Securities and Exchange Commission Historical Society
Interview with Peter Derby
Conducted on June 12, 2015 by William Thomas

WT: This is an interview with Peter Derby for the SEC Historical Society's virtual museum and archive of the history of financial regulation. My name is William Thomas. The date is June 12th, 2015, and we're in Irvington, New York.

So, thanks very much for agreeing to speak with us. We usually start with some biographical background, and I know that your biography was particularly influential in your career, in how you got started with business banking and investment in Russia. So, could you tell me a little bit about that?

PD: Sure. First, thank you for having me participate in this really great program, having oral histories of people that participated in the jewel of the federal government called the SEC. So, I thank you very much, and welcome.

Well, I started my life in New York City, born and raised in New York City of a Russian immigrant family, and spoke Russian at home until I was five years old, and then went to kindergarten and first grade and learned to speak American. As a Pan American stewardess once told me, "You do not speak English; you speak American, young man," flying on one of my first flights to Detroit.

So I had grown up in a Russian family—Russian traditions, but American values. And had a great education. I grew up in Jamaica, Queens, in one of the boroughs of New York, and then went to New York University. That was actually interesting. We went to PS 131, which was a great elementary school. And there were numerous people I met in Washington, who, when I was there at the SEC, they asked, "Where are you from?" "I'm from Queens." I asked, "Where are you from?" "Queens." They asked, "Where did you go to school?" "PS 131." "Where did you go?" "PS 131." It was really an amazing elementary school, one of the best in New York City at the time. And then I went to Jamaica High School and to New York University, where I studied accounting, finance, and international finance.

In Jamaica High School I took accounting, and made it to the New York City Olympics. I did very well in the Olympics for accounting and decided that accounting was of interest, so I was thinking either University of Pennsylvania Wharton or NYU. I chose to stay closer to home, went to NYU, and started accounting. I realized accounting is the language of business that you really need to know. I wasn't one hundred percent convinced it was the skill set and profession that I wanted to ultimately do, and as I studied it and studied other subjects like management and finance, I realized finance was the tool set, and I ultimately wanted to be a CFO or doctor of capital structure, and international finance was just another elementary part. Money is fungible. You can borrow it anywhere in the world in any currency. You needed to understand international finance. So the minimum qualifications I felt for that role was accounting, finance, and international finance. So I actually triple-majored at NYU, graduated there, and started my career in auditing.

I also felt I wanted to know how to do everything correctly from the beginning. I felt the audit profession also allowed me to understand how things needed to be done under the rules of accounting and finance as well as compliance and regulatory and so on. And after auditing, I switched over to the business side. I went from audit to credit audit, and from credit audit—because I still felt the same thing. Auditing was so much more accounting system audits-driven that I needed to go into credit audit to understand the lending side and the capital structure side for banking, investment banking. And so, through that division, I went into banking, investment banking on Wall Street.

WT: You seem to have had a remarkable appreciation for proper procedure, even at the undergraduate level, and so I'm wondering if that was something that you grew up with.

PD: That's interesting. That's a very good perception, because that is true. My grandmother used to say, "Do the right thing, and everything else will fall into place. Do what you love to do, hope you do it really well, and that is the crossroads of what you should ultimately focus your life's attention on." So, yes, I think there was an element to that. As a matter of fact, if you look at that etching here on the wall, on the right, that's the Temple of Integrity. That is from the late 1800s, and that's part of the family estate crest and tributes, here on the wall. So it goes back a long way. It was always part of, I think—you know, I saw my grandfather did not speak English all that well, but when he would either purchase a home or conclude something, it was done on a handshake, and he said his handshake is more important than any document paper, and so there was this level of how you just functioned as a person at that time, and how important integrity was. And later on, as you went through a young career, you realized very quickly that integrity is your most treasured asset, and how quickly you can lose it. You can spend twenty, thirty, forty years developing a career and making one or two major mistakes. As much as America has a forgiveness to it, you could really fall from grace very quickly, and so it's a fragile, and probably one of the most important values and attributes a person could have.

WT: So you graduated in 1983. I guess you spent a couple years at Chase Manhattan, and then you were at NatWest after that?

PD: Correct. I wanted to do all the audit and credit functions over at Chase Manhattan Bank, and then I moved over to the investment banking group at NatWest USA. It was an interesting group. It had almost three different functions in one. You either did investment banking, IPOs, project financing, or you could have done credit asset-backed lending, or small business development and taking warrants and options—kind of a venture capital approach. And it was a very agile team run by a great gentleman, Brendan Dugan, and it was just a pleasure to work with him and the team, and so I moved over there.

WT: Did you have a particular specialty that you worked on when you were there?

PD: I worked through those three areas. I did spend probably the most of my time on project financing, whether it was hydropower, making sure that there was fish protective ladders so it didn't affect the fisheries, whether it was waste energy or cogeneration out in California. We did everything from cow manure to sawmill, where the wood would be dried and put into GE turbines, and create 175-megawatt plants, and so on. Even at that time, I do remember a moment where one of the developers did not want to spend the money because it was not exactly required under the regulation for NOx and SOx, nitrogen oxide and sulfur oxide filters, and as a young lender I said, "Well, one, I think you should do it for the good of the community. I mean, you're a citizen of this community. And secondly, what if the regulation down the road does come to pass? This may be a $4 million investment right now. It could be a $15-million investment later, and I'm not sure that our budget reflects all those in our lending structure."

So they tried to insist on not doing it, and we simply would not agree to fund it until they did. Luckily, they did agree in the end. We did fund the project, and it was within two or three years that the requirements did come in, and so I hope they were very thankful that we persisted. You know, you do the right thing, and you think about it for the long term. If you're in this for a month, a year or two, usually, your priorities are skewed and they're not in the best interests.

WT: There were a lot of discussions, of course, in the 1980s, with all the mergers and acquisitions, tender offers that were going on in that period. How much did that environment impact your thinking on how you go about business?

PD: Well, there was all the greenmailing going on. We would have pizza delivered at 4:30 on a Friday, and you're told to stay for the weekend because you have an M&A deal that you need to put financing in place on, and it was all from Friday, right after the close of the market, until the open. So there was a lot of activity in the '80s. As a matter of fact, I was even able to take two months off and do the Billy Joel concert to Russia in '87, which is kind of a precursor to me going there, because we'd met our budget by May of '87 in the investment banking side. There was so much activity going on at that time. There were a lot of characters at that time, as well. I guess it's in every decade, but we definitely had a share of our own that were leading a lot of this activity. And some have stayed on. Some, you know, from Carl Icahn, who everybody probably sees throughout, versus Paul Bilzarian and others that may not have lasted all these decades.

WT: So tell me how you ended up starting up the DialogBank and Troika Dialog in Russia.

PD: Yeah, DialogBank and Troika Dialog. Well, as I mentioned, I did go in '87 with Billy Joel to Russia. When I was at New York University, part of my financial aid package was I had to work. And we are given Fridays off to work, but I'd wanted to do something that was of interest to me, and I joined the concert committee at New York University right there, freshman year, because I was interested in that, and decided that I would try to seek a job with Ron Delsener, who was the concert promoter, the real professional large concert promoter, in the New York metro area. I did go to his office and walked in, and there was kind of an open door. I said, "I'd like to speak with Ron Delsener." And the gentleman that was standing over a cubicle talking to a very nice lady said, "Why would you like to speak to Ron Delsener?" And I said, "I would like to find a job, to work here." And he said, "If Ron Delsener doesn't have any jobs here available, what were you going to do?" And I said, "Well, I guess I'll just have to compete with him. I mean, it's concerts, it's promotion, and at New York University we just started the concert committee there, and we'll just compete for acts."

So, anyway, he led me down the hallway, sat me down in front of a desk, sat behind the desk, and said, "I'm Ron Delsener. So what kind of work do you want to do?" And I said, "Anything you have. You know, you're a graduate of NYU. I'm a student now at NYU, and part of my financial aid package said I need to have a job, and I'd like to do something that's nearby, and the Palladium Theater is nearby, so anything you have available." And he said, "Certainly. You can work in cleaning out the dressing rooms and just kind of run around and do things. There's a chore."

So I started in September of '78 actually doing that, and quickly, within three, four months—when concerts groups come through, they have something called a rider. A rider is a contract as to what the promoter is obligated to provide at the venue, whether it's food, towels, staging, guest passes, the whole criteria. And it was not really followed in detail before, and there were issues. I would hear managers complain the first few nights I had worked there, especially as I was backstage either cleaning out dressing rooms or helping to deliver things. And I started to ask them about what the concerns were, and they would explain that to me.

So about the fourth or fifth show, I, in our preconcert meeting, asked to see a copy of the rider. They gave me a copy, and so I made sure it was all done. I got stapled receipts. I made sure, if they asked for M&Ms, there were M&Ms. If it was Peanut M&Ms, it was Peanut M&Ms. And I ran the whole piece and put it all together and stapled it in folders, like a good accountant would do, and packaged it and everything. And then Ron Delsener came to me about four months later and he said, "Who's doing all this work? I'm hearing such great things, and I hear it's you, Peter." And I said, "Well, I'm just helping out the current backstage director."

He said, "Well, the backstage director actually has some health issues and will probably not be here for about a year. Would you be willing to become the backstage director for us?" And I said, "Well, I'm a freshman student at NYU. I have a lot of workload and so on." He said, "I understand, but you have to not only do the Palladium Theater, you have to do the Beacon Theatre, you have to do Madison Square Garden, you have Nassau Coliseum. And, in the summer, Dr. Pepper concerts." And ultimately I agreed to do that, and became the backstage director. Through that process, when my grandmother would call, the union guys, whom I became very good friends with—so, I was also young, I was eighteen and nineteen years old, and I'm the backstage director for all these concerts.

And they would say, "Hey, get that Russian kid, his grandmother's calling." Because she did not speak English. So everybody knew me as the Russian kid.

And when Billy Joel—we did many concerts with him—he also would say, "Hey, there's the Russian kid." So, when he was going to the Soviet Union, he asked whether that Russian kid would be available to go with him. And I had helped to translate and do all the documentation for Elton John's "U.S.S.A." tour with Ray Cooper in '78. I didn't go with him, but I helped to do the staging part for that. And they said, "Yes, he actually does speak Russian, and he actually did do something for Elton John's tour a few years back," and they called me and said, "Would you consider being the Russian interpreter? Kind of be the Russian tour manager. We have a real tour manager, and you'll be the Russian tour manager because you'll be the main assistant to our tour manager." The concert tours are structured with a production manager and a tour manager. The production manager takes care of the stage and all the equipment and all the roadies and the light show and sound, and the tour manager takes care of the band themselves—in charge of all of it, but predominantly the band themselves.

And so I had agreed to do that because we met our budget. In '87 I came to the head of the Investment Banking Corporate Finance Division and said, "I'd like to take five to six weeks off." They said, "Really? Why?" And I explained why I was doing this, because we had to go ahead of time as an advance team for two weeks to set it all up. Then I came back and I worked for two weeks, and then I left for a three-week tour. So it was two weeks, back at work for two weeks, and then actually I did London and Moscow with Billy Joel.

And through that process I clearly understood that the changes that were happening in the Soviet Union were real. Glasnost and perestroika were moving forward and they were trying to balance between political freedoms that were very hard for them to accept, because having things in control felt good. And economic freedom, I saw that they were really trying to generate GDP and have an economy and move forward. And as we see now in China's case, they decided to go forward with the economy and keep the political controls, because they have a lot of people. Twenty-five million jobs a year, to have a stable society you need to kind of control and manage as much of that, in their view, as they can for societal stability. In the Soviet Union they felt that you needed to get the political system out of the way and have economic growth that would result quickly in beneficial feelings for society, that will validate the political freedoms that Gorbachev was trying to move forward—not many other people in the end, but it was Gorbachev. And so with that belief, I came back saying that there are things that really should be happening there.

Simultaneously to that, working on Wall Street, I created the Russian American Professional Club, which allowed for professionals of Russian heritage like myself to network whether you are an architect or a lawyer or a doctor or a banker, investment banker. And in the Russian community being a banker was not exactly a wonderful thing. I won't say it was dirty by any means, but if you were a mathematician, you were a literary person, you were in ballet, science—that is very respected. Banking, money, you didn't really talk about. It wasn't as much so. When I was looking to get a job on Wall Street, you would ask somebody, you know, "Do you know people in banking?" Well, no one would really say anything. If you knew somebody in biology, you'd have a ton of people. As a matter of fact, I remember dating, once, a young Russian girl, and the father says, "So what's your profession?" And so I kind of said, "Financial engineer." I felt I was not being deceptive, but I said "financial" pretty quietly, and I said "engineer" pretty loudly. "Oh, engineer. Oh, that's fine."

As a matter of fact, to this day, I put down—what's your occupation, I say, "Financial engineer," from that day. So we created this Russian American Professional Club, and I was an assistant to a professor at NYU's Graduate School of Business of Real Estate Finance. It was a way to maintain my financial skills. The professor was fantastic and he knew about the Russian American Professional Club. He spoke at it. We had guest speakers, George Gould, Paul Volcker. This was Paul Pilzer. So he knew about it, and he came to me one day and said, "I have a gentleman who would like to meet you, because you may have someone in your professional club that can help him. I have a person that I worked with in Washington that I'm trying to have considered for secretary of education, and he is also a person that knows Ted Turner very well. Ted Turner had spoken to a gentleman by name of Joe Ritchie from Chicago, who went to the Soviet Union and has created the first Soviet-American joint venture called Dialog. And he's committed $5 million to this entity. However, he has nobody there that speaks Russian and can help him do it. It's a technology-based joint venture. Maybe somebody in your group would do it, but he doesn't want you just to recommend someone. He wants to meet with you personally first. Would you fly to Chicago?"

So I flew to Chicago to meet with Mr. Ritchie. I met with him, talked to him about the project, talked to him about my thoughts on it, and then also told him I thought there was some good caliber people, and we had about 700 people from Canada—it was from California to New York, from Canada to Atlanta, Georgia, kind of cross the United States, this club that we set up in about three or four years. And Joe Ritchie said, "You know, Peter, I'd like you to go there first." My brother worked at Bell Labs. He was Stuyvesant valedictorian and New York City Spelling Bee champion. We kind of only spoke Russian, but my older brother was a year older. I have a brother, a year younger, and George is a year older. Vitaly is a year younger. He didn't speak any English either, became spelling bee champ at sixth grade, valedictorian in sixth grade, valedictorian in George A. Ryan Junior High School, went to Stuyvesant High School, was valedictorian out of there. And so, he went to Cornell, electric engineering, Bell Labs, Unix team. So, from a technology point of view, I thought, okay, I'll just ask my brother, who's really good, and so on.

But I ended up going there in '88. It was a year later, and being there with Billy Joel, I kind of already knew Moscow, the lay of the land a little bit, and that was very nice. And I spent time with the Russian joint venture, which clearly—they had some hesitations as to how to move forward in the new economy, whether it was all ready in the Soviet Union, they weren't sure where things were permitted to go, and that they don't want to cross the line, being one of the first out of the block, as well as with the West. You know, they had people like Bill Gates coming to see them to talk about technology and so on.

Ultimately, we became great friends and put a strategy in place for the next year to just how to entrepreneurially build and move forward. Then in ‘89, I invited them to come to my wedding, and my wife Natalie, who is also of Russian-American descent (she grew up right here not far from Irvington, New York, in Hastings and Dobbs Ferry, New York, here in the river towns). And they all came because her family—as you can see in many of these pictures in the room—ruled Russia from the year 860 until 1605, so over 800 years of ruling family there. So they, of course, heard “Natalie Drubetskaya,” and they knew that last name very well, so they came to my wedding, all of them, from the management of the joint venture.

At the wedding reception, the general director said to me, “Would you consider coming back to Russia at all? I know when you left last year after the strategy meeting, you said you’re more in investment banking, stock exchanges, those kind of things, and we’re in technology. But I think there’s a need for what you said you would only come back for.” (Because I didn’t stay with them, I just helped them do the strategy, and actually I did have my brother and another person go later on to go deeper into their technology stuff.) And I said, “Why? What’s going on?” And he said, “You know that $5 million? We made $25 million with that $5 million investment in one year. However, the entire $25 million is at the State Economy Bank for Hard Currency.

And I said, "Okay." And he said, "But that bank will not give us back our hard currency. They want a five-year plan. It's a state-run bank." And I said, "Well, that's not going to work. If you're going to want individual enterprises to develop an economy, an increased GDP, you're going to need to be able to take their sweat equity that's going to drip on the table and create a unit of exchange called a ruble." Hopefully it was going to be an exchange, because at that time it was restricted exchanges. But you needed to safeguard it. You needed that accumulated unit of exchange to be able to be safeguarded and accessed when you need it to buy other people's labor and goods and services as raw materials to produce, and the whole economic cycle works.

And he said, "Exactly. So let's start a bank." And I said, "Okay. How many private banks are there?" He said, "None. There's only five state banks. However, there is legislation being discussed that would permit a private bank to start. Let's be the first. We started the first Soviet-American joint venture. Let's start the first Soviet-American bank, or just Soviet bank, underneath that joint venture." And I said, "Okay. This is my wedding reception. I'm just married. I understand. It's probably not a good time to bring it up with my bride. However, let's talk in a few weeks." And we did, and our wedding was July 16th of 1989, and in September of '89, they filed the documents to create DialogBank. And in November of '89, November 19th, it was registered.

At the beginning of 1990, I already made plans to move over there. And it was pretty difficult, because as I told my family that I was going to move to the Soviet Union to help create the first financial institution, my grandfather—who fled from there with his family being executed and bombs over his head and all their businesses taken and everything—was quite against it. He felt that I would just be used, manipulated, and not able to really contribute much at all and just be sidelined, if not risk my own life. And unfortunately, through that discussion in the spring of '90, he had a stroke and died, which was pretty difficult for me at the time. And I remember telling him at that time that I would only do the right thing in Russia.

So when I got there, I was committed to either doing it right or not at all. So we started the commercial bank, and I remember going to the Central Bank and getting the license moving forward, and I met with Gerashchenko, who was the chairman. And he said to me, "Boy, you're really adventurous"—as he put it in Russian—"to be here. However, now that you applied the rules and the law and your team here to do this, there are no rules and regulations for private enterprises to work. Would you be willing to write them?" So I said, "Okay, but in the banking side, you have five banks. What are your existing rules?" So he gave me the existing rules and said, "This is what you have to start with. Anything you want to suggest and amend, bring it and we will review it."

So we started to work, an office of three people, and started to just build. And we already had DialogBank as a client, so that was pretty good, and we started to move forward. However, we felt that the way the entity was structured, it was a Soviet entity that did not allow for proper planning, proper accounting. One of my retained earnings accounts had to be owned by the Central Bank. So all our earnings go to the Central Bank. I used to call it the "Lenin account." Instead of retained earnings for partners or shareholders, it was retained earnings that all went to Lenin—the state, communism. So we met with the minister of finance and talked about markets and so on, and he said, "Well, that issue you bring up, the Deputy Prime Minister for Economic Development, Grigory Yavlinsky"—and this was Boris Fyodorov, minister of finance—he said, "Would you consider having stock ownership creation of company law?" And he said to me, "Would you like to participate in doing that?" And I said, "Well, how many people know it?" He said, "About two of us."

So the two of us started, and there were two others, really, that took charge: Yan Melkumov, a really great guy at the university, who was the assistant at the Ministry of Finance. Kind of like a division head, but a very knowledgeable, very respected division head, almost a deputy finance minister but without the title. And we started to work on creating the corporate law. Now, it happened to be that I brought a lot of my business books with me, and I had the *Robertson Business Law*, and on the back is the U.S. model corporate law. So we started with that. As we were starting to go forward, I kept saying, "But Russia prior to the Revolution had real stock exchanges in Saint Petersburg, in Moscow. It was the bread basket of Europe. It was a financial investment. Look at Citibank in the late 1800s in Saint Petersburg. Can't we find any kind of historic rules or writings?"

"Well, we need to go visit a gentleman who runs the library of the Finance Academy." That gentleman was the father of the then-chairman of the Central Bank of the Soviet

Union, Viktor Gerashchenko's father, who was the deputy chairman of the Central Bank under Stalin. And he had some of the old pre-Revolutionary finance books that people weren't really—and during communism, it was "No one's allowed to have it, it was all destroyed." But actually, it was all hidden in archives somewhere, and as a historian now you can go into the KGB archives and you're like, "Wait, they actually kept all this stuff?"

It's amazing—it's not part of society and no one's allowed to see it. You figure it's destroyed. Well, no, it's actually archived somewhere. So we found some of the old texts and we used a lot of those acronyms. So instead of saying "kompyuter"—"computer" in Russian—it's actually vichislitel'naya? tekhnika, which is just too hard to say. So they did use "kompyuter." "Kompyuter," you know, it's just a Russian accent on an English word. But we decided instead of "stocks," to call them what Russians did, "aktsii." "Aktsievno obshchestvo" is a society of investors, you know, and so on. "Shareholder society," is what it was really called. So we decided to just pull up the old laws.

Anyway, we drafted it. We drafted it in 1990. I remember Yeltsin giving us his house in November, December of 1990, to stay in to draft these market infrastructure laws. So we were doing privatization, there was a team, and I was on the group that did the corporate law. And actually, it was even written in the *Wall Street Journal*, if you ever go back to December of 1990, about some of the work we did there. Actually, the *Wall Street Journal* thing was even interesting. I actually met the correspondent of the *Wall Street*

Journal, Peter Gumbel, and I said to Peter, "You know this is really important what's going on and we need to have a history here. Would you be a fly on the wall if the Soviet leadership would agree, at least in our room, the ones that are there, to record this?" Because there's a thinking process. It's a really thoughtful, academic thinking process. We're analyzing British privatization, Polish privatization, Czech privatization, the creation of America, Thomas Jefferson giving out land.

There was a lot of different things that were being looked at, what was the best way to move forward, especially in the last decade or two before, as changes were happening in former communist countries. And he said, "Sure." So I actually had to sneak him in in the back of my car with some clothes on top of him to come in, because the people that were inside agreed, but we weren't sure that the regular security guard at the gate was going to agree with our philosophy of having history recorded here. And so he spent several days with us, and then unfortunately he wrote the article much quicker than we had hoped. We hoped it would be a year later. He ended up writing it a month and a half later, which caused a little bit of a rift in the situation. But we were there and we finished, I remember, December 10th, and we published it.

In the Soviet Union, laws become laws when you write a law and you publish it in the main newspaper across the country. Only from when the whole nation now knows it, is fully aware of it, had a chance to read it, it becomes the law of the land. And interestingly, when we were writing the corporate law, we put in one phrase that we felt was so important because it was always kind of questioned: "Do you really mean that? Is there no way around it?" It was one shareholder, one vote, is what they kept trying to allude to. And we were trying to say no, that's not exactly the way it should be: it's one share, one vote. And so it was clear it was going to be one share, one vote, and we had a lot of discussion about it. But when it was published, to my amazement, as I read through it in the newspaper, it says, one shareholder, one vote, which kills the essence of capital as an investment in society, but it does reflect the strong thinking that was there part of the Soviet system.

And so, you could put up a million rubles, I can put up one ruble, and we're equal shareholders. And as capital wasn't as prevalent—and actually, in Europe, if you take a look, in Germany there was minimum par value of stock, and the people who had the money controlled everything. In France, you needed five minimum shareholders to start a company. In England, you had a single person. And in the United States there clearly was ability for one person without the restrictions even England had for that. So I took a look and I said, "But this just kills the whole essence of it."

Soviet law is premised on Napoleonic law. I'm not a lawyer, I was more a CPA, CFA, but we clearly understood through this process that it was Napoleonic law. We were doing common law. And Yeltsin said, "We're not going to go forward with that legislation. We're going to rewrite it. Don't consider that the law. It was incorrectly published," and reprimanded the individual that had done that. In Stalin's time, that would have been a different kind of reprimand. But he decided to issue it on December 25th. Wait extra days, because it doesn't take much to retype it and republish it. But he wanted it to be Western, kind of like Peter the Great looking West. It was a Western introduction of law.

And at the time, when all of this was being done earlier in the fall of 1990, there was a group in the Soviets with Gorbachev at the time that was trying to do legislative infrastructure, and there was a group in the United States of lawyers that were pro bono doing it. That really wasn't working all that well, and Yavlinsky at that time put together a 500-day plan how to move the economy forward. Secretary General Gorbachev—and at that time, president, the first president of the Soviet Union—was hesitant. We kind of always joked he was a little bit half pregnant. There's no living thing half pregnant. Either you do it or you don't. He was always hesitant. It didn't go forward. That whole legal team kind of fell apart. They were there for a week.

And there were two individuals on that team that I asked to stay an extra day. One was Richard Bernard of Milbank, Tweed, who later became general counsel at the New York Stock Exchange. Another one was Joe Ravitch (whose dad is David Ravitch) from Cleary Gottlieb. And I asked them if they would stay and meet with Boris Fyodorov to help professionally to go over the corporate law that we were outlining already at that time. They agreed to do that. They came to the meeting. At the meeting, as a gentleman from Cleary Gottlieb (I forget his name) and Richard Bernard were speaking with Boris Fyodorov, I saw Joe Ravitch just go over to the corner, flip his computer, and he's sitting there writing different things.

About fifteen minutes later, Boris Fyodorov says to Richard Bernard and the other main partner from Cleary Gottlieb, “What is the young man doing there?” And Joe Ravitch, in Russian—it turns out he spoke Russian, too—turns and he says to Minister Fyodorov, “I am actually drafting the corporate law here and making corrections to it while you’re talking. We only have a few hours. You know today, tomorrow, we leave for the airport, and I might as well get started on it right away.” And that’s what he was doing. So those two individuals helped to really clear the legal hurdles and properly structure common law within the Napoleonic law system and so on.

But Yeltsin, anyway, reissued it on December 25th of 1990 as the corporate law of Russia. It’s kind of an act, and then it has several years in which the legislature could fully make it into law. But it’s an acting legislative law, interim. It could last ten years if it wanted to, if it was ever made into full law.

And then, at that point, I decided that Glass-Steagall was right in separating the risks of commercial banking structures and investment banking structures, and since we were the first commercial bank and we’d just created a corporate law to help privatization go forward, you need somebody that’s going to do investment banking to do it. So on January 18th, 1991, we registered Troika Dialog as the first investment bank in Russia as a stockholding company. So we followed the law that I helped write, and we submitted that to register. We registered it in the federal government right away, the Soviet government, and you had to also locally register it (like, say, Delaware, then you have to do business in New York). So we came to Moscow Clerk’s Office in the government of

Moscow and submitted it. Then I get a call two days later, "Would you please come down? We have questions about your articles of incorporation." So I came down and said, "These are the documents pertaining the law," and she said, "Oh, I'm sorry. They don't coincide with the law."

WT: This is who now?

PD: This is the clerks in the Moscow office that stamps newly organized—because when we did it in December when the law was passed, every local municipality now has to incorporate these entities. So they quickly, within a week, assigned it to a person who now is usually from the economics department of that city, trade and economics. A legal person in that group would review your articles of incorporation, the documents that the Soviet level approved, whether it was your certificate of incorporation, and stamp them that you can do business in Moscow. And so she said, "You violated the interim corporate law of Russia, and we can't approve your document."

And I said, "I'm really sorry, but I really do know that law, and I don't think we've violated." She said, "I know exactly who you are. And I know you're probably one of the most influential people who helped draft that law. But what you need to understand here in Russia is, it's not who writes the law, it's who has the stamp that has to stamp the approval of what you wrote, and my interpretation of what you wrote. And I interpret the rights of shareholders to be able to vote on a whole list of these issues that you had, in your organizing shareholder meeting, given to the board of directors. I feel that they should stay with the shareholders, and I do not agree that the shareholders can give them to the board of directors."

I said, "They are a shareholder decision issue. Some of those provisions, the shareholders have kept for themselves, and some of them they have transferred to the board in this particular entity, since there's only two shareholders, the bank and Troika Capital Corporation that Peter Derby owns. There's only two. It's more efficient that we do it at the board level instead of just doing more documentation, because it's kind of the same people. It's just in this particular case, the shareholders truly made a decision, and they can decide whatever they want to decide, and they decided they want to give it to the board, and that's their decision." She said, "I don't care. Rewrite it, or you're not getting the stamp." So first learning of how things could work in Russia is, it's like Stalin used to say, "It's not who votes; it's who counts the votes. It's not who writes the law; it's who interprets the law."

WT: So is this kind of the idea like "shareholders" versus "shares" voting, that there's a tension between trying to retain elements of the old Marxist system and—

PD: Well, the Soviet system was very similar to management of a German system, and very similar to accounting of the French system. So in Russia, the Soviet Union, the accounting system is a chart of accounts. It's not theory. If you ask an accountant what do you debit, what do you credit, we would say, "Well, it's accounts receivable or cash and payables. They would simply say Account 212 and 331." And I'm like, "What are those?" "Well, it doesn't matter. It's what it is." You know? It's not the theory; it's the numbers when it came to accounting. It's just memorization, two plus two is four. And then, when you're thrown a curve, they're running to somebody to figure out which account to use because they don't have the theory. It's bookkeeping, big time, versus accounting and bookkeeping.

On the management side, it's like the German system. You have a managing board and you have an executive board, and they don't intertwine. You have an oversight board. So, in the Soviet system, you have a ministry of automobiles, and then you have the factories. So there's no intertwining. You have an overseeing board and then you have the worker bee, and the overseeing board is always right and the worker bee is always wrong. Right? At least in their views of the time. When we put in the corporate law, it was the first time in the law—well, first we did two things. One, we wanted to do it so there was no bribery. That was the personal challenge the minister of finance said to me, "You complain about all this bribery and all these things. Well, let's see how you write it in the law."

So in the law, there was two challenges we had to overcome. One, the prime minister, Silayev, was not sure if communism would come back quickly. This was 1990. This was still right in the midst of it all. Things are moving forward. He was scared to have a corporate law which is such a reflection of a capitalist system. To go forward, he wanted to be able to have his cake and eat it, too. He wanted to basically say, you can say you're allowed to do this in the law, and at the same time, you're not allowed to do it in the law. So it had to contradict itself in the same law, which was unacceptable in my perspective.

And then the second thing was, we wrote in there that within thirty day the state is obligated to register you. And we did that so that somebody doesn't simply say, "Well, you know, I can take a year, two years, but for $5,000, it can happen in a month." So we had basically said, "If you get your documents right, and you meet the requirements under the law, in thirty days they're obligated to do it. The state is obligated." It's the first time I think anybody ever did that. And in the end, I remember the minister of finance saying to me on a couple of occasions, "Well, you thought you got bribery out of the system. Some people want it in a week, and guess what?" I say, "If they can't wait thirty days, what can I say? But thirty days, you've got to give the state enough time to process it, too."

So the conflicts within the system are inherent in the time of change, too, because people are not sure of what tomorrow's going to bring, and behavior changes. If you tell Wall Street they're shutting down next Wednesday, that's it, it's over, there'd be a lot of different behaviors between now and next Wednesday. But we tried to set an example of what we thought was the right way to do things, whether it was in helping build the infrastructure… I mean, there was no time that I wrote in any of the law, you know, "an oil company with two X's in the middle" of its name gets a tax break. I didn't put "a company by the name of Dialog" gets anything.

It was fair playing field, and then we just competed on a fair playing field with our skills and abilities and the way we felt about business. And naturally, we felt customers were very important. The employees were very important. And that we were an example of a new citizen in society called a company, so we cared about our communities and we cared about our suppliers and we cared about everyone we interacted with. And we cared about bringing back business and culture in a way that produced a better community of arts and sciences and everything that was so great about Russia and its history.

So we helped create and funded the first Tony Awards. It's called the Stanislavsky Awards, the equivalent of Broadway Tony Awards. DialogBank funded that project in the theater, and I was the cofounder of it, and it's going to be the twenty-fourth anniversary coming up of the Stanislavsky Awards, which was for theater. Our investment bank helped fund the National Orchestra. The Bolshoi Theatre was easier to get American Chamber of Commerce members, because everyone back in the West knew Bolshoi, so you can get Boris to approve charity and participation in helping to reconstruct and refurbish the building, the Bolshoi Theatre, and so on.

And so we tried to engage on multifaceted interaction of the role of a company in a citizen society and how it actually benefits versus hurts. And I remember one of the first meetings with a then-finance minister, who then became prime minister of the Soviet Union, he said to me, "You know, so you're a capitalist and exploiter." And I said, "What do you mean?" He said, "Capitalism is exploitation." And I said, "That's not how I understand capital. I mean, I understand capital as the proletariats work in the fields, the mines, sweating, and their labor is dripping on the table that gets monetized in a unit of exchange called a ruble. And you, sir, are responsible for that value of the ruble, which has its own questions: a person goes to work this week and they earn a hundred rubles and they can buy five breads, and next week you devalue it, and they can only buy one bread. You took away four bread loaves' worth of effort by the stroke of your pen as chairman of the Central Bank, finance minister of the Soviet Union."

So, for me, capital is a unit of exchange reflecting somebody's hard, hard work, and that unit of exchange is, they trade their work for somebody else's work. So I don't understand why capital is so bad. It should be respected. It should be protected. When we started to set up the first regulatory body, it was the Securities Exchange of Russia. They always used to joke and say, "Where is that protector of grandmothers and grandfathers, again? You've got to wait for him to come, because I'm sure he's got something to say on this." Because I would always start with, "In the interest and protection of grandmothers and grandfathers of Russia," because I always felt very close to my grandmother and grandfather. And I would always say, "In the protection of grandmothers and grandfathers, you cannot do this, or we should look at it in the following way, and we should do this."

A lot of it had to do with how I felt American core values, too, through that process. And so there was an element of, okay, there he is—yes, Russian traditions and everything he grew up with, but he clearly has American strong values that he's trying to prophesize here and embed them in our system, whether it's the common law or however it's approached. And in the corporate law, as I said, we for the first time put in where every shareholder, every board of director had to own a share, so you had a complete linkage. You're a shareholder; you're on the board, and overseeing management.

So we had, the majority of the board were outside of management. Every board member had to own at least one share, which made it a little bit of a problem for oligarchs later when they start to create companies, they weren't doing a hundred percent and just got famous people to be on the boards. Well, you have to make them shareholders. And we forced, actually, every board through the law piece, because we wanted that connection all the way through. And so in creating the Securities Exchange commission, and in standing up for grandmothers and grandfathers, that ended up coming back a little bit to smear me in the context of what happened in the United States.

I came back to the U.S., and we had Enron and WorldCom and all these other malfeasances. I would get calls from senior Russian and former Soviet officials saying, "Peter, where are your American values? Look at this. This is a joke. It's a farce." I mean, everything here was raw. It was on the table. It was evident. I mean, it was all manipulation. You have it beautifully packaged, you know. It takes a while to pop out. So there was hypocrisy in the end. I was pretty offended at that time. That's when, as I mentioned in the Fireside Chat that I did on May 11th of 2009 for the SEC Historical Society, that I saw Bill Donaldson the summer of 2002. He was pretty upset after spending forty, fifty years on Wall Street and seeing the malfeasance that occurred and the reputation of the industry, and he had so many friends that he knew how upset they were about what was going on. We both expressed our more than disappointment in what had happened. Then we spoke again later on that year when he told me that the president was considering having him be the chairman of the SEC and then whether I would come down with him. So it was from that that this all came, and it wasn't even a question for me when he asked me to come down, because I felt pretty upset at that time, too, at what was going on.

WT: Amid all the political changes that were happening in Russia, I take it you were working with Yeltsin before it was clear that he was going to be the top man in charge and before it was clear that Russia was going to be independent?

PD: That's true. That is correct. That is correct, because you could not come near Gorbachev. They had tons of people. It was like a huge filet mignon with everybody around it. You needed to be miles away. Yeltsin was kind of on his own. Literally, when we were writing this, there were eight of us. There was Yeltsin and eight people. That was it. And the main group that was under Gorbachev, Grigory Yavlinsky was the main person. He was writing the 500-day plan. He broke it out into a political side and a legislative market infrastructure side, and I was on the market infrastructure side. There were other people on the politics side.

I remember that night he came back to the White House—we had the big White House for the Russian government—and he came, it was like 2:30 in the morning, and he said, "It's over. Gorbachev just said no, we're not doing the 500-day plan." And Yeltsin's team said, "We'll do it." So literally, it moved within a week from the Soviet possibilities into Yeltsin's camp. But there were very few people in Yeltsin's camp, and he was a dynamic guy, and he wanted, "Okay, fine, if the Soviet Union doesn't want it, Gorbachev doesn't want it, I like it, I'll do it. I am basically 80 percent of this place anyway, so why not do it?"

So we moved over very quickly, and at that point it was full steam ahead. I mean, he is a tank. The only difficulty with Yeltsin, when things are actually normal, he's restless. He's not a great manager when things are just going okay. He is fierce when things are challenging, and a bulldozer at times. When we introduced the legislation to the Parliament, it was about a forty-five second discussion. It was Yeltsin introducing Fyodorov, Fyodorov and Yavlinsky presenting it, Yeltsin saying, "Anyone have any questions on this?" One or two people had a few questions. Literally, thirty, forty-five-second answers. Yeah, that's it, boom, boom, boom, done. I mean, he is a tank. Maybe for good and for bad. But hopefully, you know, the legislation was good, and it kind of went through.

But, yes, the Soviet Union was its own. Yeltsin ended up being underneath it, but things were moving very quickly. Actually, Grigory Yavlinsky was at dinner at our home—we had an apartment on the Arbat, right near the ambassador's residence—and he gets a call that says the meeting in Byelorussia just concluded, and Yeltsin has created, at that time, the independent states, which basically means the Soviet Union has fallen apart. And Yavlinsky said, "Look, I can't stay for dessert. I've got to head back to the White

House." This is a major historic movement here, and it still had to be planned how it was going to come out.

So Yeltsin was very, very dynamic and forceful at that time, and within six months or a year, there's no Soviet Union and it's Yeltsin. Everyone, the eight of us around that, just kind of came up and we helped create the first democratic party there, called Yabloko. It was three particular people, their initials, Yavlinsky, Lukin, and Boldyrev—"Yabloko," which is "apple, it means an "apple." And the eight people on our team, most of them became parliamentary leaders, chairman of the Finance Budget Committee, chairman of Foreign Relations. The Embassy did say to me you cannot take political official positions, otherwise you lose your citizenship. So I was kind of the token person working with them on these things. But it was an amazing time—adrenaline, a lot of work, all hours, 2:30 in the morning.

I mean, it was really an intense time, but a wonderful time to develop a new opportunity that unfortunately got squandered, in my view. With the assistance of some major Western firms, including some major investment banks on the Securities Exchange commission, when we created it, we actually went to prosecute one of the first ones. It was a major foreign investment firm. I won't name it here, but the things that they were introducing in this kind of open-ended opportunity was not one that was founded in what we would call U.S. security laws, by any means. There are no final rules, "We get to do this over." Even Mikhail Khodorkovsky, who was a good friend, he just came of jail after ten years, you know, Yukos, he was issuing preferred shares on the streets of

Moscow with no intention to really convert them or pay out the interest. He was going to roll them. It wasn't clear if it was a Ponzi scheme or not a Ponzi scheme, or was he really going to have assets underneath it or not. There was no disclosure, nothing, nothing, and we were saying, "Look, we don't really know if this is legitimate, not legitimate." You just can't put out a thing and say, "I'm selling you a piece of paper and I'm taking money, and I'll tell you later what it's about." That's not the way we're going to start the securities industry in this country. So that was probably our first prosecution, was him, and requiring information to be provided that had to be approved by the Finance Ministry, because at that time the Securities Exchange commission was just being developed. So it was kind of underneath the Finance Ministry. It was really the Committee on Hard Currency Controls and Securities Issuance, and so we started to explain what is the minimum you need to explain to someone to take their money, take their hard work, sweat equity capital, from the laborer.

So it was a difficult start to that, but we thought it was a good opportunity to try to be one example, and I think we were. I don't know how many banks in the world have Coke and Pepsi as a client, but we had both, and we had to go to boards to approve that because they're the fiercest competitors. How many embassies had a foreign bank in the embassy itself? We were in the U.S. Embassy as an exchange window for banking—tellers, and getting rubles exchanged for dollars and things, because each embassy does have banking services, visa services, and money exchanging and so on. So we at least became somewhat of a shining light of the way to do it the right way, which was why customers loved us so much. We didn't even have to market much to have clients. I remember

DuPont calling and saying—the treasurer of DuPont—"We have an account with you, Peter, and we need to open Conoco. Your branch isn't opening Conoco because you feel you can't service your clients to that level because of the volume. But you need to understand, Conoco is doing an $150 million equity investment in a polar lights project up in Murmansk, and we need to transfer money, and you're the only one we could do it through. So please, please open an account for Conoco to transfer that size money."

So we were growing 8, 10, 12-percent a month, steady every month, through that process. We also tried to understand the culture, so we not only trained the people, we hired wonderful people. We were probably the first women's bank. I'd say most of my employees were women. They were bright. They were trustworthy. They were energetic. They were thoughtful. Guys were always looking to make a buck on the side. There were different attitudes. We did have some great guys, but I'd say we were 70 percent women, easily, as an institution.

We also not only tried to be a great example, but to communicate with society. I went to Moscow University and said, "Through the hiring process, there are a lot of people coming because we're paying decent salaries. There are Bolshoi Orchestra people trying to be accountants." We did psychoanalysis—left-brained, right-brained—to understand, not to pigeonhole people who are going through these changes and not really understanding whether they should be doing this or not. We had an interviewing process that took a week, and analysis.

We changed the fonts on all our printed material. We curved them. We made them more readable. You can have private banking with nice, thick paper with this formal thing. That scares people away when they're not sure if they're up to understanding this. So we created a different set of fonts. We used the light blue and turquoise colors, a psychologically wonderful approach to having people accept what they're looking at, feel that it's not intimidating. We labeled things. Back then, we had yuppies in the U.S.—so we labeled things "Student Package"; you had a banking student package—you had a young professional package, a young worker's package, a family package, a parents' package. We tried to do things that allowed people not to be intimidated and quickly come in, and we wanted to give them choice.

So when we introduced credit cards, we offered you three different photos on your credit card. You chose. It could be a landscape. It could be a landscape of a monastery or a sunset or it could be an animal or something, but you had to make a choice. Does it matter on the credit card? No, it doesn't matter, the credit card works either way. But we wanted to start to have people make choices. You are about to elect a president of the new Russia in two years. You have to make choices. You don't simply walk in and 99 percent say yes. You have to start to make choices. So we started to introduce choice as part of the process. Our theme was, we were the bank of choice. Your choice to be our customer, your choice to be our employee, your choice to be our supplier, your choice to be our shareholder. It's choice. It was about choice.

And through that process, through the privatization process, investment bank, we privatized the only newspaper, *Izvestia*. *Pravda* was the political newspaper of the Communist Party. That was falling apart. *Izvestia* was Parliament's newspaper. That's the equivalent of the *Wall Street Journal* and the *New York Times*, *Washington Post*. It's the only one. We privatized it. A lot of people were going, "What is going on?" We helped privatize it. I was on the board of it. My view was, we need freedom of discussion and freedom of speech in light of the election, and it had to be fair and equitable.

As a matter of fact, my wife's cousin, Serge Schmemann, who was a bureau chief at the *New York Times* in Moscow, was a Pulitzer Prize-winning writer and bureau chief in Israel and Germany—everywhere he went, it blew up. In Germany, the wall went down. In Israel, it was the shooting of the prime minister. He comes to the Soviet Union, and the Soviet Union falls apart. But I came to him and said, "What are the ethics? What are the rules of journalism? It's three sources. What is the context?" So we tried to outline it. He felt a little bit reserved in the fact that he worked for the *New York Times* and didn't really want to step out of that boundary to do it. But it was important because, in the end, we didn't really bring in the code as I probably should have and really had Serge participate in it. He took a little bit of a concerned approach to it. He didn't want to get deeply involved in it as a senior bureau chief for the *Times* at that moment.

But the lack of follow-through on my part was that, after three years, we gave an award for hope, because—in America it's the American dream; in Russia, it's all hope. The only reason people survive and get up every day and go to the next day is because they hope tomorrow's going to be better. If there was no hope, it'd be over. There isn't the dream. There isn't the American dream. There is no dream. It's just a hope of something a little better, versus the American dream of really having X, Y, and Z more determined—home, car, whatever. So we gave an award for hope and perseverance, and some journalist came up to me and said, "Had we known that you were going to give our annual salary award just for these articles that we wrote—we wrote them because we had no idea you were going to do this. You went back and said, 'The last three years, who did this? Who wrote the best articles? Who created hope? Like an Afghan soldier who comes home as an invalid and the mother is old, and how she struggles to support her child.' I mean, it's the articles. We would have written a ton of these articles. If you tell us you're going to pay us for this, we'll go for it."

I said, "I want you to be a journalist to pursue what you thought was important." He said, "You know what? In journalism here in the Soviet Union, we're directed what to do. And you didn't give us direction. You gave us freedom. That was very bad." "Really?" "Yeah, because instead of advertising being bought in the paper, we were bought to write articles that, in the end, were really paid for by people. And you've brought that up and complained about seeing articles that you felt were like that. You were 100-percent right when you were worried about that, because that's exactly what was going on. Because we weren't told you had to do X, Y, and Z. You gave us the freedom. Well, we don't know how to apply that freedom at that time from the structures that we were in before."

So anyway, there's things that we learned from them that we could have done a ton better, clearly, on that.

But we also introduced the first mutual funds into Russia. That one was another understanding of society. There's a painting. I have it, actually, downstairs, a big painting of three Bogatyri. They are three warriors. It's actually at the turn of the century—I think it was probably in the 1200s or so. There were these three Bogatyri on large horses overlooking Rus at the time, and those warriors, one was wise, one was strong, and one was brave. Even as a young kid, when I went to the Soviet Union—once my mother took me to try to see if we could find any family in '72—I would be approached by grandmothers on streets with these brooms, tied with strings, of just branches, sweeping, and they would say, "Oh, you speak Russian," because they could see I'm a foreigner, the way I was dressed, and I spoke Russian very well.

They would say, "Do you know a poem?" I would say, "Sure," because I was going to Russian school here at church school on Saturdays, and I would read Pushkin or Lermontov, and they would then tell me a poem and another poem and another poem. You see a grandmother—you figure she's educated, not educated—literature they knew, so poetry and history they knew very well, across. So, these three warriors, everybody knew. It's like "Little Red Riding Hood" or the story of the three wolves. So I thought, what a great way to introduce the financial asset classes into Russia. So we created the mutual fund Bogatyri, which are these three strong warriors with kind of a shield, and we would ask you, "How do you feel about these three characters? Which one do you align with, personally feel more akin to? Are you brave, are you strong, or are you wise?" That would assess the inherent risk-taking of that person. So, if they were wise, fixed income. If they were brave, equities. If they were strong, a balanced fund between fixed income and equities. So we introduced three funds, named them after those three warriors, and those were the first large mutual funds, and I think to this day they're probably the largest with pension funds and so on in Russia.

So it was a way to connect with society, not simply talking down to society or, "Here's what it is"—boom, but understanding how they would perceive it, how they would understand it, trying to speak their language and give them the ease and comfort, no intimidation. Minimize—take all the blocking and all the fencing out, and allow people to be approachable, be yourself approachable, be a great example of what it means to be a great corporate citizen to your customers, to your employees, to community, society. Understand the importance of interaction of culture that enriches society, and doing it the right way.

A lot of the other Russian banks that I would invite to do this, they're like, "Okay, let me talk to my marketing department." I'm like, "It's not marketing." In the end, it maybe is marketing, but you don't do it because it's marketing. You do it because it's really the right thing to do that then maybe trickles back to a marketing concept, but it really enhances your opportunities and your responsibilities within your community. So that's how we approached it, and I think we did a pretty good job. The only thing is, we were still in the minority. I mean, we were in the majority very quickly because we were the only ones, but as things really developed, more and more people came, it was just a hard path for people to take, and they took the easy path. That's the same thing the SEC would prosecute, because people would try to take shortcuts, take easier paths. They don't fulfill the responsibilities that they should. Sometimes doing it absolutely the right way is much harder, and I think in Russia we found the same, that after a while the majority decided shortcuts and other things were probably easier. And the ethics standards were not very high, unfortunately, across the board. They claim Stalin used to say, "Why do I have to raise people's salary? They steal from the workplace whatever they think they otherwise should have received." So it's a little bit of that mentality, unfortunately.

WT: We should probably move on to the SEC, but I do want to ask one thing about the business strategies that you employed. Based on the fragments that I've read, the DialogBank was mainly geared, at least initially, towards Western companies, as you explained with the initial problem that led to its foundation, and Troika Dialog was more supposed to be a Russian company. Is that true?

PD: Both of them were Russian companies. They were of the Russians, by the Russians, for the Russians. That was my view, which is why we didn't sell Troika for over a quarter of a billion dollars, which I turned down when I was leaving to a Western investment bank. I felt it should be of the Russians, for the Russians, with the Russians. However, that said, the clientele amongst the Russians were somewhat minimal because they were all ministry-efficient government entities that stayed within the government banking system, and they needed to report back through the budgeting process and so on. So we only were able to take the newly formed cooperatives, partnerships, stock companies, joint ventures.

So we had joint ventures, and then we had multinational offices, whether you were a rep office for Deere or Boeing or JPMorgan Chase, for that matter, and embassies. So we had kind of a Western hard currency clientele, and a new, small business cooperative little partnership to restaurants and things that were opening up, service-oriented Russian companies—supermarkets, clothing, retail stores. We probably brought some of the first armored cars into the country that were private. So it was that. Troika was immersed more into the Russian side because its clientele was really Russian state enterprises becoming public or privatizing or taking a section of them to privatize.

The investors became Western, though, whether it was George Soros funds or Fidelity funds or Goldman, any of the large—Merrill Lynch. Troika represented Merrill Lynch for three years in Russia. Merrill Lynch trained some of our first young students in their training program and sent them back to Russia. Merrill Lynch was a great partner in Russia for us. So the clientele from the issuance side was really Russian, and the clientele from the investment side was a bit mixed but predominantly international on the Troika side.

WT: You returned to the United States in 1998, was it?

PD: I returned in July of ’98. I took a tour of Europe and the Middle East on the way home. I did it because my oldest son, Serge, was five, and we wanted him to get an American education. In Russia, the education system is phenomenal, but lacks one critical thing: creative thinking—independence, creative thinking. I had really great employees that would come to me and say, “What do you want me to do?” I said, “Well, here’s your assignment. You figure it out.” “No, no, you’ve got to tell me exactly how you want me to do it. I’m not taking any responsibility.” During the time even with Yeltsin, you wanted to do a deal? Yeltsin had to sign off. Can you imagine the president of the United States signing off on every single business deal? The GDP would be negative, to try to get things done. Everything had to be approved by one guy. Everyone else is dumb except the boss. That’s the mentality. As smart as you are, it doesn’t matter.

I even had an architect in our new offices we were building, and I said, “Look, I want you to just design your color scheme, paint, everything else. You do it upstairs.” I come in, and it’s beautifully done, except my door was painted a purple-pink. So I say, “What was the thought behind that? Just wondering.” He said, “You don’t like it, right?” I said, “What do you mean?” He said, “I know you don’t like it.” I said, “Did you do it so that you knew I wouldn’t like it?” I see him hesitate. I said, “Why did you do that?” He said, “Because I don’t want the responsibility to decide the colors of things. You had me paint all these floors. I had to decide everything. I was tormented. I couldn’t sleep. I didn’t know how you would think about it. You tell me what you want, and I will do it perfect, but I don’t want to decide what is to be done.”

Clearly, that was early on. That was ’92 or so. So clearly later on, as we moved forward, we changed how we inspired employees to be creative and not feel like they were going to get killed if they made the wrong decisions. As a matter of fact, we had this thing called “Power of I”—the power of ideas, not the power of I as an individual, but you as an individual having an idea. That’s the power. We would reward people for power of ideas, because we felt everyone down at the operation level had the best answer to the problems. First, they knew all the problems. The management kind of trickled up the telephone, a broken telephone. They knew what the problems were and they knew how to solve them. They just needed to be inspired to offer those solutions without getting their head chopped off, and not be scared and nervous and not sleep like he did for weeks.

WT: You were coming back to the United States. You wanted a more creative education.

PD: Yes, creative education, exactly. So for our sons, we decided to come back. I remember it was February of ’96, and I’m leaving for Davos. We were part of Davos, Switzerland. My wife is waiting up. It was about midnight, and she said, “I know you’re heading out to Davos for a week, but I want to talk to you about having the kids have an American education. You said that’s what you wanted. You’ve complained about how bright the people are but not the creative, inspirational, entrepreneurial aspect. We should just agree that our son only speaks Russian right now. We’re going to go to summer camp this year and the next year, and in May, we’re going to go back in ’98 so he can get some proficiency by August before he starts kindergarten. I’m basically giving you two years and a few months to figure out how to unstrap yourself from this missile that you've been on for six years."

I mean, she agreed to come for one year. Then, every year, it'd be one more year, and then the one more year, then one more year, then one more year. Anyway, so we had that conversation. I remember that leaving for Davos. So we came back in May of '98, and I had at that point sold Troika Dialog to the employees. We were going to sell everything originally, and Bill Donaldson and DLJ were helping us analyze some of that at the time, and his team. We decided not to sell it, because I was afraid that the Western banks, one, would break it apart—you needed both to survive—and, secondly, if there was a hiccup in Asia, they would close it down. It's just kind of peripheral business.

So I ended up wanting it to be of Russians, for the Russians, by the Russians, so I gave it to the employees to maintain it that way, which you were right to ask, and very perceptive. Then the commercial bank, we were looking to have a strategic partner come in. And now it was both Russians who were running it, guys that came to me when they were eighteen, nineteen years old. One went to get his MBA at MIT Sloan School, just came back, Boris Lipiainen. Ruben Vardanian was a top finance student at Moscow State University. Moscow State University's president was a director, on the board of the bank. He's like, "How can I help you develop this bank, this investment bank?" And I said, "The most important assets go home every night, and you have the best students in the entire Soviet Union, so your best students are really your most valuable contribution."

So we got some amazing students that came over when they were eighteen, nineteen, twenty, twenty-one years old. Then they started to run it in ’97. I left in ’98.

The crash happened in the summer, and I remember being up at Cape Cod, where my wife used to vacation, and I was back. We went up there, and our very good family friend was the interpreter for the White House, and we were floating in life jackets off his boat in Cape Cod in Chatham. He said, “You know, Peter, I’m a little disappointed, but I understand that you turned down the meeting with the President in Moscow at the end of the month, before Yeltsin.” I said, “Yes, because these meetings, there’s tons of people. It never really is a real meeting, and I’ve taken one step back, and I want the Russian guys to really be running those entities. If he wants to meet, he should meet with them. And I’m heading to Davos. I’m part of the 100 Global Leaders of Tomorrow. We’re doing a preparatory meeting on September 3rd in Geneva, and I’m just going to go there, and then I’m going to go to Moscow.” I still was going to be coming to Moscow for two, three weeks, and then be here four, five weeks, then two, three weeks, which I agreed for transition, because we had not yet had a strategic partner for the commercial bank. I was the chairman, but not the executive officer anymore.

And he said, “Well, I disagree with you. I think that the meeting with the President is a small meeting. I looked at the list, and it’s about twenty-five people, it’s a breakfast. It’s going to be the Secretary of Treasury, and it’s going to be the Assistant Secretary of State for Economic Affairs, and it’s going to be President Clinton. And the staff had your name right there, and they wanted for you to be there, and I really think you should reconsider."

So I went back and I talk to the office. I said, "Okay, I'll come in. I'll consider coming back." I needed to reschedule one piece to come in, and then fly to Geneva anyway, because I still needed to be there for the Davos thing. Well, a few days later, tensions started to develop because of the capital market strains, which were there already, in hindsight. We kind of knew about them, but they were becoming front and center. And a few days after that, the collapse happened. And I see Peter Afanasenko at a little thing, and he's like, "So have you changed your mind now, with the collapse? Now it's not just like coming to a thing. This is important now. At this point, you should just go."

WT: To get our chronology right, are we talking about the Asian collapse or the Russian?

PD: The Russian collapse. The Russian collapse started in March of '98 when Chernomyrdin left as prime minister. Kiriyenko came in, a young guy. He looks at the numbers, like, "Okay, this is all crazy. The ruble is inflated. Our exports are terrible. We've got to change things here." He called a bunch of guys out to his new prime minister residence, and he said, "Come on, guys. What's going on here?" They're like, "Whoa, time out. You cannot change so quickly because we have forward contracts on the currency through September. You change this now, you can get exports of things working, but we're all dead. The oligarchs, we're dead."

So it was supposed to be deferred. They had billions on the line. These guys were doing hedgings for billions of dollars, pretty much guaranteed, because they had the IMF and the Central Bank holding the rate within a certain parameter, the West scared that it's going to blow. They were raking in tons of money on small balance sheets. So the meetings were leaked that there's concern. In May, Toko Bank, which was part of a state big project bank, had a meeting with foreign creditors that did not go well, and the Central Bank acted very dictatorial and basically told the West, "Take a hike" on this. "You've got to do this, that and the other." The West said, "Okay, fine. When the other commercial private banks start rolling over their obligations in August, guess what? Repayment, no rollovers."

So people started to feel things are going to happen. In July, a lot of people started to already sell and position, amongst the elite banks, their balance sheets. We knew things were moving in that direction. But on August 10, Stolichny Bank, an income bank, had problems and it became public, and then things went down very quickly. David Lipton from the Treasury was in Moscow with the Central Bank and basically said, "The U.S. isn't bailing you guys out. You guys are on your own." And they decided to yank the IMF line of credit, $4 billion or $5 billion, use that to shore up and give it to some folks, and then push the financial nuclear button on the 17th of August and blow the whole thing up.

You couldn't just blow up the currencies and take down seven commercial banks. You needed to have a financial nuclear winter, so you had to blow up everything so the plume of smog would be so big that the real people playing musical chairs there would walk away with a lot. And that's what happened. They blew that up on the 17th, and I decided at that point, okay, I will go. I changed my ticket from Geneva, going on the 2nd of September over to about a week earlier so I can at least meet with folks, get the lowdown as to what's been happening and what's going on, before having breakfast with that group with the President.

I did go to breakfast with the group with the President, but I remember that next day getting up early because there was then a follow-up meeting with the Undersecretary of the Treasury, Larry Summers, and some other folks, Mark Medish and others that were going to be having a breakfast. I wanted to get to the office early if I had to talk to them. Getting up and shaving and hearing, breaking news, there's a plane crash, a Swiss Air flight. I'm thinking, Swiss Air flight? Wow, I was on a Swiss Air flight to Geneva, but I was on the Swiss Air flight to Geneva on the 1st, not the 2nd. Today's the 2nd. I'm thinking, wait a second. That was last night's flight that just fell in Nova Scotia, and I was on that flight. That was the flight that I was going to Geneva on for the Davos meetings for Global Leaders of Tomorrow, and it was only at this particular request to be there for that President's dinner that I was not on that flight.

When I walked into the office, my assistant was in tears showing me the ticket that they had to exchange and how thankful they were and so on. There's a Russian proverb about that they were reminding me of. It was another close call. So I lost a lot in the collapse because our bank ended up closing down, and we ended up not doing bad bank/good bank. The government foreclosed. We had over about $185 million in cash at the Central Bank that was just taken from us, and we had to pay depositors. The only way we could do it is to pay state taxes and things. So, you've got these two obligations. So we ended up having to close the commercial bank. I did not want to do bad bank/good bank. I just felt, look, if you don't have integrity in running a real system, why should I be a part of it at this point? So we agreed we would just shut down the commercial bank.

The merchant bank that was doing mortgages, we introduced some of the first mortgages, that was sold to the U.S. Congress, actually, it was an arm of the U.S. Congress, an investment arm that they set up. We agreed that they would put up $50-million-dollar tranches in funding to securitize mortgages. So we had a company called CMO, a collateralized mortgage obligation company that we introduced there. So that was sold in two pieces. One was asset-based lending like equipment, AT&T equipment, printers, computers, leasing, trucks, cars. The other one was real estate and individual loans, personal credit. Those ended up going to those entities.

The investment bank just hung in there. They hung in there through thick and thin. The financing of the leveraged buyout by management of me—and I had first distributed a lot of the shares to them, I'd created an ESOP, and they owned a significant minority of the shares, almost a majority of the shares. Then we had Bank of Moscow. Again, the Moscow government was looking at privatization, and they wanted to have an investment bank that would do a lot of the privatizations, and so they put a new credit line in place.

That credit line carried them through the ’98 crash and then propelled it to the success it had in the end.

I did consider when I was leaving, and I did offer the staff—we did meet privately with the Sberbank chairman at the time, a good friend of mine, to offer both DialogBank and Troika, to be kind of underneath Sberbank, independent subsidiaries, but within the umbrella of Sberbank, kind of like a Coutts Bank. They were seriously thinking about it. The only thing is, we were valued $250 million and they were valued $480 million. They’re $39 billion now or whatever, more, even then up to about ninety. So there was a disparity in pricing at the time. However, our staff was just hesitant with my departure that they would be comfortable completely under Soviet administration where they would be not respected for their contributions and they would have to follow their own corporate ladder of the Soviet system. So we decided not to do it.

In the end, Sberbank did buy Troika just a few years ago for several billion dollars, so in the end those young kids—those, I think, twenty-eight partners when I left, I think they were up to thirty-six when they sold it—so they all did quite well. So I came back in ’98, and then with the collapse, I ended up going back. I was here one week, there six weeks, one week/six weeks for about a year and a half, and then I did three weeks here, two weeks there for another year, and then I did four weeks here, one week there for about six more months, and then I came back in the summer of 2001.

At that point, I decided I was going to run for political office. I was thinking at that time potentially Congress, the Senate. There were changes here in New York State. I spent a great deal of effort creating five fantastic companies, the bank, the commercial bank, the merchant bank, the insurance companies, leasing, that it was just not right. Even processing, we created the main credit card processing company at that time in Russia, and that was an interesting story, too. With Sberbank, we set up with another two enterprises, another two banks—and one of the other major private banks, oligarch-owned banks, said, "Thank you, Peter. Now that it's all set up and running, we're buying out your shares and I'm running this thing." I'm like, "No you're not. That's not how you get customers for credit card processing. You get customers by servicing them well. Everyone's going to have a flat-level operation cost here because we didn't want to buy five systems. Why buy five when the system's just developed? Pay it once. Let's do it for everybody. And then you compete."

And he said, "No, no, no, I'm the tollbooth for everybody. I'm like the bottleneck of the whole process. I want to own the monopoly on this thing. And you're the chairman, and you have the dominant vote, so I need you to sign over to me." I said, "Okay, what corner do you want me to stand on so nobody else gets hurt? Because I cannot raise my hand to do it. I promised my grandfather I was not going to do anything but listen. I'm not going to do it." I used Gordon Liddy's line, "What corner do you want me to stand on so that nobody else gets hurt?" And he looked at me and he said, "Fine. I'm setting up my own competing processing center with Visa. You keep your MasterCard processing center." And that's what he did.

Then he joked, "I'll build a statue of Saint Peter right across from the embassy, right between the U.S. embassy and the White House, where you're this crazy idealist. You're Don Quixote of Russia, Man of La Mancha around here. It's just kind of annoying when we're trying to get a lot of business done, go, go, go, and we've got to deal with some idealism here from time to time."

In any case, I ended up deciding I was going to run for political office, and came here and met in Washington and understood that there's a lot of commonality between what I saw in the Soviet Union and what I saw here. Here, it's done beautifully, packaged nicely. But in the end, they tell you what to do. So you go to Congress, you know what committees you're on and when you're on them. When you meet with them and you say, "So if Bill Gates becomes a congressman, will you allow him to be chairman of the subcommittee on technology?" Absolutely not. It's all about seniority. Pay your dues. You come in here, and it doesn't matter what your intellectual contribution is to get elected, how you go through the process of getting elected. It's just as many horror stories as I had in Russia, just listening to that.

In any case, I decided, "All right, I'm still going to potentially run for Congress." Ben Gilman was a congressman here. I go in to file, to look at it, and you have to have so many signatures. They only tell you—your district was redistricting—they only told you the district like a week before. You couldn't just do it right away at all. So I decided, "Okay, the redistricting, everything that's going on, I'm just going to start locally." So I went to run for office here in Irvington, and then I met with the mayor. The Republican Party was in charge at the time. I was an independent at that time. Actually, I was independent when I was in Russia, and when I came back, I spent time with some of my former independent and even Republican friends. They were part of the Democratic Leadership Council. I said to them, "Well, this is interesting—fiscally responsible, socially accepting." And I spent time with them. But here in the village, they told me, "Sure, you can run for trustee. It'll take you about ten years. We have a lot of people already lined up."

And I'm thinking, you know, I went to the Soviet Union 5,000 miles away or 4,650 miles away. All I had to do was go two miles and it's the same kind of boom, boom, boom approach. This is ridiculous. So I created an independent party here, ran, got endorsed by the Democrats, got elected. Then six months later or a year later, I met with Bill Donaldson, as I mentioned, that summer, and expressed my dismay at what was going on. He expressed his. Six months later, he called me to have breakfast, to say the President was considering having him, "Would you do this?" And I said, "I'm just elected. I still have a year and a half." He said, "Look, you're not bribable. You're not influencable. You're financially independent. You understand politics and how to deal with them from your run. Why don't you still come down?"

I said, "Okay, so long as I can fly home every other week on Monday night to do my public meetings." So literally, the first year, we would fly down at 6:00 a.m. on the shuttle, be in Washington by 7:00, 7:10. Be at the office by 7:30, work until 5:00, catch the 5:30, 6:00 shuttle if it wasn't that far at that time, and sometimes I'd have to leave a little bit earlier, 4:00. I'd be on the shuttle, back up here, 6:00, 6:30, be at the meeting at 7:30, 8:00—I think the meetings were at 7:45, at Irvington. I did that, and then the next morning, I'd take the 6:00 shuttle back down. I did that every other week for the whole entire first year, in which I served out my two years as trustee. Then I did not go for reelection at that point. I was still in Washington, dedicated to working there. So that's how I ended up with the SEC.

WT: Let's talk about these three positions that Bill Donaldson creates when he comes in. Previously, had that been just a single chief of staff position?

PD: Yes. When we got to the SEC, first, I agreed to do it for only six weeks, because at that time I was also about start Private Equity, a group that was going to revolutionize, we thought, health care human resources, processing. We wanted—when you go into a doctor's office, you swipe a card that makes your payment. It has all your medical information, none of this filling out forms. It's kind of digitalized, credit card processing concept for individual health care, the relationship with a doctor. Doctor receivables, they don't manage themselves. Paper. It would modernize that whole part.

Hospitals was real estate. I helped teach real estate finance at a graduate school as an assistant to this professor. So I wanted to combine the real estate concept, hospitals as basically hotel rooms rented by doctors to perform services, operations and things, and just bring efficiency to that whole thing. So, that's what I was working on at that time.

So I said, "Bill, I'll come down for six weeks. I'll help you put a strategy in place like I did when I went in the summer of '88 to the Soviet Union for Dialog—put a strategy in place, and then that's my commitment for now."

So we agreed. I went down, and I spent three weeks just listening, listening, and listening. I would meet with the nineteen division directors and office directors. There were nineteen of them. There were four major divisions, and offices. And I would simply ask them, "What do you do? Where do you do it? How do you do it? How do you know you do it? How do you know others are doing it? What are your priorities? What were they? What are they?" Everything, go through—I just made a list of all that, pulled it all together for Bill.

There was a McKinsey report that we were given within the first period of time being there that was done, I believe by Harvey Pitt, to have a better understanding of the strengths and weaknesses of the agency and the transformations that needed to be done. That report was very helpful, very insightful as to what the agency's challenges were.

Then we went to the main employees and talked to them. I also met with rank and file. At DialogBank, I used to have a lunch once a month with drivers, secretaries, security guards—amazing things you learn after you get confidence and comfort. And they'd tell others, "Oh, that was not scary. He's really great. You can tell him what you want and he doesn't say who he heard it from, but it gets taken care of within months," kind of things. So you develop a relationship with staff. We met with staff.

The bargaining agreement for the unions was up, so we had to redo the union bargaining agreement. I didn't even realize there was a union in that way in the SEC when we got there. So that report was helpful. Meeting with the main leaders was helpful to figure out what needed to be done. Then, clearly, Bill had his strong views as to why he was there, so we kind of melded all that together to put a plan in place which engaged all nineteen offices and divisions. So it wasn't that, "Okay, we're here, and Enforcement, here is your big thing, and everyone's just helping Enforcement along." Well, we had these overall strategies, but enforcement wasn't going to get done unless the computers were working and the security guard was there to let them in. So, you needed everybody to participate and share the vision, share what we were trying to get done, not to confuse it with too many things.

We were the ones that understood that there were forty-five projects that were being done simultaneously that were really geared towards five focused areas of change. But it all had to work, and everybody had their cylinders fully running, whether it was logistics, administration, creating universities, looking at a whole new way of introducing risk, offices, technology, artificial intelligence, a whole bunch of different things—new office constructions, how you built them. All the different thinkings that we were doing at that time, as well as all the rulemaking: Sarbanes-Oxley and Gramm-Leach-Bliley—Glass-Steagall fell apart—there were no rules. That was a problem, as you know, later on with credit derivatives.

With credit derivatives, I must say one of my two saddest moments, I'd say, out of the time at the SEC: one is we set up the risk office. And right after we set up the risk office, we gave everybody the book called *The Art of War*. It's a small little thin book on how to really think about risk and scout out and understand problems and use—people don't like it, but a clandestine kind of thinking. It's non-civil-servant-SEC-like. It's more a military-like approach. But anyway, I went to the major risk managers on Wall Street literally the next day, and we set up a meeting for ten minutes—which, for someone from the chairman's office, ten minutes is kind of weird. But the reason was, I just want one question: what's your biggest risk? What are you worried about the most? Some of them lasted half an hour, and told me their second and third risk. But clearly, the number one risk in five out of the seven meetings, and number two out of the sixth and seventh, was credit derivatives. One of the people I knew very well was Gerry Corrigan, who spent more time with me, explained why it was such a risk. I came back, and we set up the credit derivatives task force. Internally, we spent about four or five weeks looking at why that risk was so prevalent for the people in the field that are responsible for the industry. Then we invited the Treasury and the Fed in, which of course then grinded everything to a halt. It was an unfortunate situation. Then, when we left in '05, that whole task force was shut down. Donaldson even testified about the importance of credit derivatives in Congress. Greenspan testified several weeks later about how it's none of the SEC's business; it's about systemic risk and why they are all in charge of it.

And of course, we know in 2008 what took us down: credit derivatives. So had we been there longer, had we been more persistent. I kind of feel terrible that we weren't able to heed the warnings and follow through. It went into academia. When I was there, maybe because of my Russian background, it was academia plus fieldwork. It was basic detective stuff. You invited people in for a brown bag lunch. You told them, "Everything you tell me is confidential unless you lie. If you lie, it's on the record. You're not there to self-incriminate. We just want to understand the products, the services, what's really happening, so that we can better handle and better regulate that it's fair and equitable for everybody."

WT: This point about the SEC's authority to act in this area—is this basically an attempt to call attention to it, or was there something substantive that you would have been able to do?

PD: I actually thought we had more authority on it. I thought, okay, risk management—here's a risk to the financial markets. We're a huge part of it. It's securities. Same question: bank loans. Are they securities, or are they not? There were clearly delineations then with the Federal Reserve. Knowing Mr. Volcker very well for many years, when I was going to the SEC, he said to me once, "The Federal Reserve and the SEC are fantastic institutions, but you need to understand that, very early on as Fed chair, I met with the then-SEC chairman. We were very good personal friends. We had a wonderful lunch. And we agreed that it's oil and water. The SEC is about disclosure and telling the world about it. The Federal Reserve is about prudential review, quietly ridding the cancer in the system without blowing up the system through public announcements.

So they'll go in and they'll fire somebody in the bank. It's a more prudential kind of review. So it's a oil-and-water methodology."

WT: Sorry. This is Greenspan?

PD: This is Paul Volcker. So we knew that there was these different tendencies, inherent, and when you have two really good friends and good people and they realize that one's playing basketball, one's playing baseball, but it's both sports, it's just a different approach. When this came up with credit derivatives, we realized that that's the case. This product is more driven by the Fed, and they felt it, and we felt it from being in the field. And we raised the issues that we did. As a matter of fact, it was made public. Bill testified on it. Secondly, it's in the *Risk Management* magazine. If you go back to the '03, '04 edition, you'll see a whole section on, "SEC Creates Risk Management Office," and an interview with Peter Derby and Fishkin—Charlie was the head of that office. And the first task force that we set up was credit derivatives. So it's all in the record four years before it all really blew up.

We didn't know the severity of it. We just knew that it was an issue that needed to be analyzed and understood, and not purely academic. It's the same thing now with the Office of Financial Research. You can have a ton of data research and economists look at it, or maybe you just want to go talk to some people in the field, too, and they'll tell you more what's really going on, what that data's really saying.

WT: How big was the office, and what kind of staff was in it?

PD: Donaldson wanted to look around corners and over the hill. He's a Marine. He truly is a Marine. He would exercise. He'd be up at 5:00 in the morning, and he'd be in that gym at the hotel by 5:30, and he was exercising, lifting weights. He has a routine like a Marine. Besides, he's a faster reader than Evelyn Wood ever imagined. He can go through documents—amazing. He takes his information in through text—sound, less so; talking, less so; mostly through text. He wanted to really understand what the risks were that he would ultimately have to deal with because, the point is, the risks then materialize into an issue, and if you don't know the problem that's coming at you, you're going to be reactionary versus being proactive. He felt that the agency needed to be proactive and not just be arriving as an ambulance at the scene of the accident.

A lot of the enforcement cases were basically *Wall Street Journal's* publication that comes out late at night and people in the office typing up case memos for the next day. He felt very strongly about it and asked to set such an office up, so we set it up with about three people at the beginning, and from there we started to grow the office. But the concept of that office was, it was a support office for the inherent need to do risk assessment in the nineteen offices and divisions. So each office and division was going to have a risk assessment person, and then these three people in the main would be the tool providers, would help you do certain skill sets. So, surveying: How do you do a survey? How do you take a survey?

What we ended up doing, we had every single office list the top ten risks. How did they do it? They had to get every employee in that office, secretary, security guard, driver—we didn't care. What happens if you didn't have a key to the front door? Nobody gets in, right? So every person had to write down the top ten risks, even if they get hit by a bus kind of risks. What are the top ten risks and the mitigants to those risks, if they can offer them. Then all those people in each office division would put it together, and then they would consolidate them into groupings of risk, prioritization of risk, and so on.

Now, clearly, from a political perspective, their view was, "I came to this agency with a policy agenda. That policy agenda potentially is going to be derailed by this risk office somewhere over there telling me what my main three risks are, which were not my policy interest to come here in the first place. I'm going to spend all my time writing rules with someone dealing with that rather than why I came here. I don't want this. I came here to do these following things, and I'm going to do these following things."

WT: So, you have two elements of risk assessment. First, there's the overarching economic risk, where we identified things like over-the-counter derivatives as the real threat. But then also, within the offices, is it just the managerial risks of the division or the economic risks of the things that they had oversight over?

PD: In each office, it was any risks: operational risk, policy risk, financial risk, human resource risk. It was whatever challenges you, as a director of a division office, are going to have to deal with. It's coming on your plate whether you like it or not. They had come there saying, "I'm going to write these following three rules," or, "I'm going to look into these issues, and I don't want anyone taking my time and effort and resources away to deal with things that I didn't come here to do." Our view was, whether you came here to do them or not, you're going to end up dealing with them if something blows up on you. If Enron blows up, I don't know what other the rules you were thinking about writing, but you're going to be spending a lot of time figuring out why that happened.

So we felt it needed to complement them. You needed to continue to try to write the priorities that you were there to do. As long as it coincided with the Commission, you would be doing them. And you're going to have to know the accidents that are coming your way. You might have to time out on your policy-writing and deal with the accident prevention before it takes more of your time if it blows up. So, it was supposed to work in unison. But they viewed it as a threat, so the start of the risk office did not go off too well.

I remember one day having the general counsel coming into my office and saying, "Peter, I know you're going to find out about this, but we're having a meeting in half an hour of all the division heads in my office to talk about this risk office and the challenges to their reason for being here, their own policies, without you being in it. I just want you to know that." I said, "That's fine. I think it's emotional. They've left their main careers to come here, to do this. This is their public service. And I know they want to do this. But they need to positively understand how it's going to help them, not get a black-and-blue mark on their reputation of being in the division and missing something big. So if you would, after the meeting, maybe half hour, forty-five minutes, suggest that I come in and have a further discussion."

And that's what happened. I did come in and listen to all of their concerns. I don't think many people wanted me to come, but I think since the general counsel suggested it, I did. And we had a discussion about how it's not taking over their agenda. It is actually supporting them, and it's not a separate office that then simply comes out with its own priorities and then it tells each one what to do, which is what they were afraid of. It is a skill set, tool set, toolbox unit that helps each of you figure out your risks and your priorities. That ultimately comes to the office of the chairman, and the chairman says, "Yeah, those are the issues and priorities I want you to work on."

From a policy perspective, why you came here—I mean, you came here under Harvey Pitt. Bill Donaldson may have a different one. You're not going to do what you wanted to do if the new chairman and the new commission wants to do something different, right? It's just not going to get passed, it's not going to work. So it's a cooperative, collaborative effort. This tool set is going to be critical to having successful tenure, in our view. Accidents are going to happen, but minimize them. Mitigate them as much as possible.

And if you take a look at the OCIE program, it went into sweeps, right? Before, they used to go to one registrant, then the next registrant, then the next registrant, the next one. So they dealt with one large investment firm. They criticized, got them to change differently on a particular product. Well, the others are still doing it. You're supposed to kind of make it public and the others think they're not, but you're not in there. So we said, "Well, that's not really fair. Someone gets another six months, a year to do it. Why not sweeps?" That came through their own risk assessment process. Just go through all the firms. Well, you couldn't do all, but you had to do a percentage of them, so you did a statistical percentage of the small, medium, and large firms dealing with particular issues, and you did sweeps. Now, the industry did get upset later saying, "Oh, my God, I got a sweep a week. Before, you used to come for two months, kill us sitting here—or three months, every two years. Now it's every week, you get another, 'I'm looking into mutual funds shelves' and 'mutual fund timing' and things"—every couple weeks, it was sweeps.

But I think in the end, OCIE's program went from black and white to color. I don't think it's HD, by any means, what we were able to do, and maybe they've done quite a bit better since, but we clearly took them out of just a black and white mundane approach to a color, interactive engagement across the examination program, including having accountability between the writers of the rules and the interpreters of the rules, going back to the Moscow registration. So you have the OCIE program writing up deficiencies. So, we took some of those deficiencies and went over to the rules side, whether it's capital markets or Corp Fin. What's their interpretation? Well, no, they think that those are not deficiencies. Well, then, what's going on here? The interpreters think it's a deficiency. The registrant now has to deal with it. You wrote the rule, you don't think so. Why are you silent? Why isn't there a coordinated effort? Why are we, in one institution, not fixing this?

My frustration from Moscow was like, wait, this is not going to happen on our watch, so let's figure this out. We had to deal with it. Some of it was personalities. People felt that wannabe rulemakers didn't make it into the rulemaking side, and they're now in the examination, interpreting side, and they get to make rules through interpretation. There was all these other maybe one, or two, three incidents of past history of individuals that might have, something have come up that way.

But that was not the main body of people. The SEC is the jewel in the federal government. Donaldson dealt with it, as I said in the Fireside Chat, for fifty years—loved it, engaged it, and respected it. There are very bright, dedicated people in that institution. Just getting proper collaboration and cooperation and respect and non-silo effects, rewarding people not for what—you know, you eat what you kill. It sounds like a Wall Street way, eat what you kill. And the incentives—if you want to follow problems, follow the money, follow the incentives, follow pay-for-performance. What are you paying for? Then you'll see what you've enticed, and is that enticement sound or not? It was things like that. I looked into the budget of the SEC. We had a guy out west, finds out about a case, writes up a memo, and he flies to Florida to run the case. I had a whole Florida office right there. Why is the taxpayer paying for all this? Why isn't it in Florida? It's not that the skill set was special. But it was a kill-as-you-eat approach.

Or the volume of reviews during Enron. It was just, "How many corporate filings did you review? Ten? Three? Four?" That was the question. That's not the question Bill Donaldson would ask. He would ask, "What percentage of the capital market's capital did you review? Oh, Enron? Well, that's huge percentage. Yeah, it took you an extra two months. You did one in two months. This guy did ten. The other person did ten in that period. Are you terrible?" Actually, that ten was a third of the market cap and investor protection of the one that you did in two months. Who should be recognized as a better performer?

That wasn't the case. It was units. It was like the Soviet Union. How many galoshes did you produce? Oh, they're purple? Nobody wants them? Who cares? So we approached it in a very different way. We created dashboards. That means every manager—we had brilliant, dedicated people that knew the subject matter but were not managers or managing. So, we helped to create dashboards to assist them to focus on the key dials for their division that we discussed and agreed, maybe these are the important things. Is it the number of filings you review, or is it the industries that you're reviewing, the market cap that you're reviewing, the kind of issues that you're reviewing? Maybe there are different priorities. We created dashboards with dials that reported these things on a monthly basis to the managers. Again, there was some hesitation. "Oh, the chairman gets to see this. Maybe this is going to get a bad report card." Well, it's important for you to be able to manage your own—whoever sees it, whatever, just use it for your own benefit and hope to enhance it and make it useful for you and others. And that's what we did. We created document imaging. If that Enron case took weeks and weeks and weeks and weeks—actually, it took more than a year of reviews, just the documents. Were we able to use electronic document management systems, it could have been done in two months—I think it was over a year and a half worth of work, done in two months.

So we went to unnamed agencies—probably some of those agencies don't even have an official name in the government—and said, "We'd like some of your toys." They said, "We've never seen people like you on the civil side coming here and asking for some of our toys." But we needed to enhance the efficiency, and Bill, being a Marine and having good relations with the Joint Chiefs and stuff, we were able to get a good commercial-based intelligence software technology to help with the work in a way that was proper and effective. So, I think those enhancements clearly were important, and I think they're continuing to benefit the agency.

WT: Is all this an element of the managerial style that Donaldson had ahead of time? Was it something that he knew? Was there a sense that there was managerial deficiency within the SEC before he came, or was it in response to things like Sarbanes-Oxley rules and the increased size of the agency?

PD: I think it's everything you said. He clearly had a managerial style that basically we had accountability. He knew that the whole agency needed to be respected, have strong morale, pull in the same direction. But everybody had to do their piece, so you don't just have four main projects. You give, like I said, forty-five minute projects that all add up. Everybody's pulling the same thing. He, from an accountability standpoint, walked in—

this was February, March of 2003—he had to sign off on some annual report to Congress. He reads this thing. He's like, "This is gibberish. This is not even an annual report. What is this thing?" He hands it over to me to take a look at this and realizes the accountability of the agency is all political. It's not factual in some ways. We weren't going to sign off on some report that we had no intention of fulfilling. So it turned out that there is a report to Congress that tells Congress what they want to hear, then there's a budget to the appropriators for money for what they claim they want to do, and then there's a real budget of what they actually do with the money.

Donaldson said, "No, it's all one. We have one report. We tell Congress what we're doing. They like it or not, that's what it is. They want to debate it, let's talk about it. But that's what it is. We're an independent agency. Two, the budget is aligned with that strategy. And three, we go to the appropriators for that budget that is aligned with the strategy that we're really going to do. So first, I want to look at the audit of the agency that I'm now responsible for, because I just took over for it February 20-something of 2003. As of this day, I am the CEO responsible for administration. Where is the financial audit that tells me what the assets and what responsibilities? Oh, you mean there's never been an audit of the SEC in its history, and we're responsible for making everybody else audit? That's not going to fly. We need to have an audit during my tenure of this agency going forward." And the CFO Act helped us have a reason to be able to do it. In Congress, there was in the Office of Budget and Management a really great gentleman there who was moving that along pretty swiftly and supported us in many ways to get that done. And we had deficiencies.

WT: What was the content of the act?

PD: It was the CFO Act. It was where agencies had to get audited, from the Defense Department to others. Everyone said, "The SEC cannot have a deficiency, because you are the main regulator. How can you have a deficiency in financial reporting or anything? That's impossible. Number two, who's going to audit you? Because you oversee every accountant in the country." So Bill said, "Wait a second. There's nothing wrong with having a deficiency. Admit where you've got some problems and fix them. It's not admitting it and not fixing it that's the real problem, not being transparent."

Secondly, we had the GAO. The GAO is what audits the government. So let's go talk to the GAO. David Walker was excellent. What a great gentleman. And we did it. That took us two years, two and a half years, and we came out with three deficiencies, but started to resolve them. Bill had a managerial approach, and he also had the reality of what was happening: malfeasance. He needed to right the ship. So he had an agenda of what he needed to do at the agency. He had the McKinsey report that helped him understand some of the strengths and weaknesses. He combined his experience, his respect for the institution. And I think his managerial approach is just a wonderful, human approach that really helped bring in talented people. We didn't bring in a lot, but we brought in some unique, talented individuals at critical moments, whether it was the PCAOB, whether it was the chief accountant.

I even said in the Fireside Chat there was a huge problem with the chief accountant and with creation of the PCAOB, and everyone felt that with Andersen going down, Arthur Andersen, that the whole industry was just terrible, like the bankers are viewed today. It's just terrible. Gatekeepers are not there and so on, and the chief accountant needs to be more academic and from the AG's office, attorney general's—kind of prosecutorial, if anything. And it's not. It's a profession of the language of accounting and the knowledge of accounting, and they said, "You'll never get one from the industry, because the industry's completely discredited." What did Bill say? Bill said, "Let's find the best person from the industry. If we can do that, we right the ship in the accounting side quicker because we actually went contrary to everybody's view, but we showed them that there are respectable people. You just have to support and acknowledge the respectable people and have them running things." So anyway, he did. He found a great gentleman in Don Nicholaisen, a career person in accounting and great character. That did a lot. That's the example, versus going purely with political ties.

We had a lot of pressure trying to come to us from the White House. A lot of pressure. Maybe one day if Bill Donaldson does an oral history or a biography or something, he explains some of the most incredible things there, which led to his choice even to leave in the end. But the politics was strong, and he just simply stood his ground with dignity and respect.

WT: They're putting together a gallery, as the SEC Historical Society does, on relations with the executive branch. I'm wondering if you can expand there just a little bit as to how would these things be communicated through?

PD: (Laughter) The official way—I'll stay on the official, you can find out from others the unofficial—the official communication would be from an advisor in the West Wing, usually on the Economics Council. In our tenure, it was Kevin Warsh, a fine young man who would communicate with the chairman's office.

We are an independent agency, but we kept the White House and the Congress abreast of policies that were being developed or introduced, and we would get views in return from them, as well as new concerns. Everything was always a flow of information. Our rule was, no surprises. You may be influenced, but you don't get dictated. We're an independent agency. There's five commissioners. You had to collaborate with five commissioners. Each commissioner was talking to their people in Congress and their friends in the White House. Everybody was talking to everybody. So you had to have a very respectful, communicative line.

So the chairman's office, when we got there, there was a position of a chief of staff. Bill Donaldson said, "Wow, we have so many things we need to do. I saw your write-up of the previous chief of staff when you sat down, 'What do you do? How do you do it? Who do you do…? What are your priorities?' I look at all those things that that chief of staff is responsible for, thinks he's responsible for. He really only does policy, and doesn't have time to follow through on how it actually gets implemented. Just because an architect does a design, we live with the building that's built, not the design he did. So somebody's got to make sure, from cradle to grave, that the policy is actually what's implemented. And that's not working here. We have such an agenda to right this ship that this position is a detriment. So we're going to go back to Management 101, and we're going to surround ourselves with the three key skill sets that we need to make this agency function. That's going to be: replace this one chief of staff, look at what that chief of staff in essence is trying to do but really can only be done by three humans in that skill set. One is an attorney who understands policy and prepares the Commission for all policy decisions and enforcement actions." That was part of that.

"Second, a person who is going to be responsible for the management and operations of the agency, hiring, budgets, and resources, and implementing that decision and making sure that the systems, dashboards, reporting, accountability, interaction, cooperation, collaboration amongst everybody in the implementation is the way it should be. It's going to be the Steve Jobs approach versus the Ford approach. Every Ford has a production line. We want everybody in the room at the beginning that understands and shapes this thing. Even though it's your turn to design and it's your turn to then produce and it's your turn to distribute and your turn to sell, you're all in this thing day one, and you know where it's going, and you shape it as it's going, and we're doing it all together. And when it's all done, the person that designed it actually agrees with what was produced at the end, even if it had to be somewhat altered. So the interpretation of the rule and the writing of the rule's all going to be more aligned than ever before.

And, lastly, communications. All this needs communications—internal communications, external communications—we have the press, we have the people of America, we have Congress, we have the White House, all of them. We're an independent agency in front of all of them. And we have the registrants. We have Wall Street. They're paying billions of dollars in fees to support an agency that's only getting hundreds of millions. All the rest of the money is going to pay other things in Congress and the budgets. So we should be a self-funded agency," which is another issue.

So we created this position into three positions: policy, operations management, and communications. Then, of course, we're now constrained by the titles. The titles are assistant, executive assistant, or special counsel. Bill said, "So let me understand. I just said that that job cannot be done by one person, and I have my own job. But now you're going to assist me in doing my job plus that chief of staff's job? How's that going to work? You're not going to assist me. You guys are going to do it. You need a title that says you're doing it. It's your responsibility. I set the goals, the vision, the criteria, the priorities. You execute it. And you need a title that says you're going to make those decisions, and I've empowered you to do so."

So Bill Donaldson came up with this title in the 1950s, first time ever. It's called managing director. And it was because there were partnerships on Wall Street investment firms, but he was the first non-partnership that went public as a company, to the dismay of Wall Street at the time. It was a revolutionary thing. And his lawyer said, "You're not a partner anymore." So you walk into a meeting, either president, vice president, assistant, it's the corporate titles. And that didn't really suffice, so he came up with a title called managing director, just made it up—which now, Wall Street, everyone has managing directors.

So we said, if he came up with managing director, we have something that's called executive assistant in the human resource code for the federal government. Why don't we take that level, and that's the official level, but we interpret it here internally as managing executive, and drop assistant. So we added managing, drop assistant, leave that executive as the same SO3 position in the government. So we came back to Bill and said, "How's managing executive?" He said, "Perfect, exactly," knowing the managing director, what he came up with. So we were the managing executive for policy, the managing executive for operations and management, the managing executive for communications.

I think this is public. I hope it is. The White House was instrumental in appointing the chief of staff in all administrations, and it was a politically important person. That person would have loyalties back to the White House, to the President. If the chairman was going off the ranch, at least somebody very close would be able to tell the White House, the powers that be, that things were going off the ranch. It seemed to me when I got there—because the White House very much wanted to know why the chief of staff position was dismantled, why the person going in was not Republican in the position. Because Patrick Von Bargen was the chief of staff to Senator Bingaman from New

Mexico, and he was a Democratic senator. I was supported by Democrats here in Irvington when I ran as part of the Democratic Leadership Council. So they were like, "We usually have a say here. This is a political appointment. This is very important to us. It's an independent agency, but we ought to know what's going on in independent agencies."

So I was thinking, oh, that reminds me of the Soviet Union. That's exactly how the secretary to the minister was always from the political party, the Communist Party, and the assistant was from the KGB. So you always had two people sitting with the minister at any time at any meeting, always, and he was always assistant to that minister. As long as the minister was doing everything great, that's all he did. But if the minister goes off the ranch, two people find out about it, two organizations find out about it. So I thought that was very interesting.

In the end, it was thoughtful and proper to have somebody that the White House and Congress would respect and interact with, especially in the leadership. We actually had a Democratic leadership in the Congress and a Republican here, so it was both, but we did choose a person from the Treasury, a really thoughtful lady, Laura Cox, really great. She stood by the agency, and she properly handled the relationships with the White House. She was a Republican and a Republican appointee at the Treasury, so we felt that bringing her in would help that relationship. She established a great relationship, and had a great relationship already at that time, but really established it with our key committees in Congress. She handled the press beautifully. More importantly that was new, she actually handled the communication within the agency, getting people to collaborate internally and basically saying, "You're going to write this particular disclosure in mutual funds. How is Mary Lou in Arkansas going to understand this? How are you communicating to the users of this information?" I thought that was great.

So that was the sensitivity. Ask me about political appointments, the White House, I don't want to get too crazy, off the ranch, but I want to say that—and I do think that the way Bill did it, it allowed the agency to communicate with all of the stakeholders, all the political stakeholders as well as the registrants as well as the investors, and allowed for policy to be coordinated and move quickly. At that time, it was polarized politically, so there was a lot of compromise. Patrick had to be involved with commissioners to compromise, and at some point we did say, "Does compromise result in an invalid legislation, it is so compromised that it actually is ineffective? Or is it an area that you can still reach and still work through?"

So definitely, we were dealing with a very polarized situation and very divergent views, and strong views of commissioners at that time. So Patrick really spent a lot of time, and my role was helping to oversee the running of the agency—which the executive director was really responsible daily to do—and I was overseeing what was going on there and kind of being the stimuli behind different projects and enticing people to think outside the box and think broadly and bring innovation.

WT: What was that relation like? Was it a challenging relationship, or was it a influx of resources?

PD: For the executive director?

WT: Yes.

PD: For the executive director, it was the same as the risk assessment was for the others. It was, "Okay, I used to report to the chairman. Now I really report to this new person here, which is not the chairman. That's not the way this usually works. And boy, this person isn't of the mold of an attorney that's just part of this thing. This is a pretty outside the box, bringing innovation, willing to challenge, willing to create new thinkings and approaches," which was stressful. We even hired a particular person to help for organizational change that would allow people to feel more comfortable and understand the processes, to go through to create the changes. I won't call him a psychologist. I'll just call him an organizational behavioral scientist.

When you have people from Yale, Harvard, Princeton, MIT, NYU, Columbia, you have some super, super bright people. But when it comes to organizational change, they may not always feel comfortable with what's going on, and you need certain discussions, tool sets for them to make it work. I mean, why torment them? You want things to work great. Anyway, he definitely felt challenged, but in the end he understood that actually it was to enhance his work also. Yes, instead of doing eight things before, he's now doing forty things, or under him are forty things. But you know what? He's not doing all of them. The other people are doing them. He's managing how that occurs in the process.

And the agency was able to respond on a much broader, intense basis. We set up the whistleblower line where you would call in and be able to refer a problem. As soon as that was set up, I had the head of Enforcement come into my office. Steve is a great gentleman. I said, "Dial up the number and report a violation. Right here, just take my conference line." "We can't do that." I said, "Yeah, if we just set it up, let's test it. Why find out from somebody else? Let's just do it." So he called in and wanted to report a '40 Act violation. He got bounced around that agency so much, he hung up and he said, "You know what, let's start that process over again. I thought it was done. It's not. Let's redo it."

We redid it so that it would go to the right people, Enforcement. Whether it was enforcement, it was capital markets, whether it was '40 Act. And it started to work. When we left in August of '05, it got shut down. I'd say out of our forty-five projects when we left, I'd say more than half of them—we probably got done halfway, only about half. All of them pretty much got shut down. The risk assessment program kept up in OCIE, which is now, you ask them, it's part of their life every day. It's part of their everyday life, a wonderful thing. But unfortunately, the politics shut down a lot of the things, so risk assessment got marginalized. The hotline processes got discarded.

Remember with the whole thing on Madoff? Well, the person tried to supposedly even call in, and there was no hotline when they claimed they wanted to call that time. Or at least that's what I was told. I know they wrote a letter as well. But the whole whistleblower tip thing, everything we were doing became marginalized through that process, and the powers and the political side won out, and that was the other really sad part about what happened, I think, under our tenure.

That and our belief that Basel II really was the world's latest and greatest thinking on risk and leverage. Because, if you think about it, we had the European agencies wanting to regulate U.S. investment banks overseas. So I'll cross over into policy, which I don't like doing, but I just want to mention just, as I said, one of the sad parts about it. I'll just say this piece without commenting in detail on policy. They wanted to regulate the U.S. Morgan Stanley, Goldman and all, they didn't want to be regulated by the foreigners. So the foreigners said, "You have to then regulate them in the U.S." So, how do we oversee them completely so that they didn't have to have foreign secondaries, another oversight? The decision was to do so, but in doing so, their leverage requirements at that time, banking requirements, weren't even clear—they ran, based on capital markets, twelve times, ten times, fifteen times, so on. When they became part of our regulation process, we wanted to make sure the broker-dealers never had a problem, that grandmothers and grandfathers were protected completely through. So it was much more stringent requirements on the broker-dealer side, protection of grandmas and grandpas. On the capital markets side, you as a bondholder or a stockholder, you make your own judgments, but we allow Basel II to be the overarching limits on these entities.

And as we saw, the leverage went to thirty-three, thirty-five, forty, and when everything hit in 2008, everyone said, "Hey, Bill Donaldson, what happened to the leverage? These investment banks got out of control." I guess at that time—and I don't know; again, I wasn't on the rules side, so I can't maybe fully comment—maybe there wasn't an in-depth review of Basel II and how it worked in the previous year or two, because it was new at that time, I recall. Basel II just came out a few years earlier. And now we see Basel III, which is like Sarbanes-Oxley, Dodd-Frank, or Basel II. It goes the other way. You can't do anything at this point either. Leverage, you can't even hold cash, government securities, and you have to have reserves against that. So the banking system today is going through some quite interesting challenges.

WT: On this point, I've heard a couple of different things. I spoke to Erik Sirri, so of course I know the general view of the capital requirements is incorrect. But as to the Basel II requirements, one thing I've heard is that the haircut on things that are mortgage-backed securities was calculated in such a way that people were over-invested in them, and the other thing is that the proper regulator for a lot of that area would have been the Office of Thrift Supervision. I wonder if you can lend some clarity to that muddle.

PD: I don't know enough to say. I will only say from talking to a couple of people who were on the actual investment side and issuance side—so where they worked for a large institution and they invested in mortgage-backed securities and so on—one of them said to me (and he had tens of billions in these securities) his management said to him, "Look, you might be the chief investment officer. You might have concerns and doubts about the underlining creditworthiness of that security. But you're not Standard & Poor's, and you're not Moody's. Your main concern is duration risk and interest rate risk. Credit risk, it's stamped AAA. Just because you think that maybe it shouldn't be because of the market, that's it. It's AAA. You're wasting your time."

So what I'm feeling—this is just now my extrapolation—is that if Basel II felt that everybody did their legitimate role and their legitimate job, you would not have these issues. So if everyone at Moody's truly analyzed it and truly put up AAA, and you respected the AAA, and if you were an issuer that also knew what you were packaging, and none of these ninjas and non-documents and everything else, and risk. So you came in and you're a stockholder. You're taking the risk in your own bank. Why would you want to bankrupt yourself? Why would you as a partner want to blow yourself up? Aren't you properly valuing how much capital you're putting into this security?

So there was an element of how you determine capital. I remember working on Wall Street when I was a banker. You would sit down with the Federal Reserve on an annual review or someone on the review from internal review, as well as with the Fed from time to time, on your classification of your loans. You would say, this loan, I reserved 5 percent. Why? Because here's the risk that I saw. This is classified to reserve 10 percent or 15 percent, different categories of reserves. So, when you sit down and say, "Okay, this asset, AAA-guaranteed government bond, what's my reserve I should allocate to that? Let's be efficient. We don't want inefficiencies in the capital markets.

We want it to be efficient. So why should I over-reserve?" Which, if you remember, the SEC prosecuted some very well-known people in banks that over-reserved their bank reserves for cushion that the Fed thought was great, but the shareholders got somewhat not a fair value because they over-reserved increased expenses, and they prosecuted some CFOs of some major banks in the '80s about over-reserving.

It's similar here in Basel II. If you have an asset that you feel is in this legitimate category, then the reserve should be commensurate with that risk. The problem was that the professionals assessing the risk had different incentives in the end, we find out, and the AAA isn't really a AAA, and how you valued it wasn't really what the risk category was. You were willing to take a gamble for fees or returns or compensation or bonuses. Everything got skewed by the gatekeepers and the people involved, versus the legitimacy of the rule.

And now you have it in Basel III where some people say it's the other way. We have it going on today. I got a call from a bank for our advisory firm that said, "The money that you have here needs to be moved out, because we really can't hold money. Money that we hold is a reserve against it." I said, "But it's cash. You have cash in the Central Bank." "Doesn't matter, it's a leveraged number, six, so you have a million dollars, we've got to reserve 6 percent. If I have cash and the cash is there, I earn nothing on the cash. I pay you nothing. I lose 6 percent of the reserve. So I have to have a capital reserve. I have to have a return on my capital," and so on. "So would you move it into a money market mutual fund?" I said, "What's the difference? Don't people honor and respect you as a bank, that when you say it's in cash, it's in cash; it should be deducted from the reserve?"

That's not the way Basel III's written. Basel III basically says, "I don't believe you anymore. I just don't believe you. So now I'm going to have legal structures that are moving things around." That's my interpretation. Again, I'm not the policy person. I'm not the lawyer. I don't get deeply involved in this. But as somebody who is now a customer and a practicing—that's how I view it as a customer, how it affects me—to move into a mutual fund, into cash, and now you have to have sweeps, and now you have limits, and if you have more cash come in today than the cash you moved, you're going to get charged 1 percent annually for keeping cash at a major bank because you don't trust the bankers. Maybe we should find some people who are trustworthy who can run these institutions, get all the friction out, get all the costs out, and have something that's really productive.

You know, it kind of reminds me, again, in Russia we were trying to talk about creating the tax police. So I thought they were talking about creating like an IRS collection and so on agency, but I meet with these two generals from the KGB, and they sit down with me, and they said, "Peter, we understand from Yeltsin's team that you're the person we need to talk to. We're establishing the tax police, and we want to know what you think about tax policy." So I spent literally an hour explaining. I had some books I brought for the tax code and everything else. He finally looks. He said, "Stop, because this can go on for too many hours. I just want to know the following: There's a bear who has hidden food for hibernation. I want to know how the bear thinks so I can find where he hid the food. I want to know how to think as a businessperson who's trying to cheat me. All businesspeople are trying to cheat. I'm trying to find how they cheat so I can get the money."

I said to him, "Look, my view is, you're there to collect properly the taxes that are legitimately owed. You're there as a silent partner." In Russia, it was about 50-percent, 60-percent taxation at that time, about. So I said, "You're a silent 50-percent partner. You should be there at night when you see all these young people working and creating new businesses. You should be happy, because you're 50-percent their partner. Why don't you think about how to help them, encourage them, not make their life difficult, but make sure they pay their fair share. Make sure it's fair. Make sure the accounting's proper and make sure you properly document it. But you're not there to take them down. You're not there to just yank it away. Aren't you there to help the GDP of the country grow? Aren't you there to help the population as a whole? Your approach is, 'Everybody's bad, I'm taking it all away.' Then what's left? Nothing. And the friction costs are huge. Economic costs are huge. So let's get some trustworthy people in the system on all ends and make it work, and make sure there's the right checks and balances." I loved Ronald Reagan's—and I know it goes back to Russia again, but "Trust but verify." We trust, but verify. There'll always be people that want to do shortcuts. That's why the SEC's there.

I'm doing now what I call privatized SEC, where the best way to manage a company and the most profitable, in the long term, way to manage a company for all stakeholders—not just shareholders, but stakeholders—is what we call a multi-stakeholder management system. It is very difficult. You have to have an amazing culture in the firm where the customers truly love you and support you through all economic cycles. Your employees—highly productive, innovative, love working there—get up in the morning, that's the reason they're going to work. Suppliers innovate, support you, not simply ask you to pay them net thirty days. Communities welcome Costco, shun Walmart. You want to have that kind of an engagement. You look at those companies, and they're not perfect. And sometimes when they stray from their core business, they trip up. But by and large, you don't see them on the SEC's problem list, because they're there doing it the right way as best they can. I learned in Russia, you can violate any regulation just by walking down the street. And I'm learning in America sometimes that's the case, too. You're not sure what's exactly right, what the right interpretation is at all.

Sorry, she just walked in the room. Our puppy, she's actually twelve years old, a Portuguese water dog. Actually, my family got her when I went to the SEC. They said, "Now that you've left for a week, we're going to get ourselves a dog." And so, twelve years—she's twelve this past summer, Ellie, our Portuguese water dog. I lost my train of thought there again.

WT: That's all right. I think we were venturing off a little bit anyway. But, going back to the operations side of things, could you expand a little bit more on the Enforcement side of things, because of course this is the area where the SEC comes in for the most criticism. Of course, this was in the aftermath of Enron and all that and, as you mentioned, before Madoff. Whenever I've spoken to Enforcement people, they always talk about it being a reactive enterprise. I'm wondering if you tried to do anything fundamentally there or if that was something that could be—

PD: I'll just say a couple things. One, when we got the dashboards, we didn't like to have cases open for years, years, years, years, years, years, because people are either guilty or they're not, and in this business it's either your reputation is good or it's not, and you're doomed if it's not taken care of. So we kind of said, "Well, wait a second. Yes, no, move on, or"—so that was one thing. Secondly, why does that even happen? Why do things linger? Well, it turns out there's prosecutorial discretion, market timing, thirty-five entities questioned. We probably could have went after all of them, or chosen a smaller subset that was 50 percent of the problem, so it might have been a large company, a mid-size, small company. But you get most of the problem covered by a small group of companies, because that's how, usually, so much of the business is concentrated, in a small group.

But you set an example. So it's prosecutorial discretion, and a dozen or two don't get prosecuted. They know that they had a problem. They know they could have been prosecuted. But we took care of the issue and resolved it and had them prophylactically adjust themselves, but we didn't do the full prosecution because we don't have the staff or the resources to do a full prosecution. To me, that was a little bit—hey, if you're guilty, you're guilty, and if you're not, you're not. And if you're guilty, all of you, you're gone. So that was a bit of a surprise, but that's how law works. Like I said, I'm not an attorney. So, prosecutorial discretion.

Secondly, they don't admit whether they were guilty or not when they settle. Really? Why? Well, it turns out that if you do, you're actually out of business in some cases, because you lose your license, whether it's license to be an investment bank and so on. Those are real regulations. I think Mr. Spitzer as an AG found out—when he was going to announce a huge case on Wall Street and found out he was about to have about 125,000 unemployed people because they were going to lose the license on that announcement. So he had to adjust that announcement really quick, working with the SEC. Those announcements were usually, "In a few hours, we're going to do the following," and then we had to scramble because we had a lot of AGs at that time on their own doing things in states, as you know, whether it's Massachusetts, North Carolina, New York especially.

So there is an issue of, if they were to admit, they are basically dying, so that means they're going to fight to the death. That means our litigation team, as elite and amazing as it is, thirty-five people against all these law firms on Wall Street and how well we did, would be astronomical in size— and the cost. So is that what we want to do? Is that what we're there to do? Are we there just to put them out of business, or are we there to disgorge, penalize, and correct behavior?

Secondly, the other part is, if they did admit, they would have civil actions that would take them down in bankruptcy. So if they don't lose their licenses, they lose their capital to work. And maybe in some cases, that should have happened. Even now, people are questioning Arthur Andersen. Should the emblem have gone down, or the individual partners in those particular instances that did the problem? In the Federal Reserve approach, it would be the different partners unless the culture at the firm was so pervasively a problem. Now, with Andersen, some people felt maybe the latter, and that's why that happened.

But clearly, when we had issues with a few of the accounting firms, I remember sitting down looking at twenty-five of the next-largest firms, and if we consolidated them they would not even be the fifth-largest firm. Nor did most of the CEOs of those twenty-five firms ever contemplate or want to be a big fish, because the jump from a regional accounting firm to an international firm—which is the jump; there's not really a national firm; it's either you're small or you're really big—the cost was so huge that the partner revenue was going to go down, believe it or not. So none of them really wanted it.

So the demise of an entity, you really needed to think. We worked very hard on some cases with auditing firms, because right then, that was Enron and everything else, and all the other accounting firms, there were still actions going on not to lose their license. So the four firms were preserved in the end with all the individuals. But one, obviously Arthur Andersen, was lost in that process.

WT: What was your experience with the management of the SROs? Because, of course, you had the SEC, but that's only one element in the whole regulatory economy, so to speak.

PD: The infrastructure of the system is such that SROs are a huge, important part of the process of regulation. We had a pretty close interaction with them, whether FASB or FINRA, New York Stock Exchange, any of the bodies, because we have rulemaking or coordination and opinion processes and so on. So it was a good working relationship. You needed to have a good working relationship, and we certainly tried to do that.

WT: To ask about a specific issue, of course there was this fiasco surrounding the appointment of the chairman of the PCAOB right before you had arrived. You mentioned that that was one of the things that you had to do, and I know there was this whole GAO report on what had gone wrong in that process. Were you able to implement a new process in time for the appointment of the chairman?

PD: Yes. Bill Donaldson came in. One of his first key agenda items was to put a process in place. It was politically high for everyone—the press, Congress, the former chief accountant had issues because of that process, and the previous chairman, Harvey Pitt. There were so many problems. You had to really deal with it thoroughly, transparently, thoughtfully, and immediately. So it was a very, very important selection. And it was the chief accountant, both the chief accountant and the chairman of the PCAOB.

WT: Did you have any experience with the cost-benefit analyses that were done? I know this became a challenge to some of the rules that were put in place, particularly I believe it was the mutual fund governance rules that came I, I think, 2005. And that that continued to be a problem for the Commission going forward. Was that something that you considered as part of your focus?

PD: That's on the policy side, because the policy would be determined based on, should that rule go through, what is the Paperwork Reduction Act thing, and cost. Now, the Office of Economic Analysis did that work for them. We only interacted with the office making sure that they had the tools and resources to do it. We saw their dashboards. I saw all the dashboards, so I knew they were working on things like that and how that process was going. But it was really Patrick's and the policy determination as to what effects those costs may be or not be.

WT: Was there any sort of relationship at that time between the Office of Economic Analysis and the risk assessment office?

PD: There was, because everyone's instinctive feeling about risk was data analysis, so the economists knew where to get the data, and they know how to process data, so it's all about data analysis. My view on risk was, that's only 50 percent of it, at the most. The most efficient way is to just know what is going on and who's doing it and how best to deal with it. So we had two parts of the risk assessment process: engagement with data and engagement with actual participants in the field.

WT: For information technology, of course there are a few different aspects of this. You mentioned the digitization of documents for reviewing those, but of course there's the EDGAR system, which has to be brought up to date. There's keeping up with market computerization. Were all those things intertwined, or were those separate issues?

PD: They're a little separate. EDGAR is a really important system. It's used by the registrants and the public. For us, in EDGAR, it was a question of enhancing the system itself. It's a huge system with tons of code, and you were so scared—everyone—to touch it. But we did consider XBRL, which was another way of coding. My view is, if the information's not relevant, but you make it a lot more efficiently accessible, did you really do anybody any help? I mean, it was irrelevant information. So how do you make the right information really relevant? So that's this whole enhanced reporting.

Clearly, what I'm doing now on cultured entities, I think, is critical, and no one really reports it. I think some of the leading indicators of company performance is not even reported, is not a two-plus-two-equals-four answer. So there's a lot of things I would say that really are important that need to get in there. But EDGAR did have updates to it. You had to continuously enhance it, and we tried to come up with some innovative ways to get data processed, hoping and believing it was the right data and efficient, that it would be done in a much better way. So that was that project, even though everybody turned their eyes on us, "XBRL? What are they talking about? This is space age stuff."

WT: This was the first that that had come up, and it's coming in just now.

PD: Yeah. It was the first time it came up. Actually, I showed an accounting system to Don Nicholaisen, which I thought was very straightforward and simple as an accountant to understand. As someone with an accounting background, I understood the system, but I felt it was very simple and clear to understand to Mary Lou from Arkansas, and he looked at it. He said, "Peter, just put that back in your safe, and hopefully it stays there ten more years. That is so revolutionary, we're not even considering that right now with everything that we have on our plate." So there are a lot of things that could be done much more prevalently, and maybe the millennials will get to it. So that was EDGAR.

But when it came to docket and management, we needed to process a lot of data, and we had some fantastic investigators, and the only way that the assistant would learn is by working right next to them. What happens if the investigator could use software that the software learns from the investigator's amazing skill set in how they look at information and data? So we did document imaging simply to get paper out of offices, make things quicker to look at, and adopt systems and software, including dual screens. If I could have, I would have put everybody on Apple computers, except there were too many inherent systems that were on DOS at the time and we had to stay with Windows. But we introduced BlackBerrys, we had the Treo, the Palm Pilots. We had to deal with unions on that.

We introduced a Virtual Workforce. Virtual Workforce was an amazing project that, in the end, everybody was, again, worried about. We had some really, really talented professionals retiring, CFOs of major companies that really felt a dedication to this country and to public service, and would review and consider reviewing annual reports of not their company, but within the industry, to be able to highlight issues that they felt. These are people who were in the trenches not long ago, who really understood. And to create a Virtual Workforce and get that talent and that input was another amazing feat. And unfortunatel we had to do it with anybody that lived more than 120 miles away I think is what the union—because we had people commuting from northern New Jersey to Washington every day to work at the SEC, and then they started to work from home. Then the question is, okay, but they're working now until 7:00 at night, because they used to get home at 7:30, 8:00 at night, so now their hours of productivity…

Anyway, there was a lot of different operational and proper human resource and union issues, but that was a really interesting innovation. But with document imaging, we were able to process more. We had dual screens. We had the ability of the software to start to understand what the analyst is looking at so it helped them find, out of millions of documents, information that was more relevant to what he's thinking, and it became more efficient. There were ways to process things quicker, better, more accurate, more timely.

WT: Over the course of your time there, what was the situation with the overall budget at the agency and how it was allocated? Was that connected into this dashboard system in any way?

PD: The budget was an appropriations process. Under Harvey Pitt, the budget may have been $500 million or something, $400 or $500 million. With Sarbanes-Oxley, with all the changes that were going on, and with the McKinsey report, and with Donaldson coming in, they upped it to $863 million, I think, which was huge. It's like a doubling of the money, a large increase, and so on. Well, when I looked at it, I said, "Wait. The industry is paying over $2.5 billion to the agency. Why are they paying $2.5 billion if we're only $800 million, number one? And, number two, should we be $600, or should we be a billion? What should we be? If the industry's paying for our existence, what should it be?"

Well, it turns out they don't really pay for our existence. They pay through us to the government, and we're not self-funded, so we're appropriated. So it goes to the government, and then the government keeps whatever residual and gives us a budget. So the increase in the budget was large. It was meant for technology, improvements, enhancements, all the different things, and it was justified to be increased for all those things. The other thing in government is that you have to spend the money every year. When you approve at the moment of strife—it's like Rahm Emanuel said, "Never let a crisis go to waste." So here's a crisis, they increase the budget. But can you really figure out how to properly spend it within that six to eight months? Because it takes six months to get it, and then you've got six months to spend it. The budget is not all year. The process is a year, but you don't get money, it's—the whole thing is quite inefficient.

So, I, as a taxpayer, refuse to allow us to spend money on things we didn't think through, if it wasn't strategically analyzed and done. But, at the end of the year, you either use it or lose it. I thought that was crazy, too. You allocate it in the time that we need it, but don't tell me next year you can't give it to us. You can't work six months at a time. You can't build a hotel in six months when it takes two years to build. It just doesn't work. Mother Nature doesn't allow you to do that. If you do, it's totally inefficient. It's slapped together.

So, we had to bring about different techniques into how we did budgeting, very different, including how we ended up saving money. The SEC offices in New York, we re-changed them from the Woolworth Building that had potential asbestos issues. We had to do a swap deal with the courts. We moved everything down to World Financial Center, because I felt that you should be right where Merrill, Goldman, and everybody else is, go up the same elevators. You're just as respected and dignified as they are. You're not a wannabe investment banker. You're a regulator, and you want to be a regulator. They're an investment banker, and they want to be an investment banker. You're going to be in the same elevator, the same things. It's going to be a similar environment.

And we were able to get them in there at the cost—and I think it's probably one of the first times in agency history, because we had our own leasing authority, where we negotiated a deal with Brookfield, a great company that had the building there in the World Financial Center. Then, we were in 7 World Trade when it collapsed, and we wanted to go back to 7 World Trade, but they wanted too much money for what we thought we could pay. Larry Silverstein was very nice, and he cried when we couldn't come back. He was disappointed. But we agreed to go across the street, and I said to Brookfield, "You securitized this. Aren't you financing this?" They said, "Yes." I said, "Then I want a discount off the lease, because I'm not a regular company. I'm the government. I've got a AAA rating. I'm the government, so that lease that we negotiated is reduced by the financing savings you do on a AAA lease." So we even got it for less than what it was.

Then there are other things in government where we could have bought the building we were in in Washington, DC. We thought we had the funds to do it. But Congress lives annually on the budget, so they could not commit the money to buy a building, which we could have bought for—in the end, even paying it out annually—$250 million for a $600-million-dollar building, and own it. But they chose not to. It's their right to do so. I thought that was kind of an interesting or inefficient approach, but Congress has their prerogative in that regard to do that.

So sometimes you can't just always think about things as a normal businessman in a government process, whether it's the budgeting or whether it makes sense or you're saying, "Wait a second, we just could have saved the taxpayers $500 million, and we just chose not to." And you're still going to need a building, and you're still going to make annual payments. I mean, why not just exercise the option in the lease to own it? I don't know. You know, there were certain things. But you had to let that go, and the accomplishments you could do like we did in the Brookfield lease, we saved a lot of the financing costs. We were able to get fantastic space. We were able to get it in a place that really interacted with participants.

There were things that we were able to do that created a wonderful working environment for them, from technology to conference space, designing storage, designing war rooms, designing the meeting and examination rooms. Things that we were able to do were great, and we used a lot of private sector. We went down to Disney Imagineering. We wanted collaboration. You did it for the FBI and the CIA after 9/11 when they didn't want to really work. You did that room. How do we bring stovepipes together and create space? We're redesigning D.C., Boston, and New York. The new offices there are starting to go down their path. How do we do it? We used Disney Imagineering to figure out how to do some very interesting space creations that allowed for hopefully more productive environments. So, as much as we could, we tried to do it.

WT: Was there any serious thought given in this period to pushing for self-funding?

PD: Yes. We said it all the time, and every SEC chairman's going to say it all the time, and the industry's going to say, "Either reduce my fees to what the SEC cost is or fund the SEC on its true needs." Sometimes it needs the following to deal with the changes in the marketplace. Sometimes it needs to cut back. But when it's in politics, it's a process. I think government wants to be able to budget, and they like steady little things. Everything's got to be steady. Regardless of what real life Mother Nature is, they'd rather just take a number and add up another number and move it along, because there's too many numbers, too many pieces coming together, and it's not run innovatively.

Which, I will say, under the CFO Act and all the reporting that was going on, there was a tendency to say, "Time out," by OMB. "This isn't the best way to do it. Just because it's easier for us doesn't mean it's the right way. Why don't we take a more challenging approach? Why don't we consider starting to have more dynamic inputs on budgets and variations and politically support and having chairmans of committees understand that this is a two-year process, this is a three-year process?" And if you're going to commit to it, you can't just be volatile.

WT: I've kept you for about three hours now, I think, which is well longer than our usual interview time. But I don't want to restrain you if there's something we've missed.

PD: Not at all. I know we were all over the place and on tangents.

WT: Those are very useful too.

PD: I did the Fireside Chat that talked more specifically about the office, and I'm thinking that anybody that's really just SEC-focused and on chairman's office operations should look at that May 11th, 2009, Fireside Chat that I did with the executive assistant to Manny Cohen, Chairman. That would give more specifics. Actually, it was Leonard Leiman at that time. That would give more specifics, since you've said this was more biographical background. You know, what influenced me. Clearly, my experiences on Wall Street and in Russia. (Laughter)

WT: I hope it's discovered by historians of Russia, because I thought that was very interesting material.

PD: Some people ask for a book. I did have death threats in Russia, a ton, and stupid ones. People viewed me there as so independent, nothing would depend on it. I thought 95 percent of Russian people were great, except they said, "Yeah, those are about the 2 percent that you work with or are around you, and customers. It's not the place." There were views that way. Maybe I'll write a book or a memoir one day. But boy, yeah, there were some real amazing stories. Actually, there will be even some books and movies coming out, I'm hearing, coming up on how Putin was chosen president. That alone, when you read, is an interesting story, even in itself. That just gives you a slight view of how it really all worked.

WT: Do you want to say a few words about your leaving the SEC and what you've done since then?

PD: I left the SEC because I came in with Chairman Donaldson. I believe that everybody in the office of the chairman, especially the three managing executives, which I believe are instrumental into any agency—I was hoping Colin Powell was going to do that at the State Department as another good managing example. But I do believe that the appointment purely politically of a chief of staff—you need to have the skill set to really, from cradle to grave, policy and implementation at an agency, and they need to be really dedicated, loyal, and trust the chairman.

So when Bill was leaving and Chris Cox was coming in, I met with him, but I didn't know him, and he didn't know me. The staff at the beginning went to Chairman Donaldson and said, "Hey, there's this Derby gentleman here who's asking us to do this, this, and this. That's not why we came here," and so on. Bill would say, "But aren't those the priorities that you said you would like to do, but they're very difficult to do?" "Yeah, exactly. "Well, we're willing to support you and do them." "Oh, really?" But at first, they would go around, and Bill would always have my back, as I always had his. If I was wrong, he would tell me, and we would correct it, but it was never that somebody went around to him and therefore, by talking to him, he would reverse his views. He would, if anything, sit down and discuss with me why this was the case, and if it was right, it was right. If it was wrong, it was wrong.

That relationship is instrumental in that position. And with Chairman Cox coming in, one, his agenda was more political, why we were leaving, and two, he didn't know me from Adam. So I didn't know that that would be the relationship. He has an executive director that is the chief operating officer. I'm kind of the overseer of the chief operating officer and the chairman's office. But you needed that relationship, that bond, to work. And even though I met him a few times and he asked if I would consider staying on, I explained that to him, and he said, "Well, let's try it, let's work on it," I knew what his agenda priorities were. They were just to continue to dismantle what we were doing at that time, in my view, or not have the same intensity on what we were doing on certain things, that it was just not going to work. So I decided to leave.

And I also was told that if I leave and I go to a regulatory group, you have to then report for two years to the Ethics Office in the West Wing about who you met with, what you said, who paid for it, what you talked about. I was like, "God, that's like the KGB. I can't do this." So I decided to take twos year of doing nothing. I needed two years and a day of doing nothing to be able to then not have to do this. Now, I know there's a respected process and it's acceptable and attorneys do it all the time, but my history and my background, it was a little too close to a sore wound that I didn't want to participate in. So I didn't do anything for two years and a day, and I can't talk about any enforcement actions that were ever taken for life. Those are my restrictions.

So during that private time, a group that we had used to understand organizational behavior and structures to organizational behavior, we met with them, and they asked me whether I would consider supporting a project, which was called *Firms of Endearment*. It was a book called *Firms of Endearment* written by a couple of marketing professors.

(Break in audio)

WT: You were mentioning the Putin book?

PD: Yes, I was just thinking about it. Just now I mentioned the Putin story, if it comes out. There was a moment when I was in Salzburg, Austria, for Davos, and I see Boris Berezovsky. He said, "I understand you're leaving Russia and everything. You're such a nice guy. Are you going to be going back and forth? Don't stay in this part of Moscow if you're going to travel through in September." I said, "Why?" He said, "Well, there might be an incident, that it would be a bit unfortunate, but it'll be the reason—it'll create a new prime minister that'll be our new president. I'm thinking about which person I will choose." He wouldn't give me more. Just a comment.

September comes around. There's an explosion in the apartments, and some Russian citizens were killed. They blamed it on the Chechens. The Chechen War started. They made Putin the prime minister to attack the war, and then chose him as president. Here's a guy telling me three months before that he's willing to blow up his own citizens to create a political situation to appoint the leader to fight the war that then will be the president that I appointed, and set the whole thing up. I found that to be outlandish, just amazing that even that could be contemplated. So I'm wondering, when I mentioned the book, I'm waiting to see if that even comes out. But that's the kind of crazy things that you had to always be on your toes for.

Sorry, you were asking about?

WT: We were on *Firms of Endearment*.

PD: This group came to me and they said these authors had done an academic paper. I really loved academic papers that the Office of Economic Analysis used to research, because a lot of academicians would write things that are going on and analyze things that are going on, and the SEC really got great insight into products and services and practices by looking at academic research. So they said these two marketing professors, and a societal author, are reviewing and writing about, originally, why do customers love a company and are willing to open their wallets—even through difficult times, recessionary times, they still buy those products? Why? Apple products. Apple could sell even through the Great Recession, revenues—because of the innovation, the loyalty of their customers. Why is that loyalty happening?

So the two MBAs from Bentley and Emory, the professors Jag Sheth and Raj Sisodia, and David Wolfe is the societal author, as they started to write this or analyzed this, they realized the employees love these companies—highly productive, highly motivative, innovative. They could have gone to any company, they chose to work here. Top students graduating, they chose to work here because the purpose of the company's existence was as important to them as the work that they're doing. Then they said, "Wow, the suppliers are embracing this company, spending their own money innovating." For the Container Store, they innovated. They made their own plastics, their own containers, and said, "Well, how about this? What do you think about this?" So there's this great relationship, and, as I said, communities welcoming them.

So, why don't we set up consumer consultants? We did consulting work at the SEC for work processes. Would you support a consulting practice to help companies become firms of endearment? This was forty companies, twenty-three private, seventeen public companies they did in the book called *Firms of Endearment*. This was a manuscript. "This book's going to come out. Can we do a consulting practice?"

I said, "Honestly, after being in Washington, no. There were too many times you would sit down with committee chairmen and they would say, 'You know, Peter, you're right. That's what probably should be done, but we're not going to do it, for a thousand reasons, from lobbyists to politics. We're just not going to do it. Yes, you're right, it should be, but we're not doing it.' So doing the right thing, if it's hard, it may not get done. So why are we going to be architects versus builders? Why are we going to help people figure out the kind of house they should live in and help them design it when they don't have the strength to actually become a firm of endearment? They just want to pay for love, but they're not interested in love. No. I'm tired of that hypocrisy. I'm not going to do it." So they came back to me a little later and they said, "You know, Peter, you're so committed to this way of thinking and doing. You read the manuscript. You loved it. But how about if you fund a mutual fund that we invest in this? You started one of the first mutual funds in America that was investing in Russia in '96, so how about mutual funds?" And I said, "Okay."

This book allowed me to verbalize what I naturally did in building the companies I did in Russia. This was our culture. It's just I didn't have words to it. This put words to what I felt, I did, and I lived, and I'd love for it to happen. "But this is a book, so now you have to do an investment process that's repeatable and cost-effective. Then you've got to incubate it. Then you have to have institutional investors to prove it out, and then you go to the grandmas and grandpas with the mutual fund. If you're willing to stay this long course, I'm willing to back it." And that's what we've been doing. We've been incubating and now going already to institutions for pension funds as well, as for state funds.

Everybody says verbally, "We want to invest with our values." Actually, if you look at the AFL-CIO, Rich Trumka, when he was secretary and treasurer, he wrote something called "Capital Stewardship." He said, "We want to invest with our values, not only vote our values. I don't want to continue to be criticized for owning the S&P 500, where I'm in fact invested in Walmart, and I criticize Walmart. So I criticize Walmart; the press criticizes me for investing in Walmart. So, capital stewardship, I wish I could invest our values, but I have a fiduciary duty to our retirees, and I'm invested in the broad market. Please don't criticize us."

So we came to him and said, "How about if we create a basket of firms of endearment that you'll be proud to stand with? Many are not going to be union, but they're doing the right thing by their employees and their workers. We'll create a basket of companies, optimize it to the risk of the S&P, and it will perform at or above the S&P after fees." That's been our endeavor, and we're proving that that absolutely is the case. In the book, it says 4.7 times return over ten years. That's in the book. We're not getting those kind of returns, but we are absolutely validating the multi-stakeholder management system, especially in the longer term, when certain malfeasance and certain troubles in the market drop. Quality management, engaged management, loved purpose of the company, why the company exists, is so powerful that the synergies really are great.

We want to bring it to America as a whole, hopefully within the next year or so, and introduce multi-stakeholder management, firms of endearment. You buy from firms of endearment, you work for firms of endearment, you supply them, you welcome them to the community, and maybe we can move the needle on conscious capitalism. We'd love for this practice to be taught in schools, business programs, board discussions. What does it mean to have this kind of engagement? If you're making just another pizza pie and you're going to say, "Customers want to pay less for quality. Employees just want to get paid and goof off," and, suppliers: "Pay me up front, I'll deliver," and, communities: "Give me charity donations," okay. Then if you're in that mental realm and just another pizza pie, I guess then you're not part of this ecosystem.

But if the products you produce or the services you provide have a passionate participation from customers, employees, suppliers and community, and you will make that unique difference—I've seen all colors of capitalism. Maybe not all. I've seen a lot of different ones, from Wall Street to Russia. But I do believe conscious capitalism has a wholesome aspect. Maybe that's not the right word, but it has a really positive impact aspect to it, and it feels very grandmother-grandpa values set. Your core grandmother-grandfather values, the way you would think you should behave, act, grow, develop professionally, live materially, intellectually.

It just seems that there is a great intertwined respect and success in that style, and that's what I'm hoping to try to do these years, is to bring that approach here in America. As a matter of fact, Gorbachev, who ended up being a good friend, was asking me several years ago about this, since we've been doing this now for six, seven years. He said, "Peter, that reminds me, I actually thought of conscious capitalism. I called it something different." He gave me this whole explanation of how he felt capitalism should be working. Unfortunately, he always reverted to, it all ends up in the state hands, which unfortunately was somewhat of a drawback in his approach.

But I do think that if we're able to succeed—and I think that the direction of the population is going to go this way. I think the millennials are going to go this way. It is true that you get some of the top graduating schools, even if it's a top graduate of a regional college, but you get really bright people or motivated people or driven people and you ask them, "Why are you working for this company? What's your thing?" you'll get a combination answer. It's not going to be just for the salary. What they're doing, where they're doing it, what that company's impact is. People have a broader sense at this point, and I do believe that it's going to happen. So that's my effort right now.

WT: That seems like a very good place to wrap up. Thank you very much for your time today.

PD: You're very welcome. Thank you again for coming and spending this time.

WT: My pleasure.

[End of Interview]