

Securities and Exchange Commission Historical Society
Interview with Mary Shapiro
Conducted on November 2, 2005 by Dr. Kenneth Durr

Dr. Kenneth Durr:

This is an interview with Mary Shapiro conducted November 2nd, 2005 at her office at the National Association of Securities Dealers in Washington DC by Kenneth Durr.

Well, I want to start with your background today. I noticed that you went to a small liberal arts school for your undergrad, which is not far away from here.

Mary Schapiro:

No, I didn't. It's not. I went to Franklin & Marshall College in Lancaster, Pennsylvania.

Dr. Kenneth Durr:

Right. Well, I consider that not far away.

Mary Schapiro:

It's not too far.

Dr. Kenneth Durr:

How did that experience, I think might be a little unusual for somebody going into your field, how did that benefit you?

Mary Schapiro:

That's a great question. I actually think the benefit for me of a small liberal arts college was the opportunity to do a lot of things and be competitive, particularly in athletics, where I wouldn't have been competitive in a big school. So for example, I played four years of field hockey and lacrosse and got to be captain of the team and do all those kinds of things that I think help you develop some teamworking skills, some leadership skills at an earlier age that would not have happened had I gone to Penn State or University of Virginia, somewhere where the athletics were much, much more competitive than my Division III school. So I don't want to overemphasize the role of sports, but I think team sports had a lot to do with my ending up where I have at various points throughout my career.

The other thing is it was a great place to get lots of ability to focus with the real time and attention of professors on specific areas of interest and really drive into those and get to know them well. So I was an anthropology major, which turns out to be a great background for going to law school, a great background for dealing with markets actually.

Dr. Kenneth Durr:

Why is that?

Mary Schapiro:

I think you learn to understand what motivates people. It's cultural anthropology as opposed to physical anthropology. And so when you learn about societies and you learn about groups and sects within societies, you understand their value systems, their belief systems, what motivates them, and that's very useful in dealing with participants in a marketplace. The constituencies of a government agency, like the SEC, dealing with Congress, with investors, with regulated entities of different types. And I think it helps you understand what everybody brings to the table and why they have different perspectives and then how to try to balance those perspectives to get the best public policy result.

So I'm a big advocate of anthropology as a major and a foundation for people who want to go to law school and people who want to deal in financial markets.

Dr. Kenneth Durr:

Did you ever tell your colleagues that you were looking at them, perhaps, through anthropologic-

Mary Schapiro:

No, I certainly never admitted it until I gave the commencement address at Franklin & Marshall a few years ago and I actually spoke to the graduates about how whatever their particular major, the fact that they've gotten a great liberal arts education was important for their future success because they were well rounded educationally, but that in particular, I had found that my anthropology background had been really helpful in navigating through conflicting interests at the SEC and later at the CFTC.

Dr. Kenneth Durr:

Okay. Great. The best answers are the unexpected ones. I would have thought economics or something like that.

Mary Schapiro:

No, no.

Dr. Kenneth Durr:

When did you start to get interested in, well, futures, for example?

Mary Schapiro:

I can't claim that I've ever actually been interested in futures before I landed in it. When I was in my third year of law school at George Washington University, I was doing the usual third year law student routine of interviewing with private firms and government agencies. And I interviewed with this little agency, the Commodity Futures Trading Commission at a time when the Hunt Brothers were manipulating the silver market, and this little agency was in the front pages of the newspapers every day. And I was fascinated by a little bit the David and Goliath story that was there with this small agency and these very wealthy, sophisticated commodity speculators. And I was fascinated with the whole concept that there were people out there who thought that they could corner a truly international market like silver.

And so when I was offered a job in the honors program at the CFTC, as a trial attorney, I jumped at the chance. I could have gone to a law firm or gone to, I guess the Department of Transportation and their honors program, but this just really piqued my interest. Again, I think sort of the anthropological perspective on it was very interesting to me. And so I went to the CFTC and spent a year there as a trial attorney and then Susan Phillips, who subsequently became chairman of the agency, was appointed as a commissioner. She also went on to become a governor of the Federal Reserve Board and now is the Dean of George Washington University Business School. So everything seems to go in a circle.

But Susan was appointed as a commissioner and I was recommended to her as a potential counsel in her personal office. And so I went to be her lawyer at the commission level. She was later named chairman by President Reagan. She was really the first woman to chair a financial regulatory agency at the federal level and I became her chief of staff and so ended up spending four years at the CFTC just in a job that was much too important frankly for me to have.

She put a lot of trust in me that maybe she shouldn't have, but I grew tremendously with that opportunity to be that young, you know, basically at that point two or three years out of law school and chief of staff of a federal agency was pretty heavy stuff-

Dr. Kenneth Durr:

[inaudible 00:06:22]

Mary Schapiro:

Yeah. And having just a phenomenal time, great staff, very nimble agency, very expert agency and really enjoyed that 100%. It was a great experience and she really gave me a great opportunity when she gave me that position.

Dr. Kenneth Durr:

What kind of work did you do?

Mary Schapiro:

Well, as a chief of staff and council to the chairman, nothing really got to the commission that didn't pass through my hands. So I was one part traffic cop, a legal advisor, in some ways a personnel director who was really the person who dealt with really every issue before it got to the level of the commission.

Dr. Kenneth Durr:

Gatekeepers.

Mary Schapiro:

Yes, gatekeepers are important.

Dr. Kenneth Durr:

And then you moved on to the futures industry?

Mary Schapiro:

Right. I went from there to be general counsel of the Futures Industry Association for four years and I did the kind of full range of association work, legal, tax, regulatory, policy, international. I was at that time the one lawyer there and dealt with the futures exchanges, dealt with the futures brokerage, houses called Futures Commission Merchants, had a great time, lots of exposure and lots of issues.

Dr. Kenneth Durr:

Was there a lobbying-

Mary Schapiro:

There was a lobbying component to it, yeah.

Dr. Kenneth Durr:

Something that becomes, I think, a pivotal number, if I'm not mistaken in your career, is October 19th, 1987.

Mary Schapiro:

Yes.

Dr. Kenneth Durr:

Tell me a little bit about that day from your perspective.

Mary Schapiro:

Well, actually much of the futures industry was out in Chicago because there was a big annual conference that still is held out there around that same time every year called FIA Expo. And it's basically a large trade show and educational conference for participants in the futures industry, particularly the legal community, but also registered and regulated entities in the futures industry. And of course that was the day the market crashed and program trading and some issues we all haven't thought about in years probably, and enormous impact of the futures markets declining very, very dramatically and rapidly as well as the stock market.

Really did a lot to set in motion a number of changes to the financial markets that would be studied and debated and discussed very intently over the coming year or two. Brady Commission was put together and did a study of the market break as we came to call it. Frankly, it was a crash and a number of changes were made in the regulatory regimes of both the SEC and the CFTC as a result of that. But it was a very intense time understanding what the market mechanisms were that had not operated the way everybody thought they would operate. I mean, program trading was this, you know, not perfect, but you know, as much as anybody felt there could be a perfect mechanism for protecting yourself against big market declines, program trading was sort of thought of that way and of course nobody really had modeled what was going to happen if everybody headed for the door at the same time. And it was a great learning experience as well, but it was the hot seat for the next year for sure.

Dr. Kenneth Durr:

How did that affect your job at the FIA? What were you doing-

Mary Schapiro:

Well, we were dealing with the Brady Commission. We were testifying before Congress. We were dealing with the CFTC and the SEC on policy issues. There was just a tremendous amount of activity coming out of that experience, understanding it, and then working to be responsive to the policy makers within the federal government on what kinds of changes to the markets needed to be made. And we were dealing with issues should there be price limits on stocks. I remember we looked a lot at what was happening in other countries to understand whether they had systems in place or market mechanisms in place that would prevent a market from declining so dramatically in a single day period.

And as I recall, and this is a long time ago now, the Japanese for example, had price limits on individual stocks, and so that was something that was seriously considered in the US. There are price limits on futures contracts, or at least there were in those days. Hong Kong closed its market for a long period of time. So there was a lot of analysis of whether that was a good idea or not. I think it was universally declared to be a bad idea. But it's something that was entertained briefly, at least in the United States. So we tried to have a lot of input into some of those major policy discussions around how to modify the market systems to be better prepared the next time there was an event like that.

Dr. Kenneth Durr:

Did you take a position on what had happened?

Mary Schapiro:

Well, we took a fairly free market position. I will say we, I think engaged a lot in the discussion and there were lots of perspectives to bring and nobody was sure what the right things to do were immediately and it really took a lot of study, and FIA was actively engaged in that.

Dr. Kenneth Durr:

Do you feel like some of your input ended up in the Brady-

Mary Schapiro:

Oh, without a doubt. In fact, I think one of the people ... When we met with the Brady Commission, one of the people we brought with us from a large futures commission merchant actually coined the expression, and I hope I get this right, I think we talked about shock absorbers, and I should really go back and look at the report in order to give you the exact words we talked about, but there were a number of ... There was a significant amount of input from the futures industry, much of it through the FIA to the Brady Commission.

Dr. Kenneth Durr:

There's an issue here, an underlying issue having to do with the interlinking between stocks and derivatives [inaudible 00:13:04]-

Mary Schapiro:

Right.

Dr. Kenneth Durr:

... futures, in a nutshell.

Mary Schapiro:

Well, it's interesting because it seems so simplistic and naive almost now to look back at those days and realize that while lots of people understood there was a connection between the derivative markets and the stock markets, I'm not sure anybody had really thought it through and what the repercussions would be as news ricocheted between those two markets and whether the futures would lead the stocks down or the stocks would lead the futures down and I think it was in retrospect, the first time in many ways people had really thought through the linkages that exist between those two markets and how incredibly and intricately connected they really are.

Dr. Kenneth Durr:

At heart is it a matter of one leading the other down, bad news, spawning ...

Mary Schapiro:

I think that the conventional thinking at that time is that the futures markets reacted much more quickly, much more profoundly to the news than the stock markets did. But that's where ... And coming out of all those discussions, we got shock absorbers and speed bumps and you know, the program trading, speed bumps that were put in place after dramatic market declines and then the resetting of the levels for program trading to be shut off and all those kinds of things. So there was a lot of concrete actions came out of that period of time.

But as I say, as you look back on them now, the markets have evolved so dramatically. The derivatives are so much more complex now and frankly, the over the counter derivatives market is so huge now as compared to those days when the derivative activity was really focused on regulated exchanges with regulated clearing houses so that it was relatively simple to understand what the exposures were.

Now we have this very dynamic and enormous over the counter unregulated derivatives market. It's quite a different situation today and it's interesting to see how the markets react differently today than they did then because of this much more dispersed market activity.

Dr. Kenneth Durr:

Was most of the action in Chicago at that point?

Mary Schapiro:

Absolutely. Absolutely in Chicago.

Dr. Kenneth Durr:

You're talking, you mentioned sort of the recommendations that came from the Brady Report and how those were acted upon. I guess one of the big questions is who acts upon? And at this point, you know, the SEC is looking around and saying, "What can we do to make sure that this doesn't happen again?" And the issue comes up of futures, regulation of futures.

Mary Schapiro:

Right. Well, there's been a long debate, I guess it continues a little bit to this day, but virtually from the time of the creation of the CFTC, which was born of a very different time than the SEC. The FCC was really born out of the market decline in the '20s when it was obviously a much more devastating impact on the economy from the stock market crash and the SEC was really created as an investor protection agency.

CFTC was not really created under the same circumstances and it's always been an agency with a far greater focus on markets as fundamentally sound mechanisms for regulating behavior and competitiveness and ensuring market integrity and competition is much more of a CFTC focus and SEC focus much more on investor protection.

And as a result of that, these two agencies have not always understood each other very well. And I think I'm probably one of the few people who's bridged both agencies and I've done it multiple times in my life. I was at the CFTC, I went to the SEC and then I went back to the CFTC as the chairman. And so I've seen them both at different points in there in their development. But really almost since the birth of the CFTC, the SEC has had a lot of skepticism about this agency and whether it really understood what it meant to be a tough regulator and understood that the stock markets should be viewed as preeminent and the futures markets are derivative of the stock markets and the equity markets. And there's always been a tension between the two agencies because they have a different focus.

SEC's very lawyer driven and legally oriented. CFTC, much more economically oriented and really much more driven by economists than lawyers. So as a result, the two agencies have never totally spoken the same language. And when you have an event that requires tremendous cooperation between these two agencies as you did in '87, in '89, and then smaller events subsequently, they have sometimes had a hard time breaking through each other's different perspectives to really do things cooperatively as well as they should. And you see that playing out now a little bit. The CFTC and the SEC are jointly responsible for regulating futures on individual stocks, something that was outlawed until a number of years, several years ago, and they have very different perspective in how to approach these individual stock futures.

I think the debate will go on for a long time. There's been talk about should the two agencies be merged, take the best of each, and I think there are lots and lots of reasons why it probably won't ever happen. Very entrenched constituencies, lots of skepticism of each other, different congressional committees of jurisdiction. There are a lot of barriers to actually merge in. So I think the answer is really close and tight cooperation between the two agencies so that issues don't fall between the cracks and I think that's how it'll go forward.

Dr. Kenneth Durr:

Well, what was in place in '87 was called the Shad-Johnson Accord.

Mary Schapiro:

Accord. That's right.

Dr. Kenneth Durr:

And if I'm not mistaken, you would have still been at the FIA when the SEC, David Ruder at the SEC starts making noises about wanting to get regulatory authority over ...

Mary Schapiro:

Futures, right. Well, I went to the SEC during David Ruder's last year as chairman of the SEC, so I was there for some of that. And you're right, Shad-Johnson dictated the sort of terms of engagement between the SEC and the CFTC for a long time.

When I went to the SEC, I went ... I think I was attractive to the White House for that position in part because I had the derivatives background, and they wanted SEC to have a more open mind to the CFTC and its responsibility for regulating its markets. If you think about it at the time, the CFTC obviously had financial futures to regulate and currencies and Treasury securities and stock indices, but it also had a huge portfolio in agricultural products, still something that the SEC had no experience with, and a growing portfolio of responsibility for energy products, which of course are now enormous futures markets.

And so there was, there was ... John Shad and Phil Johnson, I think, did a great job of negotiating something that made a lot of sense, and I went to the SEC as you point out at about that time.

Dr. Kenneth Durr:

When did you hear that you might, you were in the running?

Mary Schapiro:

Let me think about when it was. I went to the SEC ... You probably know better than I do. I went to the SEC in 1988. I had a call from White House personnel, I can't even remember exactly, sometime in 1988. It was the end of the Reagan administration or towards the end. I was general counsel of the Futures Industry Association. The SEC had a vacancy, and here were the criteria. They needed a woman, because there'd always been a woman, or at least there had been three other women at the SEC. Never more than one at a time until now. So they wanted a woman to replace Aulana Peters who was leaving. There were already three Republicans, I guess, on the commission at that time, so they had to have, because of the requirements that no more than three of the same political party populate the commission. They needed somebody who was not a Republican. I'm an independent, and they wanted somebody with a derivatives background, and I had that. I'd been at the CFTC for four years, and I'd been at the Futures Industry Association for about four years.

So, those were their three criteria. There probably weren't a whole lot of people in the world who were women, non-republicans, and preferably not a Democrat, an independent, with a derivatives background. So I kind of fit the bill, I think, for the White House. And I was a recess appointment in the fall of 1988. It was, as I said, the waning days of the Reagan administration, there wasn't time to do a confirmation hearing, and so I was put forward as a recess appointee. And then in the early part of the next year, 1989, President Bush had come into office, and I had a couple of months under my belt at the SEC at that point, and had my confirmation hearing, and was confirmed by the Senate for basically one year term at that point, because I was filling out an expired term of a previous commissioner.

Well into that year the White House called again, Bob Estrada, an White House personnel, and they renominated me and ... I'm sorry, I've given you bad information. I did not have a confirmation hearing in the early part of that year. I was renominated in the early part of the year, I guess about June, and had a confirmation hearing subsequently for a full five year term. So I had only one confirmation hearing at the SEC, and went forward from there. So I was

renominated by President Bush about half a year into that recess appointment, confirmed by the Senate, and then served full five years plus some, and ended up spending about a total of six years at the SEC.

Dr. Kenneth Durr:

Did you deal with Senator Proxmire?

Mary Schapiro:

He left, I believe, at the end of '88. So by the time I had my confirmation hearing in '89, Senator Regal was the committee chair.

Dr. Kenneth Durr:

When you came in then, you were working in David Ruder's commission, and was this idea of getting regulatory authority over the futures market, was that one of the big things [inaudible 00:24:51]?

Mary Schapiro:

It really wasn't. I mean, there was some discussion about it, but it was not, from my perspective at least, unless I was not really observant enough. It was not a big deal. I mean, there were still issues that were being followed up upon. And of course we had more market issues in '89 that needed to be dealt with, but I wouldn't have said it was a high priority at the SEC in those days.

Dr. Kenneth Durr:

How about the fallout from the mergers and acquisitions of the '80s? Was that still working its way through?

Mary Schapiro:

Not as much. There were ... What issues were we confronting? You're really testing my memory. We were dealing with a lot of resource issues for the agency, obviously a lot of issues in my early time there related to the Drexel Burnham fallout, the E.F. Hutton and other firms had some very ... There were some very fundamental issues. The problems in the government securities markets and the Solomon Brothers case. I mean, there were a lot of large issues that actually came out of enforcement cases, interestingly, that we were dealing with in those days.

Dr. Kenneth Durr:

I guess that was one of the questions that I wanted to throw in here at some point is, from your position on the commission, how much of the agenda sort of bubbled up from below, and how much were the commissioners able to set [inaudible 00:26:36]-

Mary Schapiro:

It's evolved over time. I think in those days, the agenda was largely staff driven, but when Richard Breeden came in, which was into my second year, Richard came on as chairman, and Richard came from the White House, fresh from the S&L crisis, with some very strong views about issues. And so he had, more than I was able to sense with David, but mostly because I was

at the end of David's term, and frankly, I don't know whether or not he came in with an agenda when he was appointed chairman. Richard came in with some agenda, and then of course some of the agenda had to be dictated by the events that we were dealing with in the market, as it should be, in my view. The agency needs to be proactive, but the agency also importantly needs to be reacting to what's happening in the marketplace.

Richard came in with an agenda to facilitate capital raising for smaller companies, which was a big White House initiative. But he was also very cognizant of the massive problems in the S&L industry, and had a strong desire not to see those kinds of problems begin to proliferate in the brokerage community or among other regulated entities for the SEC. So he had a lot of experience with financial markets in related financial areas that I think helped to shape his agenda and some of the accesses he'd seen in the S&L area became very important.

Dr. Kenneth Durr:

Can you be a little more specific on what those accesses were and how they might have-

Mary Schapiro:

I think lots of the issues about accounting fraud, and the SEC's focus on accounting fraud really started under Richard's leadership. I'll say on the deregulatory side, he had a focus on trying to facilitate, as I say, capital raising by smaller businesses, but on the enforcement side, I think he was very focused on accounting fraud and really started the agency down that path in a pretty fundamental way. He'd seen lots of problems with the S&Ls. We had the Drexel problems, we had the government securities markets problems. Those became big issues for us to deal with from a policymaking as well as an enforcement perspective.

A lot of internationalization was going on in those days too. You might recall that the Latin American markets were very rapidly growing and increasingly popular for US investors. There were a lot of questions about accounting standards and why wouldn't the US abandon US gap and go to international accounting standards, and Richard had very strongly held views about that-

Dr. Kenneth Durr:

Which were?

Mary Schapiro:

Which were that the US had the premier accounting standards and we ought not lower our standards just to allow multinational companies from other countries to list on the New York Stock Exchange, for example, and make it easier for them and result of making it easier was going to be less transparent, Less reliable financial accounting.

Need very strong views about that. We've worked very hard through organizations like IOSCO to sort of further the US view on accounting standards, US view on capital requirements and things like that. So it was a time hit tremendous energy and the commission was really involved in a lot of things. Lots of focus. The tax laws changed on individual investors, IRAs, 401(k)s, pension plan participation in the markets. A lot of those issues were really just beginning to be the focus of the SEC's attention during that period. So it was a pretty exciting time to be there.

Dr. Kenneth Durr:

What were the meetings like?

Mary Schapiro:

Well, the meetings were interesting. I stayed through all of Richard's terms. So I saw other commissioners come and go during that period, but they were pretty collegial. I mean, there were different perspectives for sure and very different personalities on the commission. I mean you had Joe Grundfest and Ed Fleischman, Phil Lochner, Carter Beast. I'm going to leave somebody out in this, but we were all quite different, but there was a lot of respect among the commissioners.

And people specialized a little bit, not in terms of being responsible for an area, but people had their areas of focus and interest. Carter, for example, was particularly interested in some of the derivatives issues as I was, but also kind of 401(k) issues and pension issues. Ed Fleischman was particularly interested in corporate financing kinds of issues. Joe Grundfest had a tremendous interest in the intersection of law and economics and the issues that would derive from that. I guess Carter was also interested in mutual funds and some of that area. So we all had, and I was very interested in enforcement and administrative process and during that period produced a report on improving the administrative process at the SEC because it was taking us at the commission level, really an unacceptably long time to release commission decisions and opinions and enforcement cases.

Dr. Kenneth Durr:

Why was the length [inaudible 00:32:30]?

Mary Schapiro:

It was taking years in some instances and as tried as it is, justice delayed is justice denied and it was really not appropriate for us to take two and three years to hear an appeal.

Dr. Kenneth Durr:

You're putting companies in deep freeze, not knowing which way-

Mary Schapiro:

Individuals, companies in deep freeze. If we were going to affirm an ALJ decision of a finding of liability, we weren't serving investors by not having taken action sooner. If we were going to reverse a finding of liability, we weren't serving either individuals or companies very well by taking two, three, four years to render a decision. So we put in place ... We also had during that period, the Remedies Act passed. The SEC had a lot of new authority to implement and part of the report that we generated dealt with effective implementation of the Remedies Act. The first time for the SEC to have the authority to assess civil monetary penalties, for example, came about during that period. So I had a lot of focus in that area. But it was a time when the commission, I think, operated really quite well and reasonably collegiality, although we had issues where we disagreed.

Dr. Kenneth Durr:

So there wasn't a recurring three to two split.

Mary Schapiro:

No, absolutely not. In fact, there were very few, very few split votes. And I would say there were not consistent alliances when there were split votes. It was not like the Donaldson years when we had ... Well, I think it was actually overblown how many times they even had split votes, but ...

Dr. Kenneth Durr:

Makes good press.

Mary Schapiro:

It make great press. Yeah.

Dr. Kenneth Durr:

Tell me a little bit more about the task force and administrative proceedings. Were you able to draw from the staff to a large degree?

Mary Schapiro:

Sure. Well, I had a staff person in my office, Dan Hirsch, who was the primary scrivener, I guess, of the report. But we worked closely with enforcement, with the general counsel's office, with other parts of the agency to understand the full scope of the administrative process, including the secretary's office there, and to be able to really dissect it, to analyze what was taking so long in each step of the administrative process and why, and then drive some recommendations out of that that were very specific to the particular areas that seemed to be most prone to delay and indecisiveness on the part of the commission.

Dr. Kenneth Durr:

You're really doing a management study.

Mary Schapiro:

Yeah. In a lot of ways it was a time and motion study for part of it. A lot of it was the legal policy around how wells notices were made and how they were analyzed. And I mean, just as one small piece of it. What happens when the case is appealed and what takes so long in the general counsel's office? How often are oral arguments held and should they be held more often? And just the ... I mean, really from A to Z of the enforcement and administrative appeals process, what could we do to make it operate more effectively, to give parties better notice of what to anticipate in the process, to make sure we were delivering due process every step of the way.

Dr. Kenneth Durr:

And the result?

Mary Schapiro:

You know, I was afraid you were going to ask me that because I should have gone back and refreshed my recollection. The result was a report that was very widely acknowledged as being

as a great analysis. There were a lot of recommendations out of it and the result was, and it's interesting because I think there were SEC documents to this effect, the process was dramatically speeded up. I didn't get to see much of it while I was there because I had since moved on, but there was a dramatic increase in the process after that.

Dr. Kenneth Durr:

Another special project that you worked on was with Commissioner Roberts, you looked at ... And I maybe ... Again, I may be going too deep, but you looked at credit rating services. Yes. What had changed to make you and Commissioner Roberts think that the SEC needed to have some sort of-

Mary Schapiro:

I think, I shouldn't speak for Rick, but we both shared a concern about credit rating agencies and from two perspectives, for me at least. One is that they are gatekeepers to the capital raising process. They're incredibly important to our securities markets. And the SEC has responsibility for oversight, yet did very, very little to really understand, particularly in those days, how credit rating agencies operated, what kinds of conflicts they faced, what other services were they providing to issuers? Were there conflicts between those services and the rating function? How were the employees of the rating agencies supervised? And we had a lot of questions about that. The other side of the coin was it's a very, very valuable moniker to be a nationally recognized statistical rating organization under SEC rules.

And we had a lot of concerns about what was our process for designating a rating agency. In those days, I may get this wrong, but there were only I think four or maybe five rating agencies that had been designated by the SEC. To become designated was a process that was not terribly transparent and there were entities that were clamoring to be in the business and we didn't have a really good way for them to understand what was expected of them, what were their prospects for being designated as NRSROs, and it didn't seem to me to be fostering competition in that area particularly well. So Rick and I both had a lot of concerns about that and I guess we've proposed some rules that the commission consider in that regard, but it wasn't an issue that a lot of other people seemed to take tremendous interest in until recently. And now of course it's a big issue again.

Dr. Kenneth Durr:

It seems like the was in some ways a throwback to the old club days.

Mary Schapiro:

Right, right. So, you know, it's still an important issue. It's obviously getting a lot of attention now and they're still incredibly important to our capital markets.

Dr. Kenneth Durr:

Another issue, just running through a few of the issues that hit the commission when you were there, corporate governance of course is always coming and going, but it was pretty hot at that point.

Mary Schapiro:

It was very hot at that point. It's hot again now, obviously, but it was and access ... One of the areas that was particularly hot at that time was access to the proxy and shareholder proposals. And that was the time when the Cracker Barrel decision was issued by the commission. I actually dissented in a couple of commission actions and I was a rare dissenter, but a couple of actions in those days where I thought that issues should have been presented on the proxy that were deemed to be in the ordinary course of business and therefore not appropriate for shareholder votes.

My views have changed actually a little bit in that, in that way over the last 10 years, as I've watched how this area has evolved, but those are very important issues. Executive compensation, people don't really think about it now, but it was a very important issue in those days and the commission at that time did some very valuable rules for disclosure of executive compensation.

And now again, being revisited, Chairman Cox has stated it's an area he's got particular interest in, as I guess did Chairman Donaldson, but we focused a lot on executive compensation and the importance for investors to understand how executive compensation changed in contrast, for example, to stock price, so that investors could understand whether executives were really being compensated for performance, one measure of performance being stock price. So those were very interesting debates in those days.

Dr. Kenneth Durr:

This is sort of a classic disclosure [inaudible 00:41:24]-

Mary Schapiro:

Yeah. Yeah.

Dr. Kenneth Durr:

... of compensation. I want to talk a little more about the proxy. I guess a court had actually ruled or challenged the SEC's rulings at this point or something like that. It's okay, but-

Mary Schapiro:

Yeah, maybe we can come back to that one.

Dr. Kenneth Durr:

I want to get a sense of where the commission stood as far as what the commission's view was of where it stood between the shareholders and the board of directors. When was it appropriate to become involved?

Mary Schapiro:

Well, I think the basic view was really the view that stated in the SEC rules, which is that if shareholders sought a vote or a group of shareholders sought a vote on a matter that was deemed to be in the ordinary course of business, that that was not an appropriate thing for inclusion in the proxy, but beyond that, issues were. That doesn't tell you very much because we had lots of debate over whether requiring a company to do a study of the effectiveness of affirmative action at the company was in the ordinary course, is that something an HR department and a company would normally do in the ordinary course of business? Or was that an extraordinary thing that

shareholders ought to have the right to vote on requiring a company to do was really where we had our debates and everybody brought quite a different perspective to that.

We were sensitive to the need for the board of directors and management to be able to run the company without having to take two shareholder votes, lots of ordinary issues. You can't function that way. The debates were all about where to draw the line, and those are debates that continue to this day, frankly.

Dr. Kenneth Durr:

What about social issues versus economic issues?

Mary Schapiro:

Yeah, those were ... Social issues were, I think, ones that were generally deemed more likely to end up on the proxy, economic issues, generally more likely not to, but not even sure that's a great ... I'm not sure that's exactly an accurate characterization. They were all considered individually. We took a lot of time to really look at the pros and cons of the individual proposals.

Dr. Kenneth Durr:

Are you talking about a case by case?

Mary Schapiro:

Case by case. Yeah. You know, this company's proxy, this proposal in or out.

Dr. Kenneth Durr:

So this could be a long term job handling these-

Mary Schapiro:

Yeah. And there's an argument that the SEC shouldn't even have been in that business. And we had those debates as well, that why are we deciding what should be in the proxy and what shouldn't be? But there was a great reluctance by the companies to let the SEC off the hook, because I think companies felt that the SEC provided sort of a neutral arbiter of what was appropriate for inclusion and what wasn't.

One of the interesting things we did and came back recently is that at the time we proposed rules that would require that the CEO's compensation be measured against stock price and an index, an appropriate index of companies. That concept came back to us, came back to me actually, as we negotiated just a couple of years ago, the global settlement on research analyst investment banking conflicts of interest. As we in the New York Stock Exchange were working on rules to try to bolster the integrity of research, one of the things we proposed and is now in the regulatory requirements, is that a company that's going to issue research, a brokerage firm is going to issue research on Amazon.com.

There's a requirement in every research report that the company give a graph of the stock price of Amazon and superimpose on that graph all of the company's ratings with respect to Amazon, so that you can see every time they had a price target change, every time they had to buy, sell, or a hold recommendation as compared to how the stock price was moving. That's useful to investors because if you've got an analyst who's saying buy as the stocks going higher and higher and

higher and buy as the stock's going lower and lower and lower, it tells you something about how discerning that analyst was. The idea for that graph came directly from the compensation rules that we did at the SEC back in the early '90s and the late '80s.

Dr. Kenneth Durr:

Do you remember where the initiative for the compensation rules came from?

Mary Schapiro:

They came from the corporate finance division of the SEC, but I have always thought it was a very effective form of disclosure because it gave investors some objective measure against which to compare CEO compensation, the stock price and a recognized index for the industry of that company, industry index for that company or the S&P 500 or whatever would be appropriate. And I've always thought that that was a pretty good rule and so transported it into the rules on research.

Dr. Kenneth Durr:

I guess one of the good things about having problems that never go away is you've always got [inaudible 00:47:11]-

Mary Schapiro:

Right. Right. And a lot of problems never go away, unfortunately.

Dr. Kenneth Durr:

Who was in charge of corporate finance at that point?

Mary Schapiro:

Linda Quinn, who was a great director of corporate finance. And her deputy was Elise Walter, who is an executive vice president now here at NASD.

Dr. Kenneth Durr:

Did you have anything to do with that?

Mary Schapiro:

Yes, I had a lot to do with that. She was also general counsel at the CFTC and just a brilliant lawyer.

Dr. Kenneth Durr:

This gets to something that we should discuss. You've just named two top staffers at the SEC book, you're on the commission. You have the woman's position as you find it out. And I think when you came in, the Broderick case had to do with discrimination, had it just been resolved or was working through-

Mary Schapiro:

It was working its way through, yes.

Dr. Kenneth Durr:

Can you talk a little bit about sort of if there was or where the glass ceiling was in the finance industry and in the SEC?

Mary Schapiro:

Well, it's interesting, you know, I could frequently, this is still the case occasionally, but much less so, I could frequently be giving a speech in a room of 100 people and there wouldn't be any other women in the room. I mean, this is back in the '80s. Most of the women came up on the legal side of the business, of the securities industry. I think that's probably still to an extent true now, although what you see now is if women have come up on the legal side, more and more of them will jump to the business side of brokerage firms than ever used to be the case.

But there were not a lot of women and I was often in meetings or in forums where there wouldn't be any other women or maybe one or two other women. The SEC is one of the great places where there were senior women and ... Well, there might have only been one woman on the commission at a time until recent years, there were women in senior positions, in divisions, which was just, was great and was very important, I think, signal to the industry that they were going to have to deal with women as division directors and chief councils and trial attorneys and that was great.

Dr. Kenneth Durr:

Did it change the personality or affect the personality of the institution?

Mary Schapiro:

I don't think so. I think these are incredibly professional, talented people. I think they took the positions they thought were right. So I'm not sure it changed the personality of the agency very much.

Dr. Kenneth Durr:

You became acting chairman.

Mary Schapiro:

Right. The woman's job, acting chairman. I think there've been three. Laura. Laura was acting chairman after I was, and then Cynthia Glassman was acting chairman most recently.

Dr. Kenneth Durr:

That can't happen [inaudible 00:50:15].

Mary Schapiro:

I know.

Dr. Kenneth Durr:

Did that change your day job?

Mary Schapiro:

It changed my day job for sure. It was not a long period of time. And actually it was an interesting period because Richard Breeden had left. Arthur Levitt had actually already been nominated. So I was acting chairman, but with the chairman in waiting and so I knew I had a limited amount of time in that role and I viewed it as a responsibility. I did do some congressional testimony and other things during that period, but I really viewed my responsibility as steward in the agency along the same path that Richard had set it on until Arthur Levitt came on board and just keeping the trains running on time, not to go out and plow a lot of new ground.

Dr. Kenneth Durr:

Right. Because you'd likely get plowed back.

Mary Schapiro:

Sure. I mean, I didn't need to set people off in a different direction when they were just going to be subject to a new chairman coming in. It wouldn't have been fair to the staff.

Dr. Kenneth Durr:

I want to, if you've got a few more minutes, I just want to run through some of the things you did later on in your career.

Mary Schapiro:

I also want to touch on anything else that you dealt with as a commissioner at the SEC that you'd like to raise-

Dr. Kenneth Durr:

You mean like morning sickness and all that?

Dr. Kenneth Durr:

This is right when you're getting nominated.

Mary Schapiro:

Yes, yes. I don't know how personal I should get in an SEC archive. But I was acting chairman for a few months. Arthur Levitt came in and I was ... I stayed for really, I guess most of Arthur's first year, loved working with him and I was getting ... My term was up, so I was preparing to leave and I had a call from Bob Rubin who was not Treasury secretary yet, but head of the council of economic advisors ... No, not economic advisors. He was the president's ... Gosh, I can't remember the title. Anyway, Bob Rubin was in the White House. He hadn't gone to Treasury yet, and he called, and asked me to come over and talk. So I went over, I was nine months pregnant, in fact was due the week that I went over to talk to Bob Rubin and went over to the White House and he wanted to talk to me about whether I'd be willing to extend my time in government and go back to the CFTC as chairman.

And I was a nervous wreck. He was clearly a nervous wreck when he saw me because I think either of us thought I could go into labor at any minute. And I jumped at the chance and I'd gotten to know Bob Rubin through the president's working group during that period while I was acting chairman, we had a number of presidents working group meetings and we had a lot of ... We had held very similar views on a number of issues and so I was told I was the president's choice to chair the CFTC. It took a number of months to get out of the White House. There were all sorts of issues with respect to sort of the politics in Chicago and the politics on the Hill, but I ultimately was nominated and then got held up in my confirmation hearings a couple of times over unrelated issues.

I believe marketing orders for Spearman held me up at one time because CFTC chairman goes to the agriculture committee. And then I was held up by Jesse Helms also at one point over an issue he was having with USDA in the Atlanta region. So completely unrelated to me as well. In fact, it was the subject of a cartoon in The Washington Post that's over there.

Dr. Kenneth Durr:

You're one of the chess-

Mary Schapiro:

Yes, I'm one of the chess pieces. The Jesse Helms was playing chess with the Secretary of Agriculture over several appointees, but I was ultimately confirmed as CFTC chairman and went over there and stayed for about 18 months only. I was anxious to get back to the securities industry, had a great time at the CFTC. We managed the collapse of Barings Bank in the UK, which had tremendous implications for futures markets because they were largely brought down by the trading of Nick Leeson on the Singapore International Monetary Exchange, which was the futures market and obviously had reverberations in Chicago and we had a tremendously exciting time, frankly, managing that. During president's working group meetings, during that time, Frank Newman was the Treasury person, Bob Rubin had since gone to Treasury. Frank Newman was largely responsible for the president's working group and he made the CFTC the primary agency responsible for Barings and working that out.

And so we had the support of Treasury, the Fed, the Treasury attache throughout Southeast Asia and Japan and Singapore and Hong Kong in the UK. And for the CFTC, it was a very exciting time to be responsible for something that had international implications. That all worked out extremely well from the perspective of US markets and US investors. And the one story I guess I would tell from it is that a lot of US firms had large positions in Singapore and the Singapore International Monetary Exchange was making a margin call, the clearinghouse was, for significant additional margin on those positions. And the US firms said, "We are not actually going to put that margin money up. We would rather default on our positions unless we can get assurances that it is not being used to bail out Barings Bank."

In the middle of the night, Singapore time, my staff at the CFTC, including Elise Walter who's here, Steve Luporello, who's here, John Ramsey, who's now at Citigroup and Andrea Corcoran, who still is the CFTC, called directory assistance in Singapore until we could find the home phone number of the Singapore Finance Authority, Singapore Monetary Authority person at home that we could call. We found him, we got him out of bed, he drove down to the monetary authority, we worked out together a statement that the Singapore government would release, making it clear that no margin payments being put up by USFCMs to cover positions would be

used to bail out Barings Bank and would be solely used for the purpose of margining their own positions. He hammered that out, he sent it to us, we approved it, Singapore government sent it out, we got it faxed to every US brokerage firm that had a position.

They made their margin calls and we really averted what would have been a major disaster of defaulting on the SIMEX, which would have brought down that exchange and had reverberations in Japan where there were large positions and potentially in Chicago. So it was a very exciting time.

Dr. Kenneth Durr:

How many hours away were you?

Mary Schapiro:

We were not too many out. We were probably 12 hours away from a real problem, but by calling a number of Singaporeans until we hit the right one using directory systems, we were able to get the right result there. And then going from that, we brought all the international regulators for futures markets together outside of London in Windsor and hammered out the Windsor Accord that would deal with information sharing when there were very large positions in markets or changes in positions in markets that really required another country's regulator to be informed about what was going on and that was a very successful multilateral agreement that a lot of countries ultimately signed onto that was very successful. So

Dr. Kenneth Durr:

You jammed a lot into that.

Mary Schapiro:

Jammed a lot into 18 months. We brought some major cases that irritated lots of people against Bankers Trust and others for over the counter derivatives transactions and some issues there. But after 18 months, I was really ready for something different and this opportunity came up to run a new regulatory group at the NASD and I jumped at the chance.

Dr. Kenneth Durr:

Now, something that you had to deal with pretty quickly was what began as somebody noticing the business about not trading odds?

Mary Schapiro:

Yes.

Dr. Kenneth Durr:

And had that come up while you were still at the commission?

Mary Schapiro:

Yes, that had not come up while I was at the SEC, but it had come up during the time I was at the CFTC and when I came here, there had been a group convened by the NASD chair former Senator Warren Rudman, to really look at NASD's operations and NASDAQs. It was all

combined at that time. And how to do a better job of separating market operations from market regulation. And one of the key recommendations of the Rudman Commission was to create a separate entity, NASD regulation, wholly and solely responsible for regulation of brokerage firms and oversight of the NASDAQ stock market, but no responsibility for regulating the market itself.

The NASD did this because it was under investigation by the Justice Department for the audits, as well as by the SEC for the trading conduct, but also for NASD generally not doing a good job of keeping up with its regulatory responsibilities. So NASD regulation was created and I came in as the first head of NASD regulation and frankly the only head of it because I'm still here. And we rebuilt the regulatory program in pretty profound ways over the last nine and a half years.

Dr. Kenneth Durr:

What kind of things did you address? What was slipping [inaudible 01:01:07]?

Mary Schapiro:

Well, we added a lot more staff. We added a lot more technological capability to do market surveillance. Things we take for granted now really didn't exist at that time. An order audit trail system that's fully automated. A lot of surveillance capability to look for the potential for market makers to be engaged in harassment or collusion. Technologies that enable us to determine whether best execution has been achieved, whether trade reporting has been done in a timely way. And we spent hundreds of millions of dollars developing new regulatory technology to oversee the NASDAQ stock market.

Dr. Kenneth Durr:

Do you have people who argue that leave the regulating to the regulators, to the SEC?

Mary Schapiro:

Well, I think there was a question at one time whether self-regulation really added value to the market's integrity and having been a governmental regulator and a self-regulator, I will tell you that it absolutely does. There are things self-regulators can do more effectively. One of them is dedicate hundreds of millions of dollars to developing very sophisticated financial surveillance systems. Government's never really been very good outside probably the intelligence and defense area at deploying massive technologies. And that's really what we did. We had the money to do it. We had the flexibility to do it and we were able to hire and retain the skillsets to do it. So I think while there was some argument that maybe the SEC ought to be doing it all, my experience of the last 10 years tells me that there is an important role for SEC oversight, but there's a critical role as well for self-regulation.

Dr. Kenneth Durr:

So does it feel like you found your niche as far as overseeing the enforcement or is it?

Mary Schapiro:

I love what I do. I loved my time at the SEC. I loved my time at the CFTC and I love my time at the NASD to be perfectly honest. And they're all variations on a theme. It's all about public

policy, investor protection, market integrity. That's the common theme, I think, in all of those positions. Each entity has done it a little bit differently, but they have all written rules. They've all brought enforcement cases. They all do examinations and oversight. At NASD, we have a bit more flexibility to do some additional things like education and training, preventive compliance assistance for brokerage firms. But at the end of the day, the common theme really is doing what's in the public interest.

Dr. Kenneth Durr:

Is there anything we haven't talked about?

Mary Schapiro:

I don't think so. We covered a lot.

Dr. Kenneth Durr:

You remembered more than you thought?

Mary Schapiro:

Yeah, I wish I'd remembered even more. I should have thought to go back and look at the Brady Commission stuff and some of that.

Dr. Kenneth Durr:

[inaudible 01:04:11]

Mary Schapiro:

Yeah, I should have.

Dr. Kenneth Durr:

Well, I appreciate you taking the time.

Mary Schapiro:

Oh, it's my pleasure.