, and this was basically the think tank at Block to help track tax developments for their clients. The Tax Institute reported to me. It was a good way for us to interact with the Hill about the implications of different changes in the code and delays with different extenders. So that was interesting, too, because that was a very substantive part of the job, understanding how some of these changes that may or may not be made at the end of the year – as we are facing again this year. It's really hard for consumers to understand how it is going to affect their tax return.

So Block has this whole group of people who do nothing but keep track of all the changes in the code, or the pending changes, or the changes that won't be made, or that will be retroactive – it's very complicated – so that they can help their tax preparers answer questions for their clients. It gives you an appreciation for how complex the code is and how hard it is to track changes.

I can just imagine what they are contemplating for this year, with all the pending expirations of the Bush tax cuts, and what happens if they get extended or not, and if they expire, is there going to be a retroactive application? On the one hand, it is a positive for tax preparers, because you need help. On the other hand, though, it is extremely hard to track. It was very educational for me, that whole experience, because of the fact that I was focusing on an entirely different area and economic group. I mean, this community is really underserved.

JS: This gets us up to the beginning of last year, when you came over to BlackRock, where you are now the managing director of Congressional relations. What are you working on right now?

KF: I should start by saying I was introduced to BlackRock by my former boss at Barclays, Joann Medero, who came to BlackRock when Barclays Global Investors was acquired by

BlackRock. I was very fortunate to have that introduction. BlackRock is an asset manager; it's all about investors and the investor voice. We're not a broker dealer. We never did proprietary trading.

During and after the financial crisis, BlackRock realized that investosr needed a bigger seat at the table, particularly when it came to looking at some of these mortgage issues and the role of mortgage securitization. The voice of the investor did not register well enough from BlackRock's perspective. That motivated BlackRock to be more involved here.

My boss is a founding partner at BlackRock, Barbara Novick. She had run the Global Client Group and Larry Fink asked her to oversee this operation. We have people in Brussels and London, because we are obviously global and all these issues intersect all the time, more than ever, in terms of how decisions or in Brussels or in London affect all of our businesses, so we try hard to coordinate.

JS: You track legislation globally?

KF: It's all about Dodd-Frank implementation. That has been the focus for the last eighteen months that I have been here. The Hill relationships are still very important, and even though Congress hasn't been very focused on specific legislation – somewhat, but they are playing an important oversight role with Dodd-Frank implementation. We spend a good amount of time with the Hill, as well, trying to be a technical resource. We have written a lot of policy papers on a wide variety of issues.

We try to think of ourselves as a very reliable, substantive resource on all these issues. But, also for BlackRock itself, we have been very aggressively advocating the investor perspective on some of these issues. I think we have gotten some good traction.

JS: Do you find you get calls from staffers on the Hill asking you to help explain an issue, just because of your expertise? I can see that on your website that you have lots of briefing papers.

KF: Public policy papers and comment letters. That's what we welcome, and we want people to view us as a resource. We are obviously an advocate, as well, because we have a point of view and we want to make sure our interests are addressed, but I think we have established ourselves as a very reliable technical resource.

JS: I just have a couple final questions for you. Some people compare the process of making laws to making sausage. A bunch of different things are thrown in the blender and what comes out is what it is. Do you think that's a fair assessment or do you think that most legislation on financial issues has a sound basis? That's a bit of an abstract question.

KF: It sounds very pejorative to call it sausage. I happen to like sausage. (Laughter.) I think a lot of people like sausage, but there's healthy sausage and not so healthy sausage, so if you want to use a sausage analogy, it's fair. Sometimes the process isn't pretty. Oftentimes it's not. I still believe in the system. I think it's a frustrating system. It can be a lengthy system. But I think it's fair. I think it's transparent.

I think there are abundant chances to influence the system as a citizen, as an interest. I think, despite a process that can look a little awkward from the outside and the inside, I do think the process is a good process, especially when we compare it to other countries and other systems. It can be painfully slow. It can also be incredibly fast – sometimes, not often. I think the way the Senate and House are set up is so different, and I'm not sure the framers realized how helpful it is to have such different rules. I think that offers more opportunity to influence things in a positive way.

I do think there could be some changes contemplated in the Senate. For instance, do you really need sixty votes? A majority would probably be fair. That used to be the way it was, so you can change that. I hear a lot of people complaining, but I'm optimistic that the foundation is in place for us to get serious again soon. Hopefully, there will be enough of an incentive to make some deals on important issues in our immediate future, particularly the deficit, which makes all of the other issues pale in comparison, in my view.

JS: One more, big abstract question. Do you ever find yourself thinking that you are dealing with the same issues, year after year, in different form?

KF: They are similar, but no year is ever the same, which is why this is such an interesting job. First of all, you have a turnover here every two years of people. While there is a consistent strain of people who live through elections and populate the agencies and the Hill, there is still enough turnover to refresh every two years, which makes it interesting. You have to get to know new people. With a new Administration, that's obviously the case in spades, because all the agencies turn over, and all the staff.

It is important to make sure you maintain relationships and stay close to what is going on. As you were saying earlier, the fact that I worked on a lot of these issues when I was twenty-two and a lot of them are still with us, gives me some great perspective on how these issues have evolved. That has been very healthy.

I often think about a story. My grandfather was a trial lawyer representing insurance companies, and he worked deep into his eighties. His hearing was failing. A judge pulled him aside one day when he was older. He said to him, "Dave, I don't think you are hearing me out there during the proceedings." He said, "Your Honor, I've heard it all before."

I think about that a lot. I have seen a lot. A lot of these cycles are similar, but there's enough differences in terms of personnel and priorities and context to keep it interesting.

JS: I think that's great note to end on. Ms. Fulton, thanks very much for talking with me today.

KF: Thank you, delighted.

[End of Interview]