

Securities and Exchange Commission Historical Society
Interview with James McConnell
Conducted on June 24, 2015 by William Thomas

WT: This is an interview with Jim McConnell for the SEC Historical Society's virtual museum and archive of the history of financial regulation. I'm William Thomas. The date is June 25th, 2015, and we are in Mason Neck, Virginia. First of all, thank you very much for agreeing to speak with us today. We usually start with a little bit of personal background, just so I get a sense of where you're coming from. So, where are you from originally?

JM: I was born in Covington, Kentucky, but I never lived there. I was an army brat, so we moved around quite a bit. I ended up going to high school for two years in northern Virginia and then went to Virginia Tech, so I've been in Virginia ever since. My home state really is pretty much Virginia.

WT: What did you study at Virginia Tech?

JM: I started out in engineering. I didn't last past a couple of those big chemistry courses, but I ended up in business administration, graduated with a business degree, a B.S.

WT: That was in 1970 that you graduated?

JM: Correct.

WT: Then you went straight to the Department of Labor?

JM: Yes. There was a program at the time for the civil service, what was called a management intern program. So I had applied for that, and it required a series of tests lasting close to a year. In the meantime, I started with the Labor Department, and then when the internship came through, after I'd passed all the tests, they offered me an internship at Labor, so I stayed there.

WT: Tell me a little about your work there.

JM: I started out as a management analyst in the financial management section, but during the course of my internship I saw a variety of different types of programs and jobs, and I elected to focus my attention on social programs—employment training programs, specifically, for especially disadvantaged groups like Native Americans, migrant and seasonal farm workers, older workers. Young black males especially had a big issue, so I worked on those programs for years.

WT: What would that work entail, in your position?

JM: We had national programs that we would design in Washington and then conduct a competition nationwide for local community action agencies or other nonprofit groups. They'd bid on these contracts, and then we would select the winners, and then we would monitor. We had to evaluate and assess. Each year, you'd redo this, and so you'd decide

from one year to the next whether you would continue doing what you were doing, or make changes, make improvements.

WT: What would some of the evaluation methods entail?

JM: Primarily, the goal was to get people jobs. Either move them out of the seasonal farm work, or move them out of migrant labor through job training programs, relocation assistance, special services, and put them into a stable work environment. So, the ultimate goal was to get them a job that took care of them and their families, and you got them out of the traveling and the really pretty horrible lifestyle associated with migrant farm workers. So, that was the ultimate goal, but in the interim you also had, “All right, is the corporation spending their money properly? Are they providing a full range of services as they said in their contract?” So, it was fairly standard contract compliance and then basic outcomes.

WT: So you just had to find means of obtaining information and data on these sorts of things?

JM: They had to report to us on a regular basis, and we had performance measures. They would have to enroll them in an educational program: Did they complete it? What was the success rate in those things? We’d also provide daycare—whether or not that was being provided, how many kids were in it, whatever. They were family programs, by and large.

WT: Were you working on those straight through until when you went to the SEC?

JM: In a variety of different ways, I was in several of those kinds of programs: Job Corps, older worker programs, youth programs. By the time I decided that I wanted to leave there, I was special assistant to the director of national programs. Most programs in employment training and research are administered either by the state or locally by municipalities. But ours were unusual in that they were controlled in the national office, so we had a director of national programs. I worked directly for him, and we had all those different little tranches of programs underneath it, so we were responsible for them all.

From that point, I decided, well, it was a fairly easy decision to make. They were starting to rapidly reduce the budget for a lot of those programs. RIFs were coming. I don't know if you know what a RIF is, but a reduction in force, basically firing people. And while I wasn't going to be fired, it was just not a very good environment to work in so I decided it was time to try and move on.

WT: I wanted to ask about your experience in the Department of Labor. You join in 1970—it's the Nixon administration, but it's still kind of in that Great Society era when the Department of Labor is very prominent in those program—to the Reagan administration. How noticeable was that change in status for those kinds of programs over the course of your time there?

JM: It was very noticeable. Most of the programs that I worked with started with the Economic Opportunity Act, and some of those programs were Labor and some were at OEO. OEO was abolished, as you probably know.

WT: Office of Economic Opportunity.

JM: Correct. Then most of the programs were transferred to Labor, and they were transferred pretty much as they were. Job Corps was transferred, the migrant farmer program was transferred, and a number of others. So, we carried them on for a while in the same vein with little difference. But then, slowly but surely, the overall legal authority for these programs would change. For instance, Manpower Development and Training Act would expire, and they would institute the Comprehensive Employment and Training Act. Then that lasted a few years. So, each time it changed. But, to me, the interesting overall dynamic involved was that more and more of the responsibility was being transferred to states and municipalities.

OEO programs were national programs, run out of the national office. CETA, JTPA (Job Training Partnership Act), and other successor programs, more and more were locally run. And the national offices had little to do with it other than oversight, review, and rulemaking. So that was a change I found to be sort of the principal feature of those times.

WT: Was that gradual through administrations, such as, say, the Carter Administration, or was it welling up?

JM: I think it was fairly gradual, and it changed. Under one regime, you would have municipalities as the principal deliverer of services. The next regime, you're using a different law, it would be the states, so that would change. And also, the type of programs—at least in my experience, the earlier programs, a lot of it was public service jobs. Those were heavily criticized, and rightly so, for a lot of patronage jobs. It was poorly run. Then they backed away from public service jobs, except for summer jobs. The summer jobs program has pretty much always been a public service job. Even if it's a private sector workplace, the public service, they pay for it.

So it shifted from those, sort of, direct job creation in the public service to training, training for employment, or just even educational training. Job Corps had a huge educational component, just to move kids into a GED situation or something. So, that was the focus, getting jobs out of training directly associated with jobs rather than just creating jobs and putting people into them. That was a principal change, as well. Now, the programs that I worked in didn't really change that much, because they were special emphasis programs. We've periodically redesigned them, but the authority for them stayed pretty much the same. But the big programs, the state programs that affected huge numbers of people really changed a lot.

WT: In terms of the overall experience of managing, when you're dealing with contractors at an executive branch agency as well as state and municipalities, versus the experience at the SEC of being an independent agency, is there a radical difference there at that management level, in terms of being able to control the management of a project's operations?

JM: It's hugely different. The SEC is much different—as are most of the independent regulatory agencies from the Cabinet-level agencies—not just in terms of size, but who your constituents are and everything else. I'm going to wander here a bit, but in the Cabinet-level agencies, things change dramatically from one administration to the next. Whole laws are wiped out and new laws replaced, and it's routine—a huge emphasis on change and on doing things a new way. The SEC was a stable place. Its laws have been in effect for a long time. There's always improvements or changes, but nothing radical, at least in my view.

So, you had a very much more consistent mission. Your mission could change dramatically in the Cabinet-level agency. So that's very much different. You had some continuity, and then the size is very much different. You had much more interaction with the entire agency, whereas in a Cabinet-level agency, you're in a narrow slice of it and you don't know what's going on elsewhere. Like at the Employment & Training Administration at Labor, where I was, I had no idea what was going on at the Bureau of Labor Statistics or Labor Management Services Administration. They might as well have been on another planet.

WT: So in 1984, how is it the opportunity came up to go to the SEC?

JM: I knew some friends or acquaintances I had worked with at the Employment & Training Administration that had moved over to the SEC; they had gotten jobs. So I contacted them and they said, “Yes, we are hiring and we do have some positions.” At that time, EDGAR had already started, it was in its pilot stage, but it was ramping up and they wanted people for that. I thought about that, and then the executive director’s office had a management analyst position available. So I applied for that and got it, and so I transferred over.

WT: What did that entail, being a management analyst?

JM: Management analyst positions are pretty much throughout the entire government, and they change a lot from place to place. At the SEC it was a little bit different from a lot of other places. They were all in the executive director’s office, so there was no other place that really had management analysts. There were four or five of us, and we were more like almost special assistants to the executive director. He would give us content areas to focus on with respect to budget, management, and oversight of the programs. Plus, we would periodically do more normal management analyst stuff like special studies—going to do a management study or an impact study: How’s this program doing? Does this organization need some changing? That sort of stuff. It was unusual. It was really quite a good experience being a management analyst, I thought, at the SEC.

WT: Mainly I've spoken to people in the various divisions, so tell me a little bit about the function of the executive director. First of all, who was the executive director?

JM: George Kundahl hired me.

WT: If you can encapsulate it, what did the duties of that office entail?

JM: The executive director?

WT: Yes.

JM: Well, I know that fairly well. I was one. (Laughter) The best way to describe it is—and this is maybe backtracking a little bit—I always view the Commission as the board of directors. The chairman is the CEO, and basically the executive director was chief operating officer. In fact, that's what the executive director's job description says in the Federal Register, chief operating officer and responsible for all these other activities. So, that's a pretty typical job. You had administrative services, you had financial management, you had personnel, you had budget, information technology, and at that time you had the regional office structure under it as well. So it was the chief operating officer.

WT: Did it have oversight over any of the activities in the divisions, such as inspection?

JM: No. We had responsibilities that complemented, or were supplemental to—like Corporation Finance did the filings and information services stuff, so we would do just the administrative part of receiving filings, making sure that they got in and that their fees were paid and that sort of thing. Then, of course EDGAR was a huge responsibility under the executive director's office for quite a long time, and that directly supported Corporation Finance. We just basically tried to make sure that we provided the services necessary so they could do their job better. People might argue that that didn't happen all the time. (Laughter)

WT: So, did you work a lot on EDGAR, then, as it was ramping up?

JM: Not much. I had a fair amount of involvement. I did not have, and never did have, a technical background. So, while I started having that as one of my areas, more and more I just moved away from it and got more into the financial management and general management part of it.

WT: Do you know anything, from before you arrived, how long these management analyst positions had existed, or whether they had evolved through time?

JM: The executive director's office, as I recall—Ben Milk was really the first executive director like I've just described, I believe, and at that time they also set up the structure of

the ED's office with analysts, and that's when they also had all the other support offices reporting to it. So, it went back two executive directors.

WT: Did you have a particular specialty that you worked on—or you and the other management analysts—or was it distributed pretty much?

JM: Well, we'd bounce around. My first area of responsibility, other than working on EDGAR, was Market Regulation. So, I was responsible for making sure budget formulation for Market Regulation was done in such a way that Market Reg was getting a proper mix of resources, and that we focused on the right areas, and that we asked for increases so we could support it. And, if we had to do decreases, we'd figure out where they went, and I would work closely with Market Reg people.

Each division assigned people to the budget, so we would work closely with them in formulating the budget each year for that program. Then, if there was a special study to be done, then I would go into Market Regulation and do that. At that time, too, was the Public Utility Holding Company Act—I focused on that quite a bit. I bounced around. I think I did Enforcement for a while. So, we would try and change, just to get a good perspective of the whole agency.

WT: At this point in history, with the Public Utility Holding Company Act, what were the issues there? What was the deal with that?

JM: For I don't know how many chairmen before me, but for quite a while—I mean, the Public Utility, back in '35 when it was passed, it was a huge, huge operation. I think it was probably one of the largest parts of the Commission, if not the largest. But over time, there's fewer and fewer public holding companies. The problems associated with it, that caused there to be a separate program to begin with, changed, and basically, the Commission had adopted a policy that they wanted to have it repealed. So, for years, it was in a mode of, "We're doing it. We'll do it as well as we can, but it's basically something where we think we ought to get out of that business, because it's better done elsewhere. It's just no longer needed." So, we ended up actually going in and examining it for purposes of, I would say, making sure we're doing what we needed to do but limiting the amount of resources that were spent on it.

WT: Did it even have its own separate staff, the people who were concerned with the administration of that act?

JM: Yeah, there was a separate office. At one time it was huge, and then it got down to the point where, maybe when I was looking at it, it was twenty-five, thirty people.

WT: As far as the resources at the SEC are concerned, what was the situation like in the mid-to-late 1980s period?

JM: I came to the agency in '84, and the first budget that I worked on I think was just over, for the entire agency, \$90 million. We now have over a billion dollars. So it was just

pretty small, and we had about 2,000 people at that time, just under 2,000. I don't know if that's answering your question or not, but that's sort of the scale that we're dealing with. So it's a pretty small operation, the budgets are pretty small, and most everybody believed we needed to grow.

WT: What I'm trying to get at is how strained the resources were, versus the budgets that were available, versus the duties that were assigned to the SEC.

JM: That was always tension; it was a tension then, it's tension now. Let me back up again and maybe do some context. The SEC budget fared good or bad depending on what happened in the rest of government. People in the agency had a hard time understanding it, because we're an independent agency, but no, we weren't independent from a budget standpoint. We were part of the president's budget, we were in the Commerce, Justice, and State Appropriations Bill, and we were competing for resources all the time. You're competing against the FBI; you're competing against the Supreme Court; lots and lots of very important things. So there was always that constant tension.

To really go far afield, that's why the SEC sought and needed self-funding, and still does. But, within that environment, we did fairly well. The SEC was strongly supported. OMB was a strong supporter of the SEC's mission, and we had bipartisan support in both the authorizing and appropriating committees. You would occasionally get some person who might go after something or other, but, by and large, people looked at our mission,

saying, “Everybody should be supporting that”—investor protection, fair and free markets, all of the clichés associated with the SEC’s mission.

WT: Particularly in that period when there was so much attention being paid to some of the agencies’ actions, particularly surrounding the big insider trading cases.

JM: Right.

WT: Was that pretty evident that those were creating a favorable political environment for the SEC?

JM: Well, they were, absolutely. You never let a problem or a crisis go. You always want to take advantage of it. But in those situations, people said the SEC needs more resources, and you always take advantage of those situations. But they said that about a lot of other places, too. I mean, drug programs were also a huge issue in the CJS budget. By and large we were well supported, but that doesn’t mean we were getting the resources we needed, at all, in some cases. We had to fight for them like everybody else, and if the word is from the president, “We want to reduce the budget,” everybody gets reduced. It’s very few people who make out. We did okay from that standpoint, but we were severely constrained for resources in especially the examination programs, and that got worse and worse and worse, because our examination mission just greatly expanded over the course of time.

WT: It was in 1990, then, that you became executive director?

JM: Yes, it was 1990.

WT: Tell me a little bit about that transition.

JM: I was the chief management analyst at that time, and George had decided to move over to the Defense Department somewhere. So a competition was undertaken, a nationwide competition, and I applied for the job. I had had the good fortune of working closely with Richard Breeden. The ED's office also was almost like—I don't know how you'd best describe it, but we were directly supporting the chairman. He's the CEO; we were the chief operating officer. So, there was a lot of interaction with the chairman's office and the executive assistant, and all of the staff in the chairman's office. So, I got to know quite well Richard Breeden. I applied for the job, and it's a very long, drawn out process, as I recall. It took a long time, but he ended up selecting me. It surprised a lot of people, and surprised me a little bit. Then the transition was actually fairly easy, because I had been doing a lot of that work all along and I had changes I wanted to make.

WT: To what degree does the executive director's office essentially come up with its own initiatives or its own agenda, versus how much of that is set by, say, the chairman?

JM: All of it is set by the chairman. The chairman's directives may be very broad, or it may just be, "We have a problem so we need a solution." So, from that standpoint, the

executive director's office has to create solutions, deal with problems, come up with ways in which to make what the chairman wants to do sort of happen. So, there's a lot of discretion at that level, but the chairman runs the agency. Reorganization Plan 5, I'm sure you've run across that.

WT: 10, right?

JM: Plan 10—you know it better than I do—1950. But that gave executive responsibilities to the chairman. Reorganization Plan 10 was always an issue. But, at any rate, that's an aside.

WT: When you say it was always an issue, what do you mean by that?

JM: The Commission, I viewed—and I think most people would view it—as a board of directors, but their interests were by and large policy. They didn't come to the SEC to worry about personnel or budgets, but oftentimes they did, and they would want to get involved in that kind of stuff. And we certainly kept them informed and did as much as we could, but at some point in time it's the chairman's prerogative to run the agency. But there were times when there was conflict.

I wasn't there, but it's an interesting aside—and I'm not speaking about anything that... maybe a lot of people don't remember it—but John Shad actually had to testify on the budget. I think it was the budget. It might have been an authorization, but I think it was

an actual appropriations. John Shad, when he testifies—or when any chairman testifies on budgets—it’s the president’s budget, so he’s representing the president. Of course, he has to say that the SEC can do well in this budget, but it’s the president’s budget. Reagan was making huge cuts everywhere, so the SEC was going to take its cut, and John Shad went up and testified in support of those cuts. He pretty much has to. You can say it’s going to be a problem, you can say we’re going to have to cut here and if you don’t like that, that’s just going to be the way it is. But then a couple of commissioners decided, “No, no, no, we’re not going to support the president’s budget,” and they went up and wanted to testify, too. Somehow they got on the panel, and there was three—I think it might have been two commissioners and a chairman.

Again, I wasn’t there, but I was there shortly after, and so it was quite an issue. That’s the kind of stuff where Reorganization Plan 10 says it’s the chairman who does this, but the commissioners would step in and say, “Oh, no, no, I need to have a say in this.” I think that’s probably a positive thing as a rule, because people ought to know what the board of directors is also saying about the agency.

WT: Is that ultimately the chairman’s discretion to let the commissioners become involved?

JM: Well, first of all, the chairman’s going to say, “I’m doing this. This is my job. It’s not your job.” All the commissioner has to do is contact the chairman of the committee’s office and say, “I’d like to come testify.” It’s done. And that’s what happened.

WT: As executive director, would you be involved in that process of testifying before the appropriations committees?

JM: Yes.

WT: Were you pretty much spearheading that process, or was it a joint effort with the chairman?

JM: Well, it's the chairman's testimony, primarily, but nearly all the time I would accompany the chairman for testimony, so it would be the two of us. But my office, together with the general counsel's office, would write the testimony. The chairman, of course—depending on the chairman and depending on the environment—would change it, do whatever he wanted to, of course. But we were responsible for getting the testimony done and prepping the chairman, working with the appropriations committee on what the areas of interest are, to make sure that we were telling the committee what it is they needed to hear, what they were interested in, and then representing our position as well as possible.

WT: Before the appropriations committee, would the questions you'd get be directed mainly towards the management-type issues, what different funds were being expended for and so forth? Or what kind of questions would you get?

JM: The appropriators, when they get the judiciary in front of them, or the Justice Department, they're as much interested in the programs, the policies, as they are in anything else, and they want to know about that, and they have constituents who are interested in it. So anything can happen in an appropriations hearing. Of course, they get down to detail: why are you spending money on this project? Why is it costing so much for staffing? how come EDGAR needs all this money? But they would be very much interested in big picture things as well: insider trading, how you're overseeing the SROs. So anything could happen.

WT: What was the reception generally like? Was it sometimes hostile? Were there always theatrics involved? Did it go up and down, or was it kind of constant over time, the reception you would get there?

JM: If there were a lot of theatrics involved, I wasn't doing my job very well. (Laughter)

WT: I mean on the part of the congressmen and senators.

JM: Basically, we worked with both minority and majority staff well ahead of time to understand what their interests were, and then they understood what our positions were going to be. If theatrics happened, they generally didn't happen with the ranking members of the committee, because everybody knew, and their staffs had a lot of involvement. But if one of the other committee members—a lot of them didn't show up too much, you might have only had three or four people out of the entire committee,

because we were a very small agency and they can't go to but so many meetings. But someone might show up all of a sudden with, they've got a particular issue, something may have happened in their district, and that can come out of left field and that can create theatrics. It's also, "Whoa, where did this come from?" That can create some interesting situations. That was always a possibility, and it happened. You just had to be prepared for it.

WT: I suppose my question is motivated by a story from one of the other oral histories that we did, where they were talking about EDGAR and they had the letters up on the wall and started them ripping down and saying, "It doesn't do this, it doesn't do this."

JM: I was there.

WT: Yes, so that was what I had in mind by theatrics.

JM: Yeah, that was actually an authorizing committee. It wasn't the appropriations committee. That was Dingell and Markey. I'm sure it's the same one, because there was really only one that was theatrical on EDGAR. That was pretty theatrical. It was a rough one.

WT: Explain the difference between authorization and appropriation, if you could.

JM: The basic difference is quite simple. The appropriators can actually give you money; the authorizers just have directions they want the agency to take. They try and pass laws, but they can't fund you. They can ask you to do a certain thing, but if the appropriators don't give you the money to do it, it's very hard to do. So it's a lot different. I didn't really deal with authorizing committees directly that much. I dealt with staff quite a bit. But it's really a different environment up there, I'm sure you're pretty much aware, especially early on. Now, things have changed so much because the leadership has taken over everything. The appropriators have lost a lot of their power because leadership's just moved in. The leadership is comprised of mainly authorizing-type people, or it's the speaker or whatever and they've changed things a lot. The College of Cardinals, the appropriators were very powerful. They had their territory carved out, and money was everything, so you had to get it. And the authorizers, they spoke a different language, it almost seemed like. It was interesting. I enjoyed working in that environment. But my main interaction was with appropriations committees.

WT: Bringing things back inside the SEC, would you be working pretty much continually with the chairman, or would the chairman be mainly occupied with policy and then would come into the operations element of it periodically? Or would it be a more continuous thing?

JM: It varied a bit, but it's more on the continuous side than the occasional side. Anything that was going on with the operations, the chairman had to know about it, because the worst thing you can do is get surprised about something, and there's always stuff popping

up. So there was continuous communication, and of course each chairman had certain parts of the administrative structure they were particularly interested in, so they would want a lot of feedback on that. If you were undertaking some major initiative—like EDGAR of course was one—John Shad, he basically had the idea, so he wanted constant information on EDGAR, as did a lot of others because it was such a hot... If you were undertaking something significant, like if you were in your audit season, they wanted to know what's going on with the audit, regular feedback, so they'd have constant communication there. If you're in your headquarters project—I noticed that was on your list of topics—they want a lot of feedback on that, because nothing can get you in more trouble than real estate.

WT: Were there particular chairmen who were particularly engaged with management issues more than others?

JM: Yeah, that's true. Yes. I don't know that I want to name names, because they're probably a great group of guys. (Laughter)

WT: Right, right. No, I'm just wondering if there were—like you mentioned John Shad and the case of EDGAR, and—talking about my list of questions—we're coming up to Bill Donaldson's management reforms. But I don't know if others had particular foci that would be interesting to know about.

JM: Well, you mentioned Bill Donaldson. He came to the agency with a very different perspective than most. He had been a managing partner of a firm, and as a director of the firm he had very, very clear ideas as to what he wanted to see in terms of reporting. When he asked for those reports, he assumed that everybody did it that way, and we didn't do it that way. In fact, we didn't do it that way at all. It wasn't the nature of federal budgeting to actually do it that way. He wanted reports in a very different manner than any other chairman had, and so we created a system to accommodate that. That was the dashboard. I had forgotten all about the dashboard system until I saw it on that list.

WT: Like I say, Peter Derby was reminding me himself.

JM: Right. I can see his fine hand there. That's good.

WT: So had the position evolved? We've now jumped ahead to 2003 from approximately 1990, so had the position evolved over the course of the 1990s, the executive director's position?

JM: The job description and the basic mission stayed pretty much the same. Evolution certainly occurred. For instance, when I first took over, I was also responsible for the regional offices. That never made any sense to me. The regional offices, they needed support, but there wasn't really any administrative or management—from my standpoint—oversight needed. You needed the management. They were program

officers that reported either to enforcement or inspections. That's what they did, and it made no sense for me to be overseeing that kind of work.

So I think it was with Arthur—Arthur and I sat down, and chairmen were always interested in organizational structure issues, because they wanted to do things properly and make sure things were getting done according to what's modern. So I recommended that it be shifted over to a program division, and the biggest, most appropriate division was Enforcement, so we moved it so the regional offices went out from under me, which I was happy about. Then Jim Clarkson, he was around forever—went to Enforcement to keep coordinating the regional offices. So that's one significant change. I don't know if that's what you had in mind.

WT: That's a good one. I wanted to ask about that anyway.

JM: The other thing is information technology. Information technology was under me forever, and an IG study sort of reminded the chairman that there's a law that says the chief information officer must report directly to the chairman. But the chief information officer was reporting to me. So, in order to comply with the law, we moved that CIO function out and reported directly to the chairman. So that went out from under—but then it sort of came back a little bit, just for practical reasons. The chairman, as a practical matter, is not going to run IT. As important as it is—and that's the reason why the law was passed, and I can understand that—the day-to-day functioning of IT is just too much. There's too much going on.

WT: Was the sense there that that was supposed to engage with technology in the markets and that sort of thing? They would just become more prominent over time?

JM: That was really internal. It was an internal issue. Technology in the markets, now that was a Market Reg issue and that was a big deal, and the chairman would be especially—you know, can the markets survive these crashes, and did they have the technology to handle, like the 9/11 situation? Those are Market Reg issues, and technology was a huge issue for them. The chairman would be much more actively involved in that kind of stuff. But internal IT, it's a different thing.

WT: It's office machines and that sort of thing.

JM: Yes. I think we did a pretty good job. Boy, but IT in the federal government is really difficult. You just can't get the resources. I guess you can't get them anywhere, but it's really tough getting the resources. Like the whole hacking thing that's going on now, you can easily get money for building a big system, but making sure the thing is properly maintained, updated—the maintenance, that's where you have trouble keeping funding.

WT: Is it because the resources aren't made available, or contracting restrictions?

JM: It's like anything else. Yeah, we can get the money to build a bridge, but every year the bridge needs a lot of money to be maintained properly. But the bridge itself, yeah, it's

cool. Everybody's, "Yeah, let's build a bridge." But it's no longer cool after about ten or fifteen years, saying, "Well, you know, this bridge is getting a little worn out. We're going to need to spend a lot of money on it."

WT: So, coming back to Bill Donaldson, he of course replaces his chief of staff with these three managing executives. This is to, I guess, involve his office a little bit more in the operations of the SEC. How did that divvy up with your own position?

JM: Well, when Donaldson came to the agency, he and I spent a lot of time together, because he's very interested in management issues and financial management. One of the things in one of our meetings, he said, "Everybody tells me, especially the people in the White House, is that I have to have a chief of staff." I said, "I don't see why you have to have a chief of staff. You can design your office the way you want to as long as it's not totally crazy." So his model that he developed was a managing director thing. And he was sort of interesting. He viewed himself almost as one of equals with his managing directors, and he divided up the responsibilities, and I think he also saw me as one of those, to some extent. So my role didn't change too much. I mean, I had always reported to the chief of staff on a regular basis, but now it was three different people. But my primary interaction was with Peter, because he was the managing director for, was it management?

WT: Yeah, or operations, it was in that general area. There was one that was policy, one who was outside relations, and then Peter.

JM: That was actually, I thought, a pretty interesting structure. It was fine. In fact, I don't think it lasted beyond Donaldson. I was there maybe a couple of years under Chris Cox, but he changed that. I think he went back to chief of staff, didn't he?

WT: I don't know.

JM: I haven't thought about these things in a long time. I'm pretty sure he didn't stick with the managing director concept. But I thought it was cool. I thought it was worth trying.

WT: As we mentioned before, Peter Derby was telling me about all these dashboard systems. Of course, this is in the same period when you have a lot of Sarbanes-Oxley rulemaking and that sort of thing. How difficult was it to get this whole new management system going when there were so many other concerns that people had?

JM: It was very difficult. Our systems did not easily provide the information that Donaldson wanted in his dashboards. In fact, the dashboards, we just sort of created them. It's a neat idea. But let me back up a little bit more. Each administration, each group of people that comes in—and I saw it for thirty-eight years, and it goes back to Jimmy Carter had zero-based budgeting, and that required a whole different thing—everybody has sort of an idea as to how they can better get hold (and I'm talking government-wide), sort of get hold of the government, get it under control and get it doing what they wanted to have done. That happens in every Cabinet-level agency, and I'm maybe being a little overly cynical here, but it's routine to go through these kinds of changes. It's quite routine to go

through these fairly significant changes in either budgeting, managing, or whatever, depending on who's in charge.

So we created this, and I devoted quite a bit of staff to it. We created these dashboards, but getting the systems in place in the divisions to provide the information was extraordinarily difficult and painful. It was quite useful in some respects, because it required people to focus on things they hadn't focused on before, and I thought that was helpful. Just to really go far afield, when we had to have audits, that was an enormous amount of money and resources spent on that and I'm not sure it was really worth it.

But what it did do is it caused people to focus on things they'd never focused on before that were, in fact, very useful. That's what the dashboard thing did. But maintaining it, I don't think it lasted beyond Donaldson. I'm sure they don't do it now, and I think we pretty much, we sort of eased it out. For a long time, we had the STATS, Staff Time Activity Tracking System. It was an attempt to do what law firms do in terms of having billable hours tracked so that you would have budget information and stuff, and how people are spending their time by projects or program areas or whatever, and that was implemented. I thought that was a waste of time. Again, it was interesting. It's cool to know that stuff, but a lot of effort went into it and the benefits just weren't there at the end of the day.

WT: I'm kind of curious. I know that some of the criticisms that one gets from industry is that the SEC imposes large burdens on companies to undertake various controls and compliance programs and so forth.

JM: Right.

WT: I'm wondering if this experience had any effect, or if you can speak to any effect it might have had among the staff, as far as understanding those issues more.

JM: I don't know. I hadn't thought about it from that perspective. I doubt that it did. I mean, they certainly appreciated the pain it was for us to have to comply with a lot of that stuff. It's my sense, too—and I probably shouldn't even speak to this because it's beyond my area of expertise—but it seems to me that a lot of those requirements were imposed by Congress. You got a new law or you got this, you got that, and so that's just passed on. I haven't had to do much with the current law that's still causing problems, but Congress says, well, we should have these kind of controls, we should do this or that. And so it's the SEC that's got to figure it out, and I'm not sure that on our own we would have undertaken that.

The SEC was always very interested in making sure what it did made sense. At least, that's my view. It made sense, with respect to the industry, that it really wasn't imposing undue hardships, because if capital doesn't work efficiently then the country doesn't work very well.

WT: You mentioned the audit. I understand that this was actually the first financial audit that the SEC had had.

JM: Yes.

WT: Could you tell me a little bit about the story of that, how it came up, what it discovered?

JM: Well again, this is also congressional direction. The Cabinet-level agencies much earlier had to come up with independent annual audits. The smaller agencies were left out for quite some time. But finally—and I don't know which committee did it or which committee chairman decided that it needed to be expanded—then the law was changed so that all agencies had to do it.

For good reason, the SEC was very, very nervous about having an annual financial audit done. One, it's expensive, but two, what if you don't get a clean audit? Here the SEC is, we're responsible for GAAP and for auditors. And agencies don't get clean audits. I don't think the Defense Department's ever gotten a clean audit. A lot of agencies don't. The nature of budgeting and authorizing and just receiving money in the federal government is so different than what audit standards are set up for in the private sector, it makes it very complicated. But there was a law passed and we had to do it, so we jumped into it full steam, and again, it was an enormous, enormous amount of resources.

Not just the cost of the audit—I mean the money we transferred to GAO—but internally, you had to set up all kinds of systems.

And here's again where I think there's a lot of really good benefits to that. We were always concerned about how fines and disgorgements were being handled, tracked and all that, and again, that's just something that—it's so tedious. It's the last thing on anybody's list of fun things to do. But you can really get in trouble for stuff like that, and a lot of us were concerned about that. The financial audit made you have to come up with systems that really nailed down fines, disgorgements, and all that. So that's a huge benefit. It also focused on information technology security. Was that the focus it had? But anyway, it really caused a lot of resources that needed to be focused on that area, because if you'd get a finding that everything's working great except, well, your information technology, it's not in compliance with all these other things, that was bad. So again, that's maintenance. That's the last thing on your list of things you can apply resources to, but the audit forces you to do it. So there was a lot of focus that came out of those things that's very helpful. I don't know how big a deal the audit is these days, what kind of resources it consumes, because it could be it's sort of routinized now. But at the beginning it was really an upheaval.

WT: Was there any particular kind of audit scheme or budgeting scheme that the SEC had to comply with? I guess around when you would have started in government in 1970, PPBS was the big thing, Planning, Programming, and Budgeting.

JM: Right.

WT: Was there anything like that going on?

JM: Probably, if I spent a couple hours, I could go back into my recesses and figure it out, but not really. We did our budgeting pretty much the same way, by program areas, the whole time I was there. If anybody reads this, they'll say, "Boy, he doesn't know what he's talking about. We had all kinds of upheavals or changes." But to my mind, there wasn't a lot. It was a fairly consistent approach to it, and it basically started back prior to me. We tinkered with it, but we didn't make major changes the whole time I was there, that I recall.

Then, of course, OMB wanted to see things in a certain way. While we're an independent regulatory agency and our rulemaking doesn't go through OMB, our budgets did, and we had a very active role. They played an active role and we interacted a lot with OMB. So they had budget requirements that they wanted to see, and then they were consistent, so we followed them.

WT: As far as allocating resources within the SEC is concerned, sometimes in these interviews we'll speak to certain corners of that problem, like reviewing filings during the late '90s IPO boom was an extremely stressful time, and you finally just couldn't review every single filing. And there were other routine tasks of that nature that come up from time to

time. To what extent would you have to balance those things in terms of allocating staff, resources, and that sort of thing? I assume you can't shift staff around.

JM: Actually, that was a constant debate, or pressure that we had. That's one of the classic ones, reviewing filings. Lots of people on the Hill and lots of people elsewhere were concerned, you've got all these filings, but if you're not looking at all of them, what are you missing? There's no way we could look at all of those. You had to do triage. So there was a constant tension involved in what's the level of reviewing filings or how are you going to do it? Outside interests, the Congress and others were very concerned about that. There was a time a long time ago when the Commission looked at every single filing, but they can't do that anymore, obviously.

And the same thing with the examination program, it kept getting additional responsibilities for investment advisors and just the entire financial services sector, so that more attention needed to be paid. The SROs can only do so much as well, and the states, they can only do so much. Ultimately, people would look to the SEC. They're your regulated population; why aren't you going to take a look at them? You can't look at hundreds of thousands of entities, so you had to make tough choices, and there can be lots of things that can blow up in your face. Where was the SEC? So yeah, every year there was internal tension, and we moved the resources around quite a bit at times, based on that.

WT: In terms of getting those things done and setting standards for how many are going to be reviewed, how quickly and that sort of thing, is that mainly a division director thing? Is that a Commission-level thing? Is that in your wheelhouse?

JM: That was a programmatic issue between the division director, the chairman, and whatever outside pressures they had. Basically, you tell me what does he have to do, and we'll try and get the resources. If you can't get them, though, you can't get them, and you just have to either be more creative—but no, I would not get involved in that kind of a decision. I would just try and help out on the resource end of it.

WT: A lot of people in these interviews talk about whether the morale in the agency was very high or very low in a particular period. Having been there over the course of sixteen years, does it seem like there were real ups and downs? Of course, there are times like after 2001, and then of course after the financial crisis, which was after you left.

JM: I picked a good time to leave. (Laughter) By and large, I would say that morale at the SEC was quite good. There were certainly down times. I worked at a number of agencies, not just the Labor Department. I was also at Food and Drug, and I worked on the Hill for a while and did other things. I found the SEC to have really high morale just about all the time. One time, when they started ranking these things, I think OPM had us at the top five for a couple years at one point. That might have been after we got pay parity, which would have figured that you would be up there.

But by and large, it was quite good, and a lot of that had to do—small agencies tend to do better than large agencies. Agencies that have a clear mission that doesn't change a lot tend to do better. I remember at Labor, morale could fluctuate certainly in every administration wildly, because you'd have a bunch of people working on programs they really, really thought were important, and the new administration might say, "Nope, that's not important anymore. This is important." But whoever was there working on it said, "Nah, we"—so morale would really suffer and then there would be lots of fluctuations. At the SEC, that by and large didn't happen. Our mission has remained pretty straightforward and constant since the acts were passed. So that helps with morale, in my opinion.

Day to day, morale is very micro-oriented, too. Some places, morale is terrible, probably, but that could be because your immediate supervisor is a dolt, and that certainly happens everywhere. The SEC had its share of dolts. I always found them to be a whole lot smaller percentage than other places I had worked, but that happens and you have to deal with that. On a daily basis, you have personnel issues where people are having trouble with their supervisor. The supervisor could be in charge of thirty, forty people. That's a fairly good-sized segment in a small agency, especially if you're a division. The next thing you'll do is you'll want to get into the union, and we'll talk about that, I'm sure. But there was a time where there was a lot of problems associated with that, but I'll stop there.

WT: When we talk about morale, how does that manifest itself? I mean, is it in complaints, in diligence of work, that sort of thing? How does one perceive that?

JM: From my point of view, as executive director, it's complaints generally. I was responsible for personnel, and there were all kinds of complaints, of course, anything from abusive practices to bad supervisors to not getting training, all those complaints. If you see a big surge in complaints, those are morale issues. But in terms of productivity, I really wouldn't probably see that too much. We certainly had our program measures and we would look at productivity, but they were sort of accumulated, so you might not see a smaller problem.

WT: In terms of dealing with complaints, did the procedures for dealing with those, did they become more formalized with time? I know when you first started in as executive director it was in the papers that there were complaints surrounding sexual harassment, for example. Did that lead to a more formalized program of dealing with that sort of thing?

JM: Absolutely.

WT: Tell me a little bit about that.

JM: Again, the SEC—it was strange to me, but the whole Tatel Report and the Broderick case, it created sort of—it was really important. It was really helpful, to some extent, but

it caused us to put in place procedures and systems, one, to comply with the Tatel Report, and two, the Commission was very concerned about this stuff, so they wanted to make sure that our environment was, in fact, a very good one.

WT: Could you tell me what the Tatel Report is?

WT: As a result of the Broderick case—and I'm sure you heard of that—an outside attorney whose last name was [David] Tatel came in and made a whole series of recommendations. He wrote a report, a thick report, with lots and lots of recommendations, and basically, the SEC decided to adopt them, and they required all the systems, they required the new offices. So that happened somewhat prior to my coming, but I was certainly involved in it because it was still ongoing. Then some other situations came up, too.

Unfortunately, those come up everywhere. There are reprobates everywhere. But we had a few, and it just happens. It's unfortunate. But we put in a lot of effort and a lot of systems, and it was a continuous effort, because the Tatel Report required ongoing examination. We were under a spotlight, and we should have been, and I think it's overall a positive thing.

WT: So you found in this case that implementing these kinds of controls was successful, or that it made a difference?

JM: Yeah, I think it made a difference. I do think it made a difference. You never get rid of all that stuff, but it was important, and those systems needed to be in place. A lot of other agencies don't do it, and it's a mistake for them not to have rigorous reporting and rigorous avenues for complaints and then reviewing those complaints.

WT: One of the interesting things about the SEC is that primarily it's considered to be an organization of lawyers, but of course, you also have a lot of support staff as well. In your experience at the agency, were there good relations between those echelons—or did it even seem to be a question of echelons, or was it a more organic-type office environment?

JM: I too viewed, as you've mentioned, the SEC—I wouldn't say just a law firm, but as a large professional firm, and by and large, certainly the senior staff, a large accounting firm or a large legal firm. That's the way it was set up, over time that sort of developed. Then the support staff, there was definitely tension. You always had to deal with the fact that the program people were concerned that they were getting good services. Sometimes they were, and lots of times they weren't, and they just had to deal with it. Everybody is upset with IT departments, and people were upset with our IT departments all the time. Personnel actions never get done quickly enough, and the programs always wanted more autonomy with respect to hiring and firing, but you can't have that.

We're part of the government, and there are extensive procedures in place that we are required to follow that a law firm wouldn't have to. They can hire and fire. The

government certainly hires and fires, and I thought we were fairly robust at it, but there's still lots of procedures you have to follow. The support staff, sometimes they get mired in, "Okay, we've got to do it this way, we have to do it this way," so my job oftentimes was just to try and find a way to make the support work address the needs. And that's really a large part of the executive director's office's job, trying to deal with that, because the tension was always there. It was always there, as it should have been. I didn't see it as a huge sort of anomalous problem. It was just sort of the nature of the way things were.

WT: You mentioned the SEC union, and I'm wondering if you can just give me a general overview of it. I know next to nothing about it. Do you know when it started, what form it takes, that sort of thing?

JM: It started under Chairman Levitt; Arthur was chairman. Let me probably tell you a lot more than you want to be told.

WT: I'll take all I can get.

JM: (Laughter) The environment at that time, we were trying aggressively to seek self-funding, and self-funding was going to do a lot of things. The principal one, from my standpoint, was that we would have the ability to set our own personnel policies, pay policies, and such. But there were lots and lots of interests all over government that were very, very against us doing that. OPM, both authorizing and appropriating committees,

and OMB were very much against it, because the last thing that general government wants is a bunch of outliers that are doing different things, and they have a few already. So we were trying to become an outlier, so there was lots of pressure against it.

During that same time, everybody in government's having trouble hiring, everybody was upset about pay. So laws were passed, regulations were implemented, OMB put out directives, OPM implemented programs to try and provide relief through aggressive retention allowances, recruitment bonuses, other special things to give people to try and mitigate the problem with retention. So, when we were trying to prove our case for self-funding, a lot of it had to do with the fact that we can't hire and we can't retain. There's too much competition. So the OPM would come back and say, "Well, you're not even implementing the authorities you have available to you. Until you can demonstrate that you've fully implemented all your flexibilities, don't come back anymore."

So we did that. We started going headfirst into everything from helping with student debt, giving bonuses to people—retention bonuses, hiring bonuses—certain people got certain things. And when that happens, that's when morale problems occur, because somebody's going to get it and somebody's not, and just because you don't get it doesn't mean you're not just as good as the person who is getting it, it's just that you might have already been hired. So that's one reason why people don't want to implement a lot of that stuff, because they know it's going to create those kinds of problems. But we did it in part as a tactic to make sure we could make the case for self-funding and pay parity.

It worked, eventually, but the unintended consequence was lots of morale issues in certain areas. Then those were taken advantage of. A couple people decided they wanted a union, and it sort of snowballed. The NTEU came in and supported it. In fact, once a federal area wants a union, they get a union. We didn't necessarily think it was the greatest idea, and a lot of people didn't like the fact that once a union comes in, they are the sole representative of employees. The employees can't represent themselves.

WT: That covered all employees at the agency?

JM: Only the bargaining unit. Supervisors weren't covered, but all bargaining unit, which is the bulk of the people. Actually, I came from an environment—I've always been pro-union. The Labor Department is sort of about unions. I hate to digress, but I was really active in the Farm Workers Union, and we did some programs with them. I really enjoyed all that, and that's essential stuff.

But at any rate, the union came in, and during the course of it they demonized some people that probably shouldn't have been demonized, especially Arthur Levitt. They demonized him, and that was very hurtful. They demonized me, but that goes with the job and I probably deserved it anyway. So it was a very emotional and unpleasant period. I assume now everything's probably calmed down and it probably works quite well. The fact that you don't read or hear about it much suggests that it's everyday life now. But it was a big upheaval for a while.

WT: How continual were problems with staff turnover? Of course, there's always the so-called revolving door between the government and the private sector, especially with lawyers.

JM: First of all, staff turnover is good, but sometimes it just gets excessive. It got excessive with the SEC. As part of our effort to get self-funding, we had a team of people that we developed over time because we found it so useful—general counsel people, support people in personnel, budget, and elsewhere—and we would track these things just daily almost. We were having, in some areas, 20 percent turnover. There's a healthy level, but it's not 20 percent. It's way below 20 percent. So when you get that, your costs really balloon for training and just the displacement cost associated with hiring—jobs stay vacant for a while, so it really, really hurts.

So turnover was a huge issue, and people were very sympathetic, especially in Congress, to that. The OPM was very sympathetic, and once we had demonstrated that we'd done everything we could and we still had it, then they said, "Okay, you're right." They came around and said, "You do need special help," and they became supporters. Then recruiting was tough, too. We had to fight getting good accountants, good lawyers. The financial services sector was booming as well during this time. So, we had trouble recruiting.

WT: One thing anecdotally that I got as far as hiring practices are concerned is that, in the early days of the agency, people would come in pretty much right out of law school and

build careers at the SEC. And then later on, actually it was quite rare, that people would generally have worked somewhere else first. Is that true, or what's your experience of the changes and the hiring practices of the agency in general?

JM: The SEC—and this is a good thing—has always been considered graduate school or a finishing school for lawyers interested in securities law, and that's very positive. I don't think that changed much while I was there. We would always get a lot of young attorneys coming in and wanting to learn securities laws, and they knew quite well that after three or four years they would be very, very marketable. That's a positive thing, and that kind of turnover I had no problem with as long as it's sort of routine. The way we sort of felt like, if someone would come in and they would stay three to five years, you were getting good payback for your resource allocation to recruitment, training, and everything. But if they were leaving much before that, if they would come in one or two years and they'd be gone, or you couldn't get them at all, then of course you've got problems.

So a good amount of healthy turnover is fine. Then some people just loved it so much they stay, because they want to reach a senior position, they want to be more and more responsible, because you could get a lot of responsibility in the government. There's lots of positive things about being a government lawyer than there is about being a corporate lawyer. Money's not one of them, but there are other positives that a lot of people really embrace, and that happened at the SEC. But over time, I think we would certainly bring in people at higher levels. I think that probably happened more often over time, we'd

bring people in with serious experience—but that was generally a senior level position. An associate director and above, maybe assistant directors and above, would come in with some serious credentials already.

But again, lots of times, if you know what's going on in the SEC and you see policy being made and how they decided, you're learning a lot, and it's very, very valuable. In accounting it's maybe even more so. We've got accountants for that same reason. In fact, accountants, more often than not, we wouldn't get accountants unless they had experience, because we could really attract them with what went on at the SEC.

WT: I know there's always been a handful of economists as well, and I guess after you left at the wake of the financial crisis, there are some more now. What was the agency's experience with trying to get people with economic backgrounds to come in? Were they interested at the opportunity? Did it seem like a backwater to them?

JM: Well, I hate to use the term backwater, and I don't think it was, but it was very difficult. I mean, it certainly wasn't the Fed. We didn't have the attractiveness that they had. When I first started there, we had two groups of economists. There were sort of the policy theoretical economists, and then there was, I think it was... I can't recall the name. They were more statistically-oriented, and that was a harder group, maybe, to attract. But we combined that over time and made it one economic program. And economics and cost benefit and all that stuff became much more important as the rulemaking focus sort of increased. There were certain members on the Hill, senior members, who really wanted

us to improve our economics program, and they did it in such a way that we were required to do economics in new ways and better ways, and I think that started attracting more people. I think we did pretty well. We were always able to hire economists; it was never an issue.

I know there's been an even larger focus now, but it grew in importance over time, and it changed significantly. I think its attractiveness increased to the point where I think now the SEC is viewed as a pretty good place to come as an economist for a while. I don't know that people would want to keep a career there for very long, but, again, it's a good stopping-off point.

WT: A couple questions on the self-funding issue. First, have fees collected from industry, penalties and that sort of thing ever had any relation to the SEC budget?

JM: Penalties, never, and probably never will. People didn't want to do that. I used to broach it every now and then—why not take advantage of some of these penalties?—but, for good reasons, policy people prevailed and that didn't go, because it is a bad policy.

WT: Yeah, it's a conflict of interests.

JM: Exactly. There was a lot of money there. But now the agency is fee-funded. We're not self-funded. And I shouldn't say "now," because that's been ten years. When I left, our fees completely offset our appropriation. But you get the appropriation first, and then

you set the fees to neutralize the appropriation, basically, so it's net neutral for the government. That's a type of self-funding, but it doesn't really give you all of the—it's not like the Fed.

WT: Yeah, it's not like you're independent.

JM: You're not at all independent. You still go through the entire budget process, and once that's finished, then there are fees. You might see these fee advisories that go out. We use to put them out all the time, because the appropriators never seem to get their job done on time, so you would have continuing resolutions, and then each time that happens you have to put out a fee advisory to reach a certain amount of money, depending on what you're operating under at that time. So it's fairly complicated, and I know it's happening now, because it has to be.

And now there's also something that I'm not familiar with, because it happened after I left. There's some sort of fees, is it transaction fees? I can't remember which fee, but there's a pot of money that's been growing, and I don't know how that really works. But when I was there, towards the end, we were offset and that helped it. It helps you in the budget process, of course, because the appropriators know that it's going to be netted out and they have sort of a neutral opinion.

WT: I did not know that the fees were designed to exactly equal the appropriation. That's interesting. As far as the independence goes, how often would the SEC encounter threats, veiled or not, to withhold budget from Congress?

JM: That happened. It was very infrequent. Arthur Levitt had to deal with that a number of times with respect to accounting issues. I'm just having trouble remembering exactly how that occurred. There were situations sort of in a more micro level where you had directed appropriations, where "If you don't do this, I'm going to hurt you." The classic was the situation in Africa, where congressmen were concerned that public companies might be doing business in certain countries where human rights violation were just out of control, and they would try and say, "We don't want any money being spent that might allow a public company to operate in this part of the world." That happened a lot. I mean, I had to deal with it several times, which, since it's fairly unusual for that to happen, that seemed like a lot.

But yeah, there were threats, and there's always—I mean that's a common thing in Washington. If you don't do better, you're going to lose your budget. Look what's happened to the IRS, and that's really backfired. It's ridiculous for the IRS to be starved of resources. Maybe you want to change the IRS around, or change the tax code, but as long as you have it the way it is, you've got to fund it. They're just starving it, to the great detriment of taxpayers, it seems to me. The same thing can happen, they can decide they didn't like the SEC, and if you aren't going to change the way you're doing things

we're going to stop funding you. And that did happen, but I never saw it as having a serious impact, at least in my experience.

WT: Running through the newspapers, I ran into a couple of occasions where they'd also, on the Hill, try and look into the operations of the SEC to find things that they could expose them on. What came up most prominently was Arthur Levitt's travel—was he going in first class too much, was he traveling too much, et cetera. Would that come up often, or was that a fairly isolated experience?

JM: That was isolated. In fact, that was outrageous. That was an outrageous abuse of authority by a subcommittee, in my opinion, and the fact that Arthur Levitt got tarnished at all on that is just terrible. He was doing things—I digress, because this was a painful thing for a lot of us who saw it—every chairman I ever ran across, their integrity is unimpeachable in every way. But he was doing things above and beyond what you would do to make sure he wasn't—he wanted to travel first class. He had a lot of money. He could afford it. You're allowed to do what you want to with your own money, and the government allows it absolutely.

But we put a lot of procedures in place—and that maybe was maybe part of the problem—we put a lot of procedures in place just to make sure that he wasn't getting close to the edge. It almost could be because of those procedures, I think, because they brought attention to it that maybe caused it to be the issue that it was. I don't know how that committee got hold of that or why they pursued it, but they just wouldn't give up. I

was shocked a couple times. I figured, well, we've given them so much, it's so clear, everything's correct. But there was a witch hunt going on, and I have no idea what the motivation was, I wouldn't speculate, but it was a terrible time. It was really something Arthur should have never had to go through. At any rate, I took that sort of personally.

WT: I was told by a general counsel that the post of inspector general is also kind of a congressional insertion into the agency, that they operate on behalf of Congress. Is that an accurate characterization?

JM: Well, not really. For what's called the statutory IGs, that is exactly accurate. But while I was there, unless it's changed, our IG was not one of those. Our IG started out as an independent auditor internally.

WT: Had that position always existed?

JM: That position had been around, well, not always—always in my experience.

WT: In your time there.

JM: But then there was the IG Act, and it established the statutory IGs for all the big Cabinet-level agencies, and that's where that statement is absolutely accurate, because they report to Congress. They're independent. They're employed by the agency, sort of hired by the agency, but they report to Congress. They're independent. But then an act was passed

for the small agencies that didn't have statutory IGs, and that's where we come in. So we were required to have an inspector general, and that inspector general was required to have a lot of independence. But he was hired by the agency, hired by the chairman, and reported to Congress in terms of an annual report, but not in terms of its having independent, like a term of office or something.

So we had an IG that had a lot of the same kinds of authorities, and still do, but it was not quite on the same level. Congress just couldn't handle having the big agencies, the Cabinet-level agencies, then, they have all these other IGs around. Nearly everybody had internal auditors that tried to perform that function. IG gave further elevation to that. It required the annual reports that were public, and to Congress, to just make sure that it was a stronger program.

WT: As far as relations with the White House and the Executive Branch in general, were those mainly around the selection of the chairman, or would there be more intensive engagement at certain times?

JM: Well, the budget process required heavy engagement with OMB, the White House, and that got to be almost a year-round process, because OMB was always interested in how resources were being spent and how effective you're being. In terms of selecting the chairman, yeah, that was something I never had to deal with. The general counsel's office would deal with that and coordinate, and I never found that to be problematic. It was just, you got help from the White House, guidance from the White House: "We've

got to get this guy briefed and ready for nomination.” But we had a lot of interaction with OMB, always.

WT: That’s primarily around the setting of budget and its allocation, not so much around policy.

JM: No. On the policy, we were independent—regulations and policy. Now, most chairmen, because they’re smart, realize that it’s important to let them know what you’re doing, but they never got to the position where they would seek formal approval. But it’s just smart business to keep people informed. You don’t want OMB or others getting surprised at something you’re doing. You let them know. And again, I’m not the best person to speak to. The general counsel’s office is what dealt with that. But it was pretty easy dealing with OMB. They’re tough, but they supported us. They really supported EDGAR, very supportive.

WT: Did different administrations have different levels of engagement in that process? Like some, did they just leave it to the staff, whereas others, it was a more direct interaction?

JM: Yeah. Harvey Pitt, for instance, he was very interested in having a good working relationship with OMB. He probably—given his previous work in the agency—he probably recognized how important it was just to have a good working relationship, and I certainly encouraged that. I encouraged all chairmen, certainly on the budget side, to at least during the annual appropriations process, sit down with the program assistant

director at OMB and talk about our priorities. Because we would have a budget hearing just like every other agency, and chairmen appreciated how important that was. And again, they're presenting the president's budget, so they wanted to know what they were saying about us.

WT: Could you detect from the president and his staff what their level of interest was in the SEC through that process?

JM: Not really. The SEC is pretty small in terms of that.

WT: Only in instances like with Enron and so forth.

JM: Then that's a whole different—that was outside the context of the budget. Those were just huge issues. Yes, the White House, everybody is involved in that kind of an issue. Occasionally, a chairman would appeal to the White House for some extra resources. That was very seldom, but it did happen.

WT: Are there particular members of Congress or senators or particular staff members of theirs who you recall as being particularly engaged on a substantive level with the SEC, who were good allies of the SEC?

JM: We had a lot of allies. The strong allies were those that you would expect, those that were our authorizing committees. The John Dingells, who basically were responsible for

our authorization, and the subcommittee chairman. And there were key staff members who were assigned to us and responsible for oversight. So, again, you talk to the Legislative Affairs director about that kind of stuff, because I was involved with the appropriators intimately, not so much the authorizers. I was certainly available and I was oftentimes taken to meetings so that I could explain what's going on with the budget, but that came in through the chairman's office and Legislative Affairs. But there's a litany of strong supporters on the Hill, both sides of the aisle, who were very favorable towards the SEC.

WT: The last thing that I really wanted to be sure and ask about is the move to a new headquarters, and I'm wondering if you can just tell me the story of that and what the key issues, concerns were.

JM: The whole headquarters operation was a huge deal. Doing a real estate deal for a headquarters project in Washington is a big deal in my circles. Everybody gets involved. So, the coordination that's involved, the level of detail involved, the people you have to keep informed, is extraordinary. In terms of getting down to the move itself, I didn't see that as a big deal. There were some issues involved in designing space and who got space, but that's just the way moves are. Certain offices want to be on certain floors, and certain divisions wanted to be on this side of the building, and certain areas are viewed as premium space—if you're close to the chairman, you're more important. But that's just the way moves are. It was a lot of trouble. It was a pain, and we had to deal with it

constantly during that period. And the chairmen sometimes had to get involved in deciding who's going to sit where and how space is going to be built out.

WT: Were there notions of moving outside the District?

JM: At one time. Securing a new headquarters started with Breeden, because Breeden got us independent leasing authority. We were trying to get self-funding at the time, and he made a huge effort. Self-funding, the whole effort started with him and each chairman picked it up and sort of moved the ball. So what came out of the effort that Breeden started was independent leasing authority, and that was a really big deal for me and for the administrative structure. But it only really helped in the regional offices, because we were quickly able to do a regional deal. There's very few people you have to touch base with to do a regional office deal. The local people—you check with the local congressman to make sure that what you're doing makes sense, and you get it done. And it's a small amount of space.

But when you do a deal in Washington, D.C., for several thousand people and everybody's paying attention—your appropriators, your authorizers, OMB—then you have to go to new committees you've never had to deal with, the Public Works Committee, Eleanor Holmes Norton. You have to go through her office for anything, and she's really good, and she is very, very strong. We had good relations with her, but you just got to do it.

So at one time, you have to have everybody to agree to a delineated area for your competitive process. Some interests want the delineated area as big as possible, and some interests want it very small, in an area that they're particularly concerned about. We did at least three attempts before we got our final deal for headquarters. At one time, our delineated area was really the larger metropolitan area, and of course we learned along the way how to do things. That generated a lot of proposals that we just weren't interested in pursuing; it was too big an area. The way our population was, the way employees were, it's like a shotgun. We didn't have employees here, so if you moved somewhere outside of the inner circle, the people who live over here, they can get down here fairly easily, but they can't get over here fairly easily.

WT: So if you're up in Maryland, coming down to Virginia.

JM: Exactly. So we learned over time that we really needed to focus our delineated area to support the employee population we have, but then you also have to deal with all those special interests. So, the third time around, our delineated area was basically the central business district of Washington, and we got everybody to agree with that. Then once you did that, then everything happened. Projects came in, they were responsive or not, they'd give you the best deal, they had the right amount of space, and then we got the Union Station project. But boy, I tell you, even though it was really, really helpful to have independent leasing authority—and I know they've lost it now—dealing with Washington is very complex.

WT: Your mention of the regional offices reminded me that the New York office was destroyed in the September 11th attacks. How was it recovering from that, and finding new space and getting that up and running again?

JM: That's where the independent leasing authority was just incredibly valuable. We were able to locate space in an area that the employees liked and understood very quickly. We got the city to go along with it, we got everybody to go along, and then we did the deal and it was really effective. Harvey Pitt was up there. It just worked. If we hadn't had that, GSA can get stuff done but it's just a lot harder, and it costs you more. They have an administrative cost you have to pay, which is fine. Everybody has to get their costs covered. But we were able to do it directly with an agent. Now we have even a better piece of property up there. The aftermath of that was extraordinary. There's nothing like it, of course. You don't have situations like that, fortunately, very often.

WT: So then, finally, you left in 2006?

JM: Yes.

WT: What have you been up to in the meantime?

JM: I have been just incredibly busy. (Laughter) Everybody asks you, "What are you doing in retirement?" I tell you, I have so many things I want to do I can't get to it all. But I'm just really enjoying myself.

WT: Yeah, this is a very nice space you have here.

JM: Yeah, we enjoy it out here. In fact, this takes a lot of my time. But I do some volunteer work, a fair amount, play tennis, I'm learning how to play the guitar. I don't want to sound like a total dilettante, but Wendy and I take dance lessons and we travel a lot. We do a fairly big European trip every year, and then we do a road trip to see the USA every year. Then we leave in the wintertime for several weeks, just to get away from the cold and do a family vacation. I spend a lot of time on the property here. I have a boat—I was down all morning working on the dock with some guys, repairing my lift, so I keep busy.

WT: Terrific. Like I say, I've pretty much gotten through what I wanted to talk about. If there's anything I didn't bring up that you feel is important, by all means please do.

JM: I don't think so. I probably said an awful lot more than I should have said. No, we're good.

WT: All right then. Thank you very much. We appreciate your time.

[End of Interview]