SECURITIES AND EXCHANGE COMMISSION HISTORICAL SOCIETY

The Roundtable on Regional Administrators

Thursday, May 29, 2003

2:00 - 5:00 p.m.
MR. POLLACK: I'll start by introducing the panel, starting from my right, and then Judge Sporkin will do it from his left.

The first panel participant here is Jack Bookey, who joined the Commission in 1961, and became director of the Seattle regional office in 1973 and served there until 1994.

Jack also has the distinction of having been a mining engineer before he joined the Commission, as well as an assistant U.S. attorney.

Next to him is Len Rossen, who joined the Commission in 1962, became regional administrator in 1979, first in San Francisco and then in Los Angeles. And he served until 1987.

Next to him is Robert Davenport, who started in the Denver regional office in 1958, became regional administrator in '74, and finally left the Commission in 1996, after some 22 years as administrator of that office.

Next to him is Jerry Boltz, who joined the Commission in 1959, and then became regional administrator in Fort Worth in '69 and served as regional administrator in Los Angeles from 1972 to '79. Next to him is the serving regional administrator Randy Fons, who joined the Commission in 1988, and then was promoted to administrator of what is now known as the central regional office in Denver.
We look forward to hearing from each of them.

JUDGE SPORKIN: Let me start out with our people here. To my far left is Judge Kevin Thomas Duffy, who was the RA in, as I recall, what -- the late --

JUDGE DUFFY: '69 through '72.

JUDGE SPORKIN: Then went on the bench, and as everybody knows, is one of the most prestigious judges in the United States. He just recently has been appointed to mediate the Enron case.

Next to Judge Duffy is Michael Stewart. And Michael -- I think he was going for the record of how many regions he could serve. What -- you were in Washington, what -- Fort Worth, L.A. Did I miss one? Boston.

MR. STEWART: Boston, Miami, San Francisco.

JUDGE SPORKIN: You weren't in San Francisco.

MR. STEWART: Yes, I was.

JUDGE SPORKIN: He was the go-to guy at the Commission. Any problems, he had to go -- he had to pick up his family and go.

Next to him is our dear friend Bill Schief, known as Chief Schief. And Bill was the regional administrator of Washington. And obviously, since Washington is where the home office is, the relationship was extremely close.

And Chief went over to head a unit at the NASD, and unlike many of us, he decided he was going to have a
good time the rest of his days. And he's now in Boca
enjoying life. We would like to get him back some way.

Next to him is the great Bob Watson, who was the
RA in Fort Worth. And before that, he worked with Jerry in
the Denver regional office.

Again, Bob was like Mike. He
would go where the service asked him to go. And he was
practicing law, and now he's a general -- in-house general
counsel, and he's doing quite well.

And you've got a very fine panel here. And in the
audience, we have two other regional administrators, Mike
Wolensky.

Mike, you were another go-to guy. You were where?
In Atlanta? You were in San Francisco. Where else were
you?

MR. WOLENSKY: Started in Miami, then
San Francisco, and then the general counsel's office, and
Atlanta.

JUDGE SPORKIN: Miami -- was that when Miami was a
regional office?

MR. WOLENSKY: Branch office.

JUDGE SPORKIN: I see. Then you went to Atlanta.

And Dan Shea, who is Randy's predecessor here in
Denver, after serving -- before you were in Denver, where
did you serve?
MR. SHEA: I was in Washington in the trial unit.

JUDGE SPORKIN: Washington, in the trial unit.

And then he worked for Paine Webber. And now he is back practicing law in Denver. So Randy has a good friend to lean on when he has a problem.

So that's where we are.

And of course, this fellow on the right is the father of this whole system, Irving Pollack, who we all had the good fortune to serve under at the SEC.

There has been no better boss than Irv, and everybody on this panel will affirm that.

I think you were director with -- Jerry, he was your boss.

MR. BOLTZ: Yes.

JUDGE SPORKIN: Who else's boss, directly, was he?

MR. ROSSEN: He was my boss.

JUDGE SPORKIN: And so -- we got Bob Friese, who is from the San Francisco office. Anybody else here from the Commission? Nobody else. Dan Chase. I'm sorry.

MR. POLLACK: Stanley, why don't you say who you bossed?

JUDGE SPORKIN: My wife. That's the only person. I mean, she bosses me, but that's the only one I can -- I guess, Len, we worked together. And Bob. Dan --
Dan was with us.

   Well, we've named everybody in the audience.

Maybe we should shift a bit more, and then we would have a bigger audience out there.

   Irv, go ahead. We've got the schedule. Let's see what we can do with it.

   MR. POLLACK: I think it may be helpful in setting the stage for this discussion to just take a few moments to go back to the establishment of the Commission in 1934 and how it was organized.

   In 1934, there were two basic acts that the SEC had to administer; the Securities Act of 1933 and the Securities Exchange Act of 1934. There was no national enforcement group.

   The way the Commission operated in those days was, the major division was the Corporation Finance Division, which had jurisdiction over all of the filings and registration statements and offerings that were being made under the '33 Act.

   And then under the '34 Act, you had what was then known as the Division of Trading and Exchanges that was responsible for the regulation of the exchange markets and broker-dealers, who were then the only ones subject to SEC jurisdiction.

   The regional offices, principally, were
responsible for investigation and enforcement in their particular areas. And their oversight office was the Division of Trading and Exchanges, but it was really not much of an oversight office; it was much more of a receiving office, where it received the files and put the evidence, copies of the transcripts, et cetera, in a file there.

The basic way the regional office was operated was, they had to ask an office in another area to do a job for them when they had witnesses who were in that area that were involved in cases that they were investigating. A very, very poor system, because each regional office was desirous of working on its own cases. And so it looked upon requests from another regional office as just an undue burden in their effort to carry out their own functions.

And most of the regional offices, if not all of them, were staffed by former assistant U.S. attorneys, who were thought to have been the proper implementors of the SEC's program, which, in that day, emphasized principally boiler rooms and bucket shops.

The establishment of the basic principles governing the markets was pretty much done back in Washington, either by the Corporation Finance Division or the people in the Division of Trading and Exchanges. But I think the principal point to remember is the regional offices were pretty much their own overseers and operators
in their area.

Now, with that beginning, I think it would be appropriate now to allow the panelists to each state, in their own administrations, what was the most memorable case you had, and how did it affect the Commission's overall enforcement and regulation policy, and whatever its impact was.

And we ought to start, maybe, with you Bob, because I think you probably had the longest service of anybody on the panel.

MR. DAVENPORT: Thank you, Irv. It's hard to put your finger on the most significant or memorable case.

The Denver region, as most of us know, was very fortunate in having a lot of promoters that had great visions. They liked to push the envelope. They rose to the occasion.

When the Commission passed a rule, they found a way to dance around it, so we had a lot of things in Denver over the years.

1958 was the middle of the uranium boom. That's when hundreds and hundreds of Reg As were filed under the old S3(b)(1), one-sheet Reg As. They called it the license to defraud. Thousands of them were put in the marketplace. They all became dormant. They were reactivated in later years by the promoters of shell companies.
In the '60s and '70s, we had the exotic securities investment contracts, the silver contracts. In the '70s and '80s, we had the penny stock boom, and that's when millions and millions and millions of dollars exchanged hands in this region. They called it penny stock, but it was a misnomer. There was so much money in that market it was unbelievable. The Wall Street Journal coined Denver as the Wall Street of the West. 17th Street as the Wall Street of the West.

1982 -- the crash of the penny stock market -- that's when I think the Commission really showed what kind of mettle it had.

We picked up the phone in Denver and called Washington and called the NASD, and in about a week 50 examiners moved into the Denver region one Sunday night. The next morning, on Monday, we went into 28 different firms. We had teams of lawyers set up. The examiners would call in daily.

And in about two weeks, there were 28 firms examined. Eleven were closed, six did voluntary liquidations, six injunctive actions were filed, and four SIPC trustees were appointed. It was an end of an era. That was in 1982.

JUDGE SPORKIN: 19 -- what was that?

JUDGE SPORKIN: Are you sure of that date, Bob?

MR. DAVENPORT: Positive.

JUDGE SPORKIN: Because as I recall, under Casey, in '72, we did the same thing, if you recall. Remember, we went out and --

MR. DAVENPORT: No. That was a different one. This is one we did with the NASD. John Pinto was a --

JUDGE SPORKIN: Yeah. That's one we did -- that's how you got -- Rule 15-C-211 came out of that.

MR. DAVENPORT: Yes. But the big boom in Denver was in 1975 to '82. And '82 is when the price of oil went down, and that's what caused the crash, and that's when they sent all the examiners in.

And then one of the things we had was the blank checks out here. The blank checks was when the S-18 came into being. We had 138 S-18s in 1985. Sixty-three of them were blank checks.

JUDGE SPORKIN: You have to explain what you mean by a "blank check."

MR. DAVENPORT: There were two -- there were blank checks and blind pools.

A blind pool has always been, basically, permissible. When someone makes a filing, and they say, "We're in the oil business. We would like to raise money."

We would like to explore in Wyoming, Montana, North or
South Dakota," you know, that was all right. They made the best disclosure they could.

Blank checks was something the promoters came up with in Salt Lake City. They would try and file S-18s and say, "Give us your money, and we're going to look around. We can't tell you what kind of business we're going to go into, but we're going to look around."

Well, generally, what they had was a merger candidate in the wings that couldn't go through the registration process. So this was a way you could form a company, get the money, and then merge with the company that couldn't go public itself.

Well, the Commission was reluctant. They didn't want to sue them. They said, "We don't think it's fraud."

But on February 14, 1986, that was when it all happened.

Valentine's Day, a big truck came up to the Denver office. It had 33 boxes on it. Each box contained an S-18 blank check.

Every one of those 33 had the same attorney, the same accountant, the same transfer agent, incorporated in the last three months, all had 5,000 capital, no business; and all had, the investigation revealed, undisclosed promoters.

The Commission said, "That's enough." We sued them. So that was the end of the blank checks.
And then the last thing was something that Don Hoerl and Jack Kelly spearheaded and was, to my knowledge, the first sting operation that the Commission ever participated in.

In the late 1980s and early 1990s, a sting operation in Salt Lake City with the FBI, Postal, Justice, U.S. attorneys -- a very sophisticated operation.

The FBI had hidden cameras in trucks and offices.

They sent in an undercover agent from Atlanta, 26 years old, with a Rolex watch and a red Corvette. He moved right in with the promoters.

It resulted in 98 individuals being indicted or charged with fraud, in an injunction or information.

But that's a capsule summary.

MR. POLLACK: Okay. Jack, what about you?

MR. BOOKEY. Thanks. Jack Bookey from the Seattle regional office.

A couple of things come to mind. In the early '70s, we got a call from Stanley Sporkin, and you said, "You've got a pyramid-scheme promoter coming your way named Glen Turner, and he's got an operation called 'Dare Be Great.' He has run across the country" -- and this is the early '70s -- "and he has already raised $2 million. He is operating in Washington and Oregon. You gotta stop him."

So we rounded up a group of people, and we went
out and -- it was a typical pyramid-scheme operation. They
were selling motivation tapes, and they had all the
multi-levels.

We were looking for what we called the investors
who had a slogan called "Fake It Until You Make It." And
that meant, in order to bring in other investors into their
scheme, they had to look prosperous. They had to own a
Cadillac.

So I remember being in Portland one day. We're
going down the street -- we have a bad address, and we're
going down the street, and finally we see this old pink
Cadillac with the enormous fins. I said, "We've got the
right address."

We put together the action. We filed it in
Portland. And on the other side, for the defense -- for
"Dare Be Great," they got the two best trial lawyers in
Portland. They had the president of the Trial Lawyers
Association, and the chief counsel was F. Lee Bailey. For
the SEC, Jack Bookey.

Anyway, we prevailed at that trial, but it was a
riot. F. Lee Bailey never showed up, but they had a
telephone conversation with him every night. And I was
invited. So we would talk to F. Lee Bailey.

He would ask questions: "What did you do today?
What are you doing tomorrow, Jack?"
We went to the -- it was appealed. We went to the circuit court, and we prevailed there, and added on another kind of wrinkle to the definition of a security, because it was very difficult to frame this multi-level scheme under the Securities Act. And anyway, Dave Ferber argued the case, and I was there.

Another --

MR. POLLACK: And we won.

MR. BOOKEY: And we won. You bet we won.

Another one we had was an administrative proceeding that was kind of unique. It was a fellow named Roy Pitt, who was the secretary of the investment committee for the state of Washington.

And he was in charge of buying something like seven or eight billion dollars of bonds for the state every year. And along with his purchases of bonds -- and this involved eight or ten of the biggest houses in the country -- he was getting hot issues. And he was also borrowing money from some of the principals at the bond houses.

And we put together an administrative proceeding, and it seems to me it was one of the first times we had an allegation of 10(b)(5) in an administrative proceeding. It was unique. And we started the proceeding, and we went about two days, and everybody folded as the evidence started
In our area we had the Vancouver Stock Exchange, and we get kept getting spin-offs of those promotions. We had a mining stock exchange in Spokane, Washington, and it was probably the last chalk-board stock exchange in the United States. To the very last day, the quotations were put up in chalk. And that last day was about, maybe, 1988 or 1990.

Seattle was kind of a microcosm of the rest of country. Whatever anybody else had, we had, usually in a slightly filtered-down or smaller form. And it was a going concern while it lasted. Thank you.

MR. POLLACK: Why don't we shift to the other side. Maybe Mr. Stewart would be good enough to tell us what the most memorable case was in one of the regional offices, if not in all of them.

MR. STEWART: Well, Irv, not the most memorable case that I was ever involved in. I was involved in a lot of cases that I remember with Mike Wolensky and other people that were the most fun and all that kind of thing. But I think the most important thing that I ever participated in at the Commission was when you and Stanley, in 1970, recognized that there was a megaproblem out there with the brokerage firms' back offices. And everything stopped.
Those who didn't live through that can't imagine what that was like. You would go into a brokerage firm, and there would be, on desks and on the floor and falling out of cabinets, stock certificates. The brokerage firms didn't know who owned what. They didn't know whether they had securities that didn't belong to them; whether the securities they had, did some of them belong to them.

And it was about to bring Wall Street down. It was as dangerous a situation, in my view, that the Street had faced since the Great Depression.

And Irv and Stanley took the position, "Unless you've got to be in court, you are to stop doing whatever you're doing" -- and this was across the country in every regional office -- "and you get your people into these brokerage firms. We have got to find out what is going on, and we've got to get it straightened out."

And Irv, I think, that your effort and Stanley's effort really saved this country a very major economic catastrophe.

MR. POLLACK: Well, I can remember Stanley threatening one of the biggest brokerage houses that he would suspend them from doing business unless they sent 50 accountants in there tomorrow to rectify their books and records.
The other interesting thing about that is the way we first noticed that. Each week I would get a breakdown of the complaints that the Commission was receiving. And I began to see that the big firms were all having delivery complaints; that people weren't getting their securities delivered to them.

And so I had, at that time, Tom Rae, who was the assistant director in our office, send a letter to ten of the top firms saying, "We notice this. What's your problem?"

And of the ten firms, nine of them wrote back and said, "It's none of your business. It's a business problem." Only one firm recognized it.

And so with that, we started the inquiry. And of course, what you said was true; that the Exchange had to close down two days a week because they couldn't handle the volume.

We had to depend on the Pacific Coast Stock Exchange, who had the most advanced settlement system, to come in and teach the New York Stock Exchange and the American Stock Exchange how they were doing it, so that we could get a workable system that permitted them to handle the increased volume that they had.

So you're very right. That was a significant matter.

And while you were out, I mentioned your
admonition to firms; that you told them you would put them out of business unless they brought in 50 accountants. I hope you remember that.

JUDGE SPORKIN: Was it Lehman Brothers?

MR. STEWART: I really do believe that was one of the most important things the Commission ever did.

In terms of my personal and most interesting cases, I worked on a lot of them in a lot of different areas of the country, but I have to remember, R.J. Allen, Mike Wolensky, and I -- there was a bucket shop in Fort Lauderdale.

And the reason the case was so memorable to me, of course, was that many of the defrauded victims -- we brought the case in 1974 -- were returned prisoners of war from Vietnam.

And we had the second-longest prisoner of war, Howard Rutledge. He had been a prisoner for over eight years. And what these guys did, they wrote him -- as they did every returned prisoner -- a handwritten note.

And this guy said, from this firm, "As a former prisoner of war myself, I know the difficulties of adjusting to civilian life, and we would love to help you." Well, of course, they stole their money.

And we had this Howard Rutledge in his starched, white Navy uniform, with his medals down to here.
You couldn't get in the courtroom. The press was all over the place.

And he testified, and on cross-examination, this defense lawyer started asking him, "Well, when did you first meet Mr. Stewart? When did you see Mr. Wolensky? How often were you up at their office?"

And that questioning went on for a few minutes, and finally Rutledge held up his hand and said, "Counsel, if you're trying to suggest Mr. Stewart and Mr. Wolensky told me what to say, let me tell you something. For over eight years, people tried to make me say things I didn't want to say, and I didn't say anything."

Now, you know, in terms of the Commission's enforcement program, maybe it wasn't the most important enforcement case, but it's the most memorable one that I ever had. And I had a lot of them.

I won't bore everybody with all of them, but that certainly was a great case.

JUDGE SPORKIN: Judge Duffy, I guess you had some of the --

JUDGE DUFFY: I had merely the hangover. That's all.

My name is Kevin Duffy, and I was regional administrator in the New York region.

As you perhaps remember, the New York regional
office at that time was the smallest region. And the reason I got it, I guess, is because I was interested in architecture.

The New York Stock Exchange handled all of its problems, so there wasn't much for the New York region to do; however, I rode the railroad every night back and forth to my home in the suburbs. And I ran into all of these people who told me about what was going on with exchange firms.

I walked into the office one day, and Arthur Goldman, who was the deputy regional administrator -- I told him what I was planning on doing. He said, "You can't do that. You can't go and inspect a New York Stock Exchange firm." I said, "Why not?" He said, "Because it's never been done." I said, "Good. We'll have a first time."

We did. And we picked on a firm called Hayden Stone. Hayden Stone ended up so deep underwater it was incredible.

This occasioned me to sit down and write a personal letter to the five Commissioners, indicating that we were in deep trouble because the big stock exchange firms didn't have the money to meet their commitments. And I pointed specifically to Hayden Stone.

That was followed by a personal visit down to the Commission. I don't think we opened the case on Hayden
Stone at the time. Did we?

JUDGE SPORKIN: Yes.

JUDGE DUFFY: But it was a mess, and the result of it was SIPC.

More importantly, at the time SIPC was founded, the New York Stock Exchange had $60 million for a new building. I liked the old building.

We took the $60 million to cover the people who went out of business because of our investigations, and they still stuck in the old building.

The only case I really remember enjoying very much was a case where we went in and got a temporary restraining order. And Henry Friendly entered an order; he was the chief judge of the Circuit Court of Appeals. He entered an order suspending the district judges's order, which I thought was interesting, since he had no jurisdiction. But judges in the Court of Appeals never worry about those things.

Anyway, it fell to me as regional administrator to argue the case in front of the Second Circuit to convince Judge Friendly, the chief judge of the circuit, that he was wrong. I did. And I thought that the folks were going to kill me. But believe it or not, two to one, we won. And that really tickled me to no end.

It indicated, once again, that if the Commission
takes a firm stand where it's right, it will get the results
that it should get.

Other than that, Stanley, I didn't have anything
that was really exciting.

JUDGE SPORKIN: SIPC, of course, was the
Securities Investors Protection Corporation, which was
brought in when?

We had all those failures on Wall Street, and it
doesn't insure people's accounts -- just like banks, when
you put money in a bank, it doesn't insure you against
market loss -- but it insures you if your money is
dissipated.

The interesting part -- what Judge Duffy doesn't
tell you is that he almost made a career disaster move at
one point when the President -- well, the President was
going to appoint him to the SEC, through the recommendation
of Don Regan.

And everything was, I think, in line, and lo and
behold, Don Regan gets into a fight with Nancy -- I mean,
Don Regan gets in a fight with Nancy Reagan, and Don leaves
and Duffy never did become Chairman.

If he had become Chairman, you wouldn't have two
guards protecting you every day now, right?

JUDGE DUFFY: There are five, Stanley.

JUDGE SPORKIN: Is that fairly accurate, that
JUDGE DUFFY: Yes. It's accurate.

JUDGE SPORKIN: And it can just show you how the moment in history -- can you imagine if he was the Chairman of the SEC, what that -- what the Commission would have done? We would have had a lot of fun. He was an iconoclast.

JUDGE DUFFY: Stanley -- Stanley, let me tell you one thing. This was a fun thing. I convinced Don Regan, at that point, to put up an amount of money into the budget. It was one of the few times that the Commission's budget went up to whoever it is in the executive department, and then gets boosted. And it was boosted substantially. And that money was for a special study on the world markets. And lo and behold, of course, I got knocked off, and I was not going to become Chairman. We never had the study, but we have Edgar.

JUDGE SPORKIN: Somebody sent me a note here, Kevin, that talked about your visiting Phil DeMauro's home in connection with Pan Am 103.

JUDGE DUFFY: Well, that's got nothing to do with the work of the Commission. That's -- look, if somebody has serious -- if someone has problems, all right?
Phil DeMauro was a fellow who was a retired SEC investigator, and his daughter was on the Pan Am flight that was blown up. She was flying home for Christmas. And my wife and I went down to be with them. And we ended up cooking their dinner for them at Christmas and bringing it over and so on and so forth. But that's got nothing to do with the Commission. That's what people do for other people. That's all.

JUDGE SPORKIN: Well, where are we on our sequence here?

MR. POLLACK: We can get Bob next.

JUDGE SPORKIN: Okay. Let's go to Jerry.

MR. BOLTZ: All right. Well, Jerry Boltz. I started out working in the headquarters office, and I think -- I wasn't sure when I joined the staff whether I wanted to stay with the Commission until I actually got involved.

And when I had the opportunity to work with people like Irv Pollack and Ralph Saul, and a couple of oldtimers -- Eddie Yeagerman and Tim Callahan -- I couldn't resist. It was wonderful work. And Irv was inspiring; great leadership, wonderful focus.

I did -- initially, I did some work with Eddie and Tim up in the New York office, investigating and prosecuting the Mafia - Carmine Lambordozzi, Arthur Tortorello, Louis
DeFillipo, and others -- who were running boiler rooms secretly. They would have front people do it.

And we indicted them and convicted them not just in New York, but elsewhere, so they had to get lawyers elsewhere. Cleveland and Virginia and so forth.

And I became a legal assistant to Commissioner Dan McCauley, and the Commission then wanted me to investigate the New York office. And I actually did that. And as a result, there was some changes made in the New York office.

I then went to Denver and worked with Bob, and he's pretty much relayed some of the interesting stories, although there was one where a couple people from the Denver office were up in a little town in Wyoming and having breakfast at a restaurant.

And there were a couple of guys in the next booth, and one of them described a very complex scheme to defraud, and the other guy said, "Well, what about the SEC?" And the first guy says, "Hell, they can't be everywhere."

MR. DAVENPORT: We were sitting in the booth right next to them.

MR. BOLTZ: And I think Fort Worth was fascinating. Bob Watson and I worked together for years there. I thought there were a couple of things that were interesting.

One, we had, at one point, three state attorney
generals or former attorney generals under investigation.

Bruce Babbitt in Arkansas, Jack Gremillion in Louisiana, and Waggoner Carr in Texas.

    And with the help of Bob Watson arguing before Judge Sarah Hughes in the Sharpstown State Bank case, we enjoined Waggoner Carr. We convicted Jack Gremillion for perjury.

    And I think that was a significant case because it involved a lot of other political figures. The governor was involved, Preston Smith. And he failed to be re-elected after we brought the case.

    And Gus Mutcher, who was the Speaker of the House, and Ben Barnes, who was the Lieutenant Governor. So that was a significant case.

    And I think the -- the other was -- there were so many -- and this was a surprise to me -- church bond fraud cases in that region. And -- and we brought a lot of them.

    And I think the worst case was the Midcity Baptist Church in Louisiana, where they purported to raise funds to build educational facilities, and in fact, the money was used in other ways. And the minister was very much at the center of this.

    And when we started the investigation, he came to my office and said he wanted to pray for me. And I said, "Well, pray for the victims as well."
And he was indicted and the church was put into receivership, which is kind of interesting to have a church in a receivership.

And I remember that the minister was very interested in testifying before the grand jury, and he was very eloquent. And the U.S. Attorney said, "What shall we do?" And I said, "Let's put on some of the older people who invested and bought these securities of the church." And we did.

And one of the men was an older man -- I think he was 89 -- who testified. And after he testified, he had a heart attack right in front of the grand jury and died. Needless to say, they indicted the minister.

There were other interesting cases in Fort Worth, and I'll let Bob tell some of them. But I then went to Los Angeles.

And I think one of the fortuitous things that happened, I developed a relationship with the Wall Street Journal early on. And as a result of that, we got an early glimpse of a case, Equity Funding Corporation, which resulted in the indictment and conviction of Stanley Goldbloom and six other people. We also indicted and convicted the auditors in that case.

And it was interesting because Stanley Goldbloom, when I came to Fort Worth -- I mean, came to Los Angeles, he
was on a NASD district panel that welcomed me.

And so -- and there were -- there were other cases that Lennie and Bob Friese and others and I worked on. Goldstein, Samuelson, Kaiser Resources, Geotech, and so forth. It was great fun.

And it was the greatest time in my career, because I think, at that time, the staff of the Commission had a unified sense of mission and was very effective and had great leadership. And I really enjoyed the time.

JUDGE SPORKIN: You know, your narration reminded me, Jerry, of the Equity Funding case, where -- in those days, we didn't have all the nice tools that the Commission now has.

And I got a call one day from a broker who we had sued and wanted to be in our good graces, and he says that he has an account with Stanley Goldbloom -- I think there was $500,000 in it -- and he wants the money.

He said, "What should I do?" I said, "Well, send me the check." Or I said send it to you. Somebody. Either he sent it to me, and I sent it to Jerry or --

MR. BOLTZ: Send it to the judge.

JUDGE SPORKIN: That's what I said.

MR. BOLTZ: I think it went to the Court.

JUDGE SPORKIN: Yeah. "Go and take the check and
send it to Judge Ferguson." And he sends it to Ferguson, and Ferguson gets a $500,000 check in the mail.

Randy, you would never do anything like that now. And the judge doesn't know what this is all about, and he calls Jerry, and he says, "Jerry, I got a check for you." And he calls Jerry, and Jerry comes and picks up the check. And you put it in your safe?

MR. BOLTZ: No. Well, we had it deposited with the Court. It stayed with the Court.

There was another check -- we got a tip that Stanley Goldbloom had an account with a brokerage firm in New York with over a million dollars in it. And I called the brokerage firm and told them I wanted the money sent to the Court, and they sent it on my say-so. And Goldbloom was so angry that he tried to sue me. It didn't work, though.

JUDGE SPORKIN: Well, you know, I think it's interesting that nowadays, I don't think anybody would try that stuff; just say, "Send it to the Court."

But that Court, though, based upon Irv and Jerry and my recommendation, put in Bob Loeffler. He was a great -- he is still a judge there. Ferguson was one of the great --

MR. BOLTZ: Bob Loeffler has passed away.
JUDGE SPORKIN: But Ferguson said to Jerry, "Get the best person you can find to be the trustee here. We want to do it right. I don't want to appoint a crony or anything like that."

And I guess after consultation with Irv, they came up with Bob Loeffler, who is one of the really fine lawyers, securities lawyers, and he did a magnificent job, as I recall.

MR. BOLTZ: Yes, he did.

JUDGE SPORKIN: Did everybody get all their money back, or almost all their money back?

MR. BOLTZ: Well, they got a lot of it back. And it had gone into bankruptcy, you know.

JUDGE DUFFY: Stanley, when you were a district judge, did you get any checks like a million dollars in the mail?

MR. POLLACK: It's still in the safe.

JUDGE SPORKIN: Somebody, who will remain nameless, told me one day, "Dad, you know, we couldn't get away with what you guys used to do at the SEC." Maybe he's right. Maybe he's right.

But look, we had to do the best we could with the tools that we had. And the statute of limitations has passed now, so we don't have anything to worry about. Right?
MR. BOLTZ: I couldn't get over being an enforcement attorney even after I left the SEC in 1979. One time Jan and I went hiking in Yosemite, and we had to stay in a little motel after we finished the trip, and we had to share a table with a couple of women from Florida. And one of them was a daughter of a Mafia person, who told us all about this public company and what all they did. So I reported it, and we nailed them.

JUDGE SPORKIN: Well, Chief, you're next. Mike, did we get you yet?

MR. STEWART: Oh, yes.

JUDGE SPORKIN: We're up to Chief Schief. And we had some great times there with Alex Brown.

MR. SCHIEF: Yes, indeed.

JUDGE SPORKIN: It was a great office.

MR. SCHIEF: I would first like to echo what Michael said about the back-office crisis, because in large part, I thought that was an era that really affected the entire securities market and the ability of the SEC and the state administrators and the NASD to regulate the broker-dealer community.

I can remember during that period of time, having presidents of broker-dealers firms, where those firms had their books and records so out of whack that they could not compute their capital. And most of them were probably
So we were telling them that they would have
X number of hours -- as we brought them in for interviews,
X number of hours to get those books and records in shape
and get them accurate; otherwise, we would close them down
by going into court. So everything that Mike had mentioned
is really, in my view, one of the major areas that we did
during that period of time.

The second thing that I would like to mention
is -- since Jerry mentioned his church case, I would like to
mention one that we had against the Oldtime Gospel Hour down
in Charleston, West Virginia.

The Oldtime Gospel Hour is run by Jerry Falwell,
and I'm sure you know that. They were selling church
bonds. They had these TV programs, and they were
selling church bonds throughout the nation, and their pitch
was, "Double your dividends by investing in these bonds.
You get a dividend by doing this for God. You get a
dividend by getting these bonds, and you profit by them."

So we thought that was absolutely fraudulent and
misleading. They didn't tell anybody about how this was
being handled within the church and so forth.

And the other thing was, we found that they were
counting the money that was coming in -- the money was
coming in in envelopes from ladies and men from all over the
country. They were counting the money on Jerry Falwell's kitchen table. I mean, it's just all this cash is coming in, and they are counting it.

So we go down to Charleston, West Virginia, and we have an accountant. They knew we were coming into the courthouse on this particular day. The place was jammed in front of the courthouse. The people of Charleston knew we were coming. They were all in support of Jerry and his Oldtime Gospel Hour. They didn't want us to be doing anything to disrupt that.

So we go there, and we finally settle the case, but that was a huge effort to try to get somebody who had the ability of a church to stop doing what they were doing.

The other thing I would like to mention is the case that Tranes Pashgoff -- you remember this one, Stanley.

He discovered during the course of one investigation that some promoters out of Baltimore had befriended Speaker McCormick, the House of Representatives speaker, who was getting old in age, and they were using his office to promote some of their stocks. They were calling from his office. They were sending mail from his office, postmarking it on Capitol Hill, so forth. So there was an
investigation that went on with that.

And they were able to show a number of things.

And finally, one person broke, and that person was willing
to be wired.

That's the very first time I had ever had any
experience in having an FBI wire somebody and have them
listen in the garage of this office building of what was
going on in the conversation. So that's what happened in
that case.

This particular person, who was part of the
conspiracy, was wired and developed all this evidence. The
case finally went to a criminal case, and these people were
prosecuted.

So I thought those things were truly highlights of
my time at the SEC regional office.

JUDGE SPORKIN: Why don't we go with Bob Watson
next. All right, Bob.

MR. WATSON: Well, I had the good fortune to serve
not only with and under Jerry Boltz, but also with and under
Don Stocking, with whom Jerry served, Bob Davenport served,
Jack Bookey served, and I served, as well as Don Malawsky,
former regional administrator of the New York office.

Don was regional administrator of the Denver
office for many years and -- he was here when I joined the
Commission, and he was here when Jerry and I moved down to
He taught us many wonderful lessons, but the main thing he taught us was, don't worry about politics, don't worry about pressure, don't worry about anything except doing the right thing for the people you represent, the investors. And it was a wonderful lesson that we learned, and we tried to follow it.

He had a philosophy of management, which I found very appealing. In those days, we investigated and tried our own cases. There were no trial units. If we won a case, nobody else could have won that case, according to Don Stocking. And if we lost a case, there was nobody in the world who could have won that case.

So he was a great guy to work for. And Jerry was exactly the same. And I tried to emulate them to the best of my ability after I became a regional administrator.

But after Jerry and I got to Fort Worth, we found there was a target-rich environment, as the fighter pilots like to say, because there hadn't been much in the way of securities regulation in Louisiana, Arkansas, or Oklahoma, ever. And so we found some interesting cases.

One of the most interesting was a case by the name of Arkansas Loan & Thrift Corporation, which we quickly changed to Arkansas Loan & Theft Corporation.

And that involved one of those attorneys general
that we indicted, the attorney general of Arkansas. It also involved the Faubus administration, which some of you may recall, and the fact that Winthrop Rockefeller was in his first term as governor and was running for re-election against the Faubus-anointed candidate at the time we filed this case.

And there is no question that this case had a tremendous impact on that election and resulted in Win Rockefeller being re-elected in a landslide.

But it involved a typical Ponzi scheme, where the promoter had bribed the attorney general to render an opinion that it was not subject to regulation under state banking law.

He was issuing passbook savings accounts, and he had raised several million dollars in and around Fort Smith, Arkansas, of all places. And so it was a similar situation to what has been described here.

When we got up there, the whole town was waiting for us, and they weren't happy, because we were about to put a stop to the Ponzi. You know how people who are already investors hate to see that.

We walk in the courthouse on a Monday morning, and we walk past the judge's chambers, and there are three of the defendants sitting in the judge's chambers chatting with the judge.
So we go down to the clerk's office, and the clerk says, "Oh, by the way, Judge Williams isn't going to hear this case. He used to represent those people. We're bringing in a senior judge to hear the case."

Well, the senior judge was 86 years old. His name was John Miller. You may have heard of the Miller Act. He was a congressman and a senator, who was elected to both -- from Arkansas, as an independent, not as a Democrat. And he was the greatest judge, present company not excepted, I have ever known.

And in any event, at the hearing on the preliminary injunction, the courtroom was packed. And by then, he had read all of the transcripts of testimony, which we had provided, together with the exhibits, and he was convinced that this was a fraud, a Ponzi.

So here in front of all these people, he starts off his remarks by saying, "When I was in the Congress in 1933, we passed something called the Securities Act. And then the next year we created the Securities and Exchange Commission." And I really relaxed at that point.

So he goes ahead, and he issues the preliminary injunction, and he appoints a receiver and everything. And then, just as we were about to end the hearing, someone in the audience stands up and says, "Your Honor, may I be heard?" And the judge says, "Well, I guess so. Who are
you?" And he said, "Well, Your Honor, I'm a minister in
Jonesborough, Arkansas. And we have our building fund
deposited with Arkansas Loan & Thrift Corporation, and I
submit to the Court that we should be given preferential
treatment when it comes to distributing any assets that can
be found." And the judge said, "Well, I'm sorry, sir, but
even though you are a minister, we can't give your
congregation preferential treatment." And the minister
says, "Well, Your Honor, I would agree with you except for
one thing. That's God's money." And the judge said, "Well,
God should have taken better care of it, then."

And that quote appeared on the front page of the
Arkansas Gazette.

MR. POLLACK: I know that story well because I
used to repeat it.

MR. BOLTZ: If I could just add something about
Don Stocking. He was not only a wonderful administrator,
but at the time, because he brought so many of us along in
our careers -- and Bob mentioned some of the names.
It's been said that Don Stocking was like yeast; that
he really, really helped promote and get other people to
develop.

MR. POLLACK: The only one left now is Lennie and
Randy. So Lennie, you go, and Randy can wind up.

MR. ROSSEN: Just to pick up on some of what
others have said, Jerry, when you mentioned that there was
that comment about, "Well, the SEC can't be every place,"
that was so true.

Because when I look back on what we did.
I started at the Division of Enforcement. I worked
for Irving Pollack and then for Stanley Sporkin. And we had
the tiniest staff you ever could imagine compared with
today. And as small as the staff was, it was so very
effective because we had the leadership of two great people,
our co-moderators of today.

We had Irv, who was our ultimate role model, who
set the standard for integrity and high expectations. And
our people would work so hard that, at times, I used to say,
"What am I doing here? I could be making real money if I
worked this hard someplace else."

And I came for two or three years, and then ended
up staying there for ten. For many,
many Thanksgivings, I missed Thanksgiving dinner because
Sporkin and I and a guy by the name of Bob LaPrague were
usually in. The buildings were shut down, and we were
pounding out summons, complaints, and moving papers for
temporary restraining orders constantly.

There was something about Thanksgiving. They just
managed to do it. But it captured the essence of what it
was like to work for Irv and Stan.
Well, as tiny of a staff as I thought I had, Irv then -- and Stanley -- sent me out to San Francisco when that office, which, I think, had been headed by a gentleman who had opened the office back in '35 or so -- Art Pennekamp, and a gentleman. A great guy.

But he had been slowing down and the office had, frankly, been just vanishing, other than one or two great hires that they did, one of whom I will mention shortly.

I think we had a staff of 21, and that encompassed compliance examiners, attorneys, clerical support, everybody. That was it.

And the region that we had was a sweeping one.

And the first thing I discovered when I got there was that we hadn't been doing too much in the last few years of that administration.

One of the main cases that I remember we got involved in was, I got a call from a guy by the name of Dick Nathan, who was in the general counsel's office, who said, "There's something called Holiday Magic."

And Holiday Magic is just like that multilevel distributorship that was mentioned earlier with the Glen Turner -- was it Turner?

MR. BOOKEY: Yes.

MR. ROSSEN: See, Turner -- that was the easy case. So when Bookey takes credit for it, I want you to
understand that was the easier one, because it was a pure multilevel distributorship.

How he got jurisdiction on that one, I -- my hat is off and always will be off to him.

Our guy, however -- this was something called -- William Penn Patrick, who ran Holiday Magic, raised hundreds of millions of dollars nationwide, but they tried to structure it with something different.

They actually had a product and the product was some sort of cosmetic, and that was supposed to be the distinction that made it not within the jurisdiction of the SEC.

Anyway, I get this call from Nathan, and Nathan says, "They're headquartered out your way, and the FDC says they can't quite get to it. Can you do it?" And I said, "Sure," because that's what we always said when Irv said can you do something.

And thank goodness, we had a guy by the name of Bob Friese on the staff, who is sitting here, and Bob did an incredibly effective job of developing several things.

We brought an injunctive action.

Eventually, it went to criminal, which was brought by the New York office, which is where it had originated, in the New York office.

But the most interesting
part of it was, we obtained the definite jurisdiction for
the Commission that was somewhat at issue, and we prevailed,
due to the great, great support of our general counsel's
office, but also through the great work that Bob did.

But then we had local things happening, too.
There was something called Quimby Island Reclamation
District. This is -- if you know San Francisco, there's
the delta area, which is a beautiful area where people go
with house boats and fishing and lots of fun.

And these promoters, just classic types, they
bought some land. They created a quasi-governmental entity
called the Reclamation District. They sold the land they
had bought, most of which was underwater, to the district,
and then they proceeded to sell bond-anticipation notes.

They raised many millions of dollars. It was sold
very much nationwide. Some of the best and brightest of the
brokerage con men got involved in selling it because it was
a natural conduit. It was perfect.

It's a governmental entity. Of course, there was
no revenue, at all, coming in to ever repay the bonds, but
that wasn't necessarily disclosed.

And most importantly, they made money on every
single phase of it. When they stepped up the value from
what they had paid for the land, they made great profit
selling it to the district. They then proceeded to sell
these local bond units.

    We even ended up naming someone like the bond counsel, because, as you know, when you sell bonds, you must have a counsel's opinion, and we named him, as well.

    It's a very interesting example of dealing with the local problems of where you are.

    Now, I confess. When I was in the division, we dealt with million-dollar promotions all the time.

    I will echo Mike's comment. I remember walking into the back office of a major brokerage firm in Manhattan and literally walking on carpeting this thick of securities. Securities that had originally been piled in piles and just fell over.

    I looked behind the radiator, and there was securities -- hundreds of securities, certificates, behind the radiators. They had completely lost track of it all. And that's the kind of thing you dealt with from the division point of view.

    But when I got out to California, we were the cops on the beat. We were the local presence of the Commission.

    And one of the things I take a little bit of pride in is, I made it a point of getting together with the NASD, which, fortunately, had a new head man, who had just come in when I came there, and the state of California, Department
of Corporations, and we were able to do so much more by that cooperative effort.

We would have lunch every month or two, but it paid off so tremendously because -- I think I grew my staff from 21 or 22 up to about 27 or 28, with the understanding that when I really got stuck, I would say, "Stanley, I need a litigator." And Stanley would send out people like Bob LaPrague and others as well.

The Commission was a fantastic place. I think I speak for all of us. The most enjoyable part of my professional life was the Commission time. Nothing has ever come close to the rewards that it provided then.

But most importantly -- let me also mention, we worked on a case called Las Vegas Hawaiian Land. Something like $7 million was raised by these promoters in Hawaii, who were selling undivided interests in some Las Vegas desert land.

The case was worked for us by Julie Lutz, who is currently on Randy's staff now. And Steve Machtinger.

Quimby Island was worked by a guy by the name of Mark Zanetti, who is a fine, fine prosecuting attorney in the northern district of California today.

We had great people. We did more work than that number of people ever could have accomplished. And we're very proud of what we did.
JUDGE SPORKIN: Randy, let me ask you, why don't you -- if you want to give your own stories, fine, but why don't we try to move the agenda, and could you talk a little bit about the relationship with the Commission, the reorganization that recently went through to be able to -- you know, tell us what the regions were.

Irv gave you the background at the beginning when the regions were everything. They were micro-SEC. They did '33 Act filings. They did enforcement. And where are we now with the regions?

MR. FONS: We're no longer with '33 Act filings. That's for sure.

The regional structure changed a lot. And the way that the regions work with the home office, I think, has changed a lot, just in my relatively short history.

We no longer have any registrations coming to us. All of those go off to Corp Fin now, so we have lost two things. One, we've lost the ability to keep track of what is going on on a small-issuance basis in our regions because we just don't see those things anymore. And we've also lost, I think, the expertise in our offices out in the regions of people who know how to go through registration statements and financial statements in an offering context.

Some of the offices still have -- some of the folks who were originally in that -- we called it the
small-issues branch -- who were originally in the
small-issues branch are still in the offices. We do in
Denver. I know Chicago does. So some of that expertise is
around, but it's unpracticed now because we haven't done
that in several years.

So essentially, where we are now is two real
programs. And that is the examination program and the
enforcement program. And there are a few offices who also
have a bankruptcy program.

And those folks will keep track of the public
companies that go bankrupt around the country. They also
help the enforcement staff, primarily in those enforcement
cases where bankruptcy issues arise -- either defendants go
into bankruptcy, or, for some other reason, we need to get
into bankruptcy court, we have bankruptcy counsel. But
those are spread fairly far and few between.

We have got one in Atlanta, which deals with the
southeast region. We have one in New York. We have one in
Chicago, which deals with the Denver region and the central
region. And I believe we have one in L.A.

JUDGE SPORKIN: Does anybody remember
when they took the jurisdiction of the small
issues away from the regional
offices? That was when?

MR. FONS: I was going to say maybe even a couple years earlier than that. Somewhere in the mid-'90s.

JUDGE SPORKIN: Dan, was the basis of it that they wanted to make sure that all the regions were doing it the same way, or what was the basis? Was it an efficiency purpose?

MR. SHEA: I think it was more in terms of a human resources issue.

My recollection is, the reason that the small-issue disclosure program was removed from some of the regional offices was because of efficiencies that could be obtained.

I don't recall that Corp Fin had any huge additions in staff at the time, rather that the staff was reallocated to enforcement programs and examination programs at the time.

JUDGE SPORKIN: But was it done because of uniformity reasons?

MR. SHEA: I believe that, in part, it was done because of uniformity reasons, but other reasons; to reallocate resources to other needs.

And you remember at that time -- it was under Arthur Levitt's tenure; that Arthur was starting to perceive that there were issues with Internet fraud and also with a growth in cooking the books. And the need to realign
resources to enforcement at that time.

JUDGE SPORKIN: Randy, there also was a reorganization that involved combining certain regions.

MR. FONS: Yes. That happened when I was in Chicago. And Chicago, at the time, did not have a district office. And it's currently the only region that doesn't have more than one office.

At that time, there was a reshuffling. We used to have, I believe it was, nine regions. We went down to five regions with more what are now district offices.

JUDGE SPORKIN: We used to have a Detroit office, didn't we, at one time?

MR. FONS: Well, Chicago did, at one time, have a Detroit office, at one time a Minneapolis office, a St. Louis office, a Cleveland office.

I sued the former head of the Cleveland office, by the way.

But the reorganization resulted in the Northeast -- Boston, Philadelphia, New York -- all becoming one region under the head of New York.

Miami, which was a branch office, became the regional office with Atlanta as its district office.

Fort Worth, which was a regional office, became a district office of Denver. And San Francisco became a district office of Los Angeles. And the Seattle office was
closed. So it really did change the structure of how the regional operations worked.

For many of the district offices which were regional offices, they had one more level now of management or supervision between that office and the home office, for which there was a theory that Arthur Levitt, I believe, had in mind in terms of deploying resources and understanding what's going on and being able to most effectively use those resources. Whether that theory really played out is probably subject to some debate, but there was a big change back in the mid-'90s on that.

JUDGE SPORKIN: I think, unless I'm telling tales out of school -- but I think that Chairman Pitt was reconsidering that move. Is that a fair statement?

MR. FONS: I don't think it's any great secret that there has been discussion about reconsidering that move, and continues to be discussion about reconsidering that move.

JUDGE SPORKIN: What do you folks think about that? You were all administrators. What do you think about combining the Boston reporting to -- Judge Duffy -- reporting to New York? Does that make any sense to you?

JUDGE DUFFY: Well, one word. No, it does not.

MR. SCHIEF: I can tell you that the NASD has
taken a like approach now, so that they have NASD offices -- one office reporting to another.

JUDGE SPORKIN: And I take it that --

MR. SCHIEF: Many of them like the system because they think it gives good review outside the home office.

JUDGE SPORKIN: Well, what about the allocation of the enforcement workload between the Division of Enforcement and the district regional office? How was it done in the past? How is it done today? Where is that?

That always was a bone of contention, particularly when -- as Irv explained, it used to be there was no home office enforcement. It was all done in the regions. That changed in '60s and the '70s, so that there was a competitive force at the home office.

MR. POLLACK: Let me explain why that was done. Before the 1960s, you didn't have the national schemes in the proportions that were coming in in the 1960s, so you needed some national investigation force that could do the broad fraud investigations. And so we had a very small staff that we started with to handle those kinds of cases.

And that program was started as a result of Chairman Bill Cary's feeling that we were missing the big cases. The regions could do a good job in their own areas,
but you needed a force to do the broader investigations that were there.

And I mentioned earlier that the regional offices pretty much had to depend on other regions to supplement their cases when they had a lot of witnesses outside of their areas. And so that program was not put in to compete with the regional offices, but really to handle cases that were beyond the areas or scope of the regional offices.

It also gave us the opportunity to get U.S. attorneys more interested in those cases than in the past because of the tremendous publicity that they would get in spending the time that was necessary in an SEC case.

So with the result of the home office programs, we were able to get much more cooperation from the U.S. attorneys around the country, because, before that, we were principally concentrated in the southern district of New York and occasionally in the eastern district.

JUDGE SPORKIN: How does that work now? Does it work --

JUDGE DUFFY: Now, hold on. I want you to know that was not done with everyone in concurrence.

There were times, in fact, when you two sent up people to the New York regional office -- not to the office, but to the region -- and Leonard Rossen will remember. One time he came up to do some investigation, and the next thing
he knew he was in my office answering, "What the hell are you doing here?"

MR. POLLACK: And you know why he was doing it?

It's my responsibility -- I take responsibility for it.

I'm looking at the closing reports from your office, and I find the closing of a case with some form of vacuum-cleaner salesman, who had called in to one of the SEC people to sell him some boiler room stock, and the secretary had recorded the conversation.

So I said to Lennie, "Hey, look what we have here. You better go up to New York -- they're trying to close this case -- and do that investigation."

And Lennie can tell you what resulted from that investigation.

JUDGE DUFFY: Was that Fabricon?

MR. ROSSEN: It was Fabricon.

It was a major administrative proceeding. We put a number of people out of business. It was a criminal prosecution.

Kevin, by no means is this intended a reflection on you, but that was a closing report that never should have existed.

MR. DAVENPORT: Changing the subject, a broad answer to the question that was posed is that, in the old days, the region generally found their own cases by review
of filings, review of reporting companies' filings. We had the expertise in the office where they could review it with a keen eye and a lot of expertise.

The exam program was a tremendous source of cases for the region -- regulated entities, newspaper ads, intelligence, referral from Washington. But at one time, there was a lot of spirited discussion between the regions and Stanley's office on allocation of cases.

The Washington attorneys come to work two hours before the ones in Denver. The young attorneys in the Washington office would come in even earlier than they're supposed to, and they would read all the news accounts. And they would open what we would call a MUI, Matter Under Investigation.

So our lawyers would come in, you know, at a reasonable hour, and they would say, "Oop, there's a case." So they would write up a MUI, send it in, and say, "Oh, that's a home office MUI."

And that was kind of a source of spirited discussions for a long time. And finally Stanley kind of put the reins on these young attorneys that he hired back there, and said, you know, "Let's don't try to invade the regions like that. You know, let them have a chance."

MR. BOOKEY: What happened later, though -- this is after Stanley's tenure -- we got into the computer age.
And in the computer age, the headquarters office were getting the information from the exchanges and the NASD on the transactions. And particularly when we got into the period of time of the insider-trading cases, the home office would get all that information, and maybe it was a case that could or should have been made in Seattle. Seattle often didn't get that case.

And it caused -- there was some tension, later on, because of that. In Stanley's tenure, we worked them out very nicely. Sometimes, later on, they weren't worked out so well.

MR. FONS: Well, this is one of those cases where the more things change, the more they stay the same. And I'll tell you -- this actually goes to interoffice relations. I think that right now, and for the past several years, we have had regional office heads and district office heads who have gotten along together extremely well.

We have come together on many, many of the major issues to present a united front when we think that the home office is doing something dumb, or we disagree with how something is going.

And so we will come together as a united front because eleven of us talking and saying the same thing is much better than just myself or somebody else.
But the one area where we consistently disagree is, who has the right to do any particular case. So the more things change, the more they stay the same. It continues to be.

JUDGE SPORKIN: It's a problem, obviously. The reason it's in this outline is because it really is a bone of contention. You've got Irv's point that you needed a home office presence. You've got Kevin's point, and Jack's point, that the regions have got to have -- are important because you need a cop on the beat.

Is it solvable, the problem?

MR. SCHIEF: Stanley, you're not taking into account my point, which I've mentioned at many regional administrators' conferences.

I could never understand why we couldn't do these jointly. If you wanted to have your person on it, who finds it in the newspaper first, why can't that person work with somebody in the regional office? I mean, we were all on the same team, I thought. In many cases, your people and our people did work together.

JUDGE SPORKIN: Sure. Very close.

MR. SCHIEF: Maybe it was because we were so close geographically.

JUDGE SPORKIN: You had Art Matthews working with you.
MR. SCHIEF: Exactly. So I never understood why we couldn't solve that as reasonable people, to have joint investigations.

JUDGE SPORKIN: I don't think -- you know, especially when the Commission is asking for more resources. They keep saying they don't have enough people. There shouldn't be any fighting over cases, should there?

MR. FONS: I guess the question you asked is: How do we solve this problem? And I guess the larger question is: Despite the friction that it may cause on a very short-term basis between two offices, I really don't perceive it as a problem, a problem which affects the mission of the agency.

Will I get mad at Mary Keefe because Chicago stole one of my cases? Sure. I'll call her up, and she and I will sort of hammer at each other. And ten minutes later, the issue is solved and everybody moves on. So I don't think it's really affecting the effectiveness of the enforcement program or the agency.

It's one of those things, when you get eleven people in the same room at the same time, they're not always to agree, and you move on.

This is sort of a funny one. I remember when I was in Chicago, Mary Keefe was having a discussion with somebody on the East Coast and arguing over who should have
a case. And they decided the way to resolve it was, somebody picked even and somebody picked odd, and it depended on what the closing price was on the NYSE. And that's the way it was because they both had a way to do it.

JUDGE SPORKIN: Irv, I don't think it has come across, but your philosophy was, and mine was, very simple; that any case the region could handle, they would handle.

MR. POLLACK: Absolutely.

JUDGE SPORKIN: We would take the backseat.

MR. POLLACK: We didn't have enough personnel. We had very small staffs. And we were desperate.

As somebody I think has already mentioned, we would see a problem. I would go to the NASD and say, "Hey, we have this problem out in Salt Lake City" -- or somewhere else -- "Can you send five, six examiners so our people can work together?"

And I didn't get into these conflicts. The calls used to go to Stan, and I would be shocked. We would get a call from Jerry Boltz, for example, to Stanley saying, "Gee, you stole my case." "What the hell are you talking about?"

I remember the American Stock Exchange, when Ralph Saul took over, came in one day saying, "Hey, you shouldn't investigate this. We can do it." So we say, "Okay. You go
investigate it." We go by a year and nothing happens. So we had to take over the investigation and do it.

Our philosophy was to service the regional offices, to give them all the service we could. As a matter of fact, we did the same thing with the U.S. attorneys.

Our program was to get the cases that were going to give us the best return for the dollars that we were putting into them and accomplish it. But I understood from my talking to the U.S. attorneys, publicity in their cases was a tremendous selling point.

And I think that was the underlying thing with you regional administrators. You wanted -- you thought this was going to be the hottest case since ice cream and so you wanted to get that publicity.

MR. STEWART: Excuse me, Stanley. I was as aggressive as anybody that's ever run a regional office in fighting -- for want of a better term -- with the division about, "Why are you taking these cases?"

But when you stand back and look at it, it is absolutely clear to me that the division in Washington, D.C. needed to be involved in certain kinds of cases, had to run those cases -- for instance, when we started all the insider trading, we wanted to build certain kinds of records so that we could go to the Court of Appeals where we knew we were going to end up. I don't think a regional office was really
equipped to do that kind of thing.

    A little competition

over cases was a good thing. And the fact that I might get
a little bent out of joint because one of Stanley's people
took the case was just insignificant.

    There were cases that you guys needed to be on top
of, working with, to me, one of the great triumvirate,
along with you and Stanley, Dave Ferber, because we knew we
were going to end up in the Court of Appeals, and we needed
to build the law in order to protect investors in this
country.

    MR. SCHIEF: Michael has made my argument. Why
not a joint case? Then you would teach these junior people
in the regional office.

    If the expertise is on insider trading, for
example, and you want to make sure you have a uniformity --
I'm going to stop, given the time.

    MR. POLLACK: I just want to mention, before we
take a break right in a minute or two, that the reason that
criminal cases in the early days of the Commission had to go
through the home office before they were referred to a
U.S. attorney was the very reason that you and Michael have
said; the Commission wanted to be sure that the criminal
cases were brought in a manner that wouldn't affect the
overall regulation of the SEC.
That changed. As the regional offices became more expert, as you know, we did away, really, with the criminal review. And you sometimes went directly to a U.S. attorney and presented the case to them.

With that, we'll break, and when we come back, I would like to just go back to one thing that you mentioned in a little bit of your announcements. And that is try to remember those people in your offices who did tremendous jobs and who ought to be recognized in this program, as having been very effective in the administration of the program.

Thank you. We'll be back in 15 minutes.

(Recess taken from 3:46 p.m. until 4:02 p.m.)

MR. POLLACK: Jerry, go ahead.

MR. BOLTZ: I want to say something about this reorganization that has been discussed. I think there have been a lot of mistakes made.

First of all, closing the Seattle office was a big mistake. I think that that part of the country is not getting the degree of attention that it should on SEC enforcement. And I know Jack Bookey and I've discussed this. He endorses that thoroughly.

Secondly, I think the Commission has become more bureaucratic. The old system that we've talked about worked. It worked effectively. We had an esprit de corps.
We had a sense of unity.

And I think we also had interrelationships, so that we knew of new offerings, and we communicated with the Division of Corporation Finance. And we did offerings, and we worked well with the people who were doing the broker-dealer and investment advisor regulatory work.

I think it was a big mistake. I know that Levitt didn't like so many people reporting to him but I think we need to revert to the regional offices as they were.

You know, a good parallel, or analogy, is the Department of Justice, U.S. Attorney's offices. I mean, fraud isn't all occurring in Washington. It occurs all over the country. And I think it's important that the division of enforcement have a staff.

And I know Stan always supported me and sent people to me when I needed them.

JUDGE SPORKIN: Even got some of your people married. Do you remember that?

MR. BOLTZ: Yes. That's right.

In fact, that's one of the reasons I'm married, is because when I joined the staff of the SEC, I wasn't sure I would like it. But once I found out how much I liked it, I got married.

But anyhow, I think that there needs to
be some concerted effort. You know, if I were Chairman of
the Commission, I would have somebody --
probably an outsider -- pull together -- pulling together
our goals and objectives of the Commission so that we
can have a sense of unity; that we can revive this esprit de
corps and the kind of spirit and the kind of enthusiasm.

I mean, you know, we've got a professional union
now. And in those days, we wouldn't even think of it. I
worked harder at the SEC than I did in private practice.

MR. SCHIEF: Can I ask you a question while you're
on this subject?

In all of this discussion, I have not heard
anything about whether or not the different regional offices
put up much of a fight against that reorganization. Was
that done? Does anybody know?

JUDGE SPORKIN: Randy, was that done; do you know?

MR. BOOKEY: I think it was sprung as a surprise.

We didn't know.

MR. SCHIEF: Are you talking about after the
fact?

JUDGE SPORKIN: Dan, what was it? Was that before
your time?

MR. SHEA: When Arthur made the
decision to reorganize the regions and the district offices,
it was done before my time.
JUDGE SPORKIN: I see. So it was done in '53?

MR. SHEA '93.

JUDGE SPORKIN: I didn't mean '53. I meant '93.

I see. All right.

MR. BOOKEY: What happened -- I remember it was at a regional administrators' conference. The announcement was made -- as a matter of fact, one person had just been appointed as a new regional administrator and was told, in the same appointment, "Oh, by the way, you're not a regional administrator; you're a district administrator."

In other words, the Chairman created a disparate set of offices, superior offices and inferior offices. At least that's certainly the way it was perceived by the staff. And on a morale basis, it was a disaster and resulted in enormous turnover.

MR. ROSSEN: On the same point, please let me just ratify what Jerry and Jack have said.

When I got to San Francisco, we couldn't get a criminal case tried for anything. There had never been a relationship developed with the U.S. attorneys there.

I would bring civil cases in our district, and then get Jack to handle the criminal prosecutions, if we could just hang a jurisdictional hook for doing it, because he had developed magnificent relationships with the U.S. attorneys in Washington. And particularly in Oregon,
Sidney Lezak.

All I can say is, I know the people in the San Francisco office today, and they do yeoman work at trying to cover the northwestern part of our country, but it is physically impossible for them to do the same quality of work that was done when Jack had an office that was in Seattle, Washington, or in some such location. And there will never be a substitute for that.

JUDGE SPORKIN: Before we get into -- Irv wants to get into the oldtimers and the great people we had.

The thing that impresses me most when you look at these people here is the tremendous honesty and integrity that -- we never had a scandal in any of the regions -- I mean, with any of the administrators. It's a meritocracy beyond belief.

And when, as Lennie just mentioned, you couldn't get the U.S. attorney's offices sometimes to take cases -- and I'm not now going to be criticizing any current U.S. attorney, but remember, at least in our day, they were political animals.

And Irv and I remember one case when we would keep sending the case for prosecution out here in Denver. We gave them one case, which was a dynamite case. We gave them a second case. Decline, decline.
Finally, we got -- I think it was Kevin or somebody in the New York office to take it over to the U.S. attorney there who was -- it might have been Otto, but it was a career -- not a career, but an honorable person. And in the worst case, they prosecuted the guy and convicted him.

One of the most amazing things that I have seen is the absolute, 100 percent integrity of these people. Largely, I guess they were picked that way.

And let me ask you this question: I notice among many of you -- and Randy, you're one of them. You were the regional administrator, down in Miami, and you were brought up here? Dan Shea, where were you before?

MR. SHEA: Washington, D.C.

JUDGE SPORKIN: Washington, D.C. You were brought in here.

Is that the answer? In other words, the training, the business; that we are a career operation, where you could be mixing and matching -- sending anybody to any other region, is that why it's worked so well?

MR. SCHIEF: Stanley, I would suggest it's more than that. I think, quite frankly, all these people -- and
certainly Elaine Cacheris, as well -- were committed to
the role of the SEC.

    We were committed to having investor protection.
We were committed to doing whatever needed to be done to
make sure that the ability of companies to raise capital in
the capital markets was -- was firm and without problems.
So that's my personal view.

    And I've seen it more once I went over to the
NASDAQ; that that has been a huge, huge issue, to make sure
that the NASD membership knew that their role had to be in
helping to protect investor confidence.

    And as I read the paper, and you see the
scandals -- the New York Times, on April 29, talked about
the Wall Street firms that settled for billions of dollars.
I mean, it just shows you that we lost something in the
process. Somewhere, somebody was not watching the store.
And you know, I'm not accusing anybody of that, but I think
the whole regulatory process was down.

    And I've got to give a lot of credit to Eliot
Spitzer who, out of New York, got a hold of this thing and
was able to come through and see what the analysts were
doing with this huge conflict of interest.

      JUDGE SPORKIN: How do you account, though --
maybe Irv knows the answer to this -- for the fact, no
scandal? Does anybody think of any
scandal among a regional administrator?

Everybody here was of the highest integrity.

Every time we had a discussion, it was always on the merits. It was never on, "Hey, who are you trying to protect?" I never heard that in any conversation.

MR. DAVENPORT: Stanley, I think one of things that has been touched on by Jerry and Lennie and Bob Watson and several others is, integrity starts from the top. It comes down --

JUDGE SPORKIN: Well, I don't want to go that far. I mean, we've had chairmen who have had --

MR. DAVENPORT: I'm not talking about the chairman.

JUDGE SPORKIN: You mean the real top? Little bit of both.

MR. DAVENPORT: Stanley, it's my turn to talk.

JUDGE SPORKIN: I'm sorry.

MR. DAVENPORT: It starts from the top. I'm talking about regional offices. I'm not privy to what goes on in Washington.

JUDGE SPORKIN: I see.

MR. DAVENPORT: But it starts from the top.

The regional administrator, regional director takes his cue from the people that he works with.

We were fortunate -- all of us at this table -- to
work with some real giants; the Irv Pollacks and all the
other ones. Don Stocking, who instilled certain basic
ethics in us, like Bob mentioned.

We had Manny Cohen. We had Phil Loomis. We had
Ray Garrett. We had giants. We had Al Sommer. We had all
of these people. There was a camaraderie then that I hope
hasn't escaped completely from the Commission.

Irv Pollack used to take young attorneys out of
the regional offices for six months back in Washington.
They would sit at the lap of the expert. They were taught
more in six months than they would learn in law school in
four years.

Don Stocking did a lot of that same type of work.
Stanley Sporkin, I can remember -- I won't use names -- but
when a region administrator had some serious problems,
Stanley would fly out to try and talk with and help that
regional administrator. He did a wonderful job. He became
one of the best regional administrators we ever had.

There was a commonality there. The Chairman would
come to Denver. He would come to the other regions. The
Commissioners would come to the regions. They would have
cocktails at the house of the regional administrator. They
would have dinner with the staff. They would come in and
they would sit down and they would talk to the staff in the
conference room.
The Commissioners would even go in and sit and talk with an examiner. And you think that's not a lift for an examiner in Denver, to talk with the Commissioner or the Chairman. That happened. It happened in all of our offices, because Don Stocking, again, orchestrated that type of an atmosphere.

When we went back to Washington, we felt very free to walk into the Chairman's office, a Commissioner's office, a division director's office, and talk to them because there was -- everybody supported everybody.

When Jerry and Bob went down to Fort Worth, they stirred up so many enforcement cases that every region was sending them help. And Washington. But you know -- Jack Bookey went down and helped try cases.

JUDGE SPORKIN: Let me ask you this. If we wanted to give a message, based upon the collective experience, what would be the best way that we could suggest to the Commission for training their RAs? What do you think?

MR. BOLTZ: Well, if I can speak to that, I think that having SEC experience and having administrative experience and leadership experience is very important. And I'm not being critical of any particular person here, but you know, recently, the SEC has appointed assistant U.S. attorneys as regional directors. And that
isn't to say he isn't a good prosecutor, but he doesn't know
the Commission. He doesn't know the staff. He doesn't --
and he hasn't had administrative experience. And I think
that's a mistake.

JUDGE SPORKIN: Well, it can or cannot be.
He needs to be blended.

All right. Irv, you wanted to get into the area
of the --

MR. POLLACK: Very quickly, why don't you
mention -- and let's start -- Randy, I don't know
whether you can do that at this point or not; just mention
people who deserve special recognition because of the
tremendous job they've done. And then move quickly down the
line.

MR. FONS: I'll just mention one. He was my first
boss when I started 15 years ago in Chicago. A man by the
name of Bill Goldsberry.

MR. POLLACK: Oh, wow. He's not here today.

MR. FONS: He's not here today. He was a
fabulous, fabulous regional administrator.

I just want to give one very quick story that sort
of shows how he personified what Bill was saying about
the sole interest being the protection of the
public.

We had some cases, ongoing civil litigation cases,
against some folks that were the prodigy of Bobby Brennan.
A couple of firms out in New York.

And they were going along, and they were being delayed, et cetera, et cetera, and he came to me one day and he said, "They're doing it again. They're running another manipulation." I said, "Okay. We'll start another investigation." He said, "No, no. I want them shut down, and I want them shut down now. They're playing -- they're pulling our strings, they're playing games, they're ripping off people. I want them shut down now. And I don't care what it takes." And so that's what we ended up doing. We ran out and got it done as quick as we could, and we put them out of business.

But he really personified, I think, public investor protection and spent years and years and years doing that.

JUDGE SPORKIN: Great choice. Great choice.

Jerry, you left with Tim and Eddie.

MR. BOLTZ: Tim and Eddie were great. They taught me a lot.

JUDGE SPORKIN: You had Pennekamp. You had a whole bunch of people.

MR. BOLTZ: Ralph Saul was good.

After I was in Denver for three or four months for the first time, things weren't going too well under Milt
Blake, and Saul called me and asked me how things were going. And I told him frankly. The next thing you know we had Don Stocking.

But there were many other people, in addition to the ones that are mentioned. Wolensky, Stewart -- Mahlon Frankhauser was another fellow I worked with a lot, and I greatly respected him. Charlie Hartman. Jim Mercer. And not to leave out anybody here, Don Malawsky, Bob Friese. And Lennie. And Bob Watson. They were all great people. But we had great leadership.

MR. POLLACK: Bob Davenport, do you want to mention somebody?

MR. DAVENPORT: Well, you know, the name keeps surfacing. Don Stocking, to me, is a legend. I mean, he was a people person. He had great intuition. He could tell where people were coming from very well. And he had an excellent reputation with Washington. And he was just a great man for all of us.

JUDGE SPORKIN: How about Joe Krys?

MR. DAVENPORT: Joe had a lot of talent. Joe had a very keen legal mind. He was a good teacher. Joe and I worked together for many, many years.

But ones that were in the offices --
Jerry Boltz and Bob Watson. Dan Shea was a great one. Don Hoerl and Jack Kelly did good jobs. A lot of other people in the office that -- I was fortunate to have, over the years, a wonderful staff. Great managers, good trial men.

Bob Fusfeld was an outstanding trial person, who tried the Stuart James case almost by himself, with two new attorneys. He had six law firms on the other side. They closed the firm. Everything.

All of the people in our office in Denver were great people, and the ones in general counsel's office that worked with them. Michael was back there. Great cooperation.

So I mean, you know, we were just fortunate. We came through at a good time. I'm glad I was on the train during the '58-'96 period because it was very exciting. And good people.

MR. POLLACK: Quickly, Lennie.

MR. ROSSEN: One of the most important things I think you take on when you become a regional administrator is something I discovered when I was a branch chief in the Division of Enforcement.

You hire these kids who are fresh out of school. They're usually bright, because that was what we looked for. And you looked for energy.

But one of the things that I always was most
concerned about was hiring people who understood that when
you're with the government, your inquiry, your call, your
effort has a monstrous impact upon the recipient of your
call, or your letter, or the guy you have contact with.
And making them responsible members of the staff was the
hardest mission of any that you had as a regional
administrator.

I saw it, as I say, as a branch chief in
Washington. I was very pleased, very fortunate, to have in
San Francisco people like Bob, who we mentioned too many
times today. Bob Friese. Steve Machtinger. Bobby Lawyer,
Julie Lutz. People who really did work hard.

And most importantly, one of the best things I
ever did was hire Michael Wolensky and Wayne Secor. And
both of them -- they were very symbiotic with each other,
too. One ran regulation. One ran enforcement. And we had
one of the best times of all.

JUDGE SPORKIN: You haven't mentioned two guys
that I remember. What can you tell us about -- was it
Julius Eberstine and Rudy Rheinschild? Weren't they two of
the finest investigators that we've had?

MR. BOLTZ: Yes, they were fine men. And Rudy ran
the L.A. office, but it was still a branch office until I
arrived.

JUDGE SPORKIN: But they personified decency and
integrity.

MR. BOLTZ: Yes. They had integrity.

JUDGE SPORKIN: And smart.

Same with Julius, right?

MR. BOLTZ: Yes. You've got a long memory, Stan.

JUDGE SPORKIN: Well, you got to have something when you get my age.

MR. BOOKEY: I had two very good mentors in the Seattle office. Jim Newton and John Fegan.

And Jim Newton, who was a long-time regional administrator, died about four months ago at the age of 100. John Fegan is still vigorous at 95, I'm pleased to report.

It's hard to single out other people in the office that I worked with because there was a fine staff. We had a lot of stability in our office.

Unfortunately, when the office closed, I figured -- out of the 30 professionals, they averaged 15 years' experience, so 450 years of SEC experience went down the tubes when the office was closed.

The most unique individual I think ever worked with was Frank Kennamer, who wasn't even in my office. He was from the San Francisco office. He was the general counsel for the West Coast. Quite a personality.

I had the privilege of working with Frank on the
Texas Gulf Sulphur case. He brought me in to take
depositions on the West Coast.

But he had a strange schedule. I got down to his
office in San Francisco. I got there, I was eager. I was
there about 8:30 in the morning. Frank showed up about
10:30. He read the mail for a while and walked around for a
while. He kibbutzed with them. And then we went out for
lunch, and we came back, and he walked around for awhile.

We started working about 3 o'clock in the
afternoon and worked steadily until midnight. We repeated
that routine for three days, and then went on.

JUDGE SPORKIN: He was a great writer, wasn't he?

MR. BOOKEY: He was a great writer. He was a
wonderful trial lawyer. He had a very, very compelling
presence and riveting voice.

I remember being in court with him one time. The
witness gets up on the stand, and Frank says, "What's your
name?" And every eye in the courtroom was on him. He
was unique. He was quite a character.

The other thing that hasn't quite been
mentioned -- the real privilege I had, we had -- all of us,
we had what was called "The Dream Commission."

And The Dream Commission was when Ray Garrett was
the chairman, and Irv was on the Commission, and Phil
Loomis, and Al Sommer and John Evans, and they were the
best. The absolute best. Stanley was the director. And they were smart. They were aggressive. They were energetic. It was leadership, and we loved it.

And looking back, that was the prime time, folks. That was prime time.

JUDGE SPORKIN: Go ahead, Robert. Who were the legends in your day?

MR. WATSON: Well, most of the people at this table.

JUDGE SPORKIN: Oh, God.

MR. WATSON: And certainly Ray Garrett, I think, was a fantastic chairman, but I go back to Bill Cary, who was an incredible guy. Manny Cohen. Bill Casey. And Ray Garrett. With that kind of leadership, we were really, really fortunate.

But I guess the people that stand out most in my mind from the regional office are -- one guy who was in the Denver regional office, but came down to Fort Worth to help me try the NBL Sharpstown case, John High, who is no longer with us. But John was a walking encyclopedia of the law.

The trial went on for several weeks. And during the trial, you would tell John how long you wanted the next witness to last, and that's how long the next witness would last. And he was just unbelievable.

And then the other guy in the Fort Worth office
who was a tremendous lawyer was James Simms, you may remember, who not only worked the Sharpstown case, but also spearheaded the Coastal States Gas Corporation case and the AT&T case, which was an unusual situation.

The Fort Worth office of the SEC, because of Stanley's insistence, was running an investigation of American Telephone & Telegraph Company prior to the breakup.

JUDGE SPORKIN: What was I doing? I don't recall that one.

MR. WATSON: You don't remember that one, huh?

JUDGE SPORKIN: No. What was that one all about?

MR. WATSON: Well, the vice president for Texas committed suicide --

JUDGE SPORKIN: Oh, Jesus. That --

MR. WATSON: -- and left a 28-page handwritten note, claiming that all of the Bell subsidiaries were violating federal campaign laws by forcing people to contribute to these funds, and then distributing them subrosa to politicians all over the country.

So the investigation spread to Oregon, to North Carolina, and I'm sitting down there in Fort Worth saying, "What the hell am I doing with this?"

JUDGE SPORKIN: Well, we didn't -- pulled no punches.

All right, Bill, you had a lot of guys. You had
Alex Brown, who was a super guy.

MR. SCHIEF: Let me just tick them off real quickly. Alex Brown, for sure. He was my boss, Michael's boss, from the very beginning. He was the regional administrator who prided himself -- coming from the Chicago regional office, he had been the principal lawyer in the SEC case against Ralston Purina. And he always wanted to talk about that case.

Herb Milstein, who went on to private practice in D.C.; fine lawyer, brilliant mind. Mainly does '40 Act work.

Mike Stewart. Dave Butowsky, also now in private practice in New York, mainly in the '40 Act. And there are tons of other people.

I mean, you can go on and on and on, but I think in order to save time -- but let me just mention one other thing, if I could.

I thought we skipped over: Can present district office effectiveness be improved? My answer would be yes, in one sense.

I would like to see more joint training with the NASD. Having spent, now, two years with the NASD before I left, I could see that they had some strengths and weaknesses. And their strengths, obviously, are in broker-dealer examinations. They really are strong there.
They know supervision. They know markups. They know a lot of things that I found, when I was with the SEC, there was a lack of knowledge, really.

I mean, the SEC staff was strong on the '33 Act stuff. This is my experience, you know. You may disagree. But I would like to see more joint training in this area, so that we could get the benefits of both.

JUDGE SPORKIN: Mike, Boston office. We had some good people up there.


JUDGE SPORKIN: You had who else? Who?

UNIDENTIFIED SPEAKER: Willis.

MR. STEWART: Willis. Riccio, of course, who became the regional administrator.

JUDGE SPORKIN: And how about the fellow that went on to head of Boston Exchange?


JUDGE SPORKIN: Yeah. He was terrific.

MR. STEWART: Unfortunately, Jim is gone.

In the Fort Worth office, I would have to go back and talk about Mary Lou Felsman and Bob Pike, who stayed there through some very tough times in the Fort Worth office. I can tell you, they were very tough.
Bill has mentioned Alex Brown, but Alex was the
guy -- talk about integrity in criminal cases. The Crummer
case. And Alex was convinced the U.S. Attorney was fixed,
and he turned out to be right. And Alex hid the evidence
and wouldn't give it to him.

In any event, there were so many great people.
Wayne Secor. Mike Wolensky, maybe the best lawyer I've
ever known.

It's just been the highlight of my life working
for the Commission, and I would just like to make one
observation about -- and I don't know how you identify them,
but I think the great people who come out of the Commission
come out because they believe that a fair
and honest capital market system is essential to this
democracy. If we don't have that, we haven't got anything,
folks.

JUDGE SPORKIN: Well, Kevin, you had really
tremendous people up there.

JUDGE DUFFY: Well, I'll tell you. I'm one of
those guys who arrived at the Commission not from working my
way up in the Commission, but from the outside; however,
that doesn't mean I didn't know anything about the
Commission.

Bill Casey -- once I asked him if he knew how to
speak French. He said, "No, Kevin, I don't. The only way
to really learn a foreign language is to live with some
woman who speaks that language."

Well, my wife worked at the SEC for years -- she
was a branch chief in the New York office -- and that's how
I learned all about the securities laws.

But when I arrived, I had --

JUDGE SPORKIN: Imagine that pillow talk there.

JUDGE DUFFY: The amazing thing was, we had four
kids, too.

Anyway, when I arrived at the
Commission, I had some really wonderful people to work
with. Arthur Goldman was one. Bill Moran was another.

Bill Moran was one of the few people I know who
started to work in 1935, or thereabouts, with the
Commission, and he really had a handle on the history of the
Commission and the history of everything else about it.

It was Marvin Jacobs who taught me a lot about
bankruptcy and all the rest of that. And regulation.

People like --

JUDGE SPORKIN: He taught you about the Talmud,
too, didn't he?

JUDGE DUFFY: He was an ordained rabbi. We would
have discussions in Yiddish from time to time. We would
have discussion -- well, of course, I'm the only guy here
who has ever accused Stanley of being anti-Semitic.
You want that told, Stanley? Not for history?

JUDGE SPORKIN: Go ahead. You can tell it because I can't remember it.

JUDGE DUFFY: All right.

JUDGE SPORKIN: I'll stop you when it gets embarrassing.

JUDGE DUFFY: No, you won't.

We had a case out of the New York regional office called Israeli Publishing Company. It involved a really bad fellow in Israel and a fellow in New York who was not that bad. The New York regional office staff said the guy should be prosecuted and named and so on and so forth.

I got it, and, as regional administrator, I felt that I had to sign it, because, technically, he was right. But I felt sorry for the guy in New York.

So I wrote a two-page dissent, as a person, and I sent that down -- as part of the package, down to Stanley. He immediately called me and said, "You can't do this." I said, "Why not?"

Anyway, I said, "Stanley, what you don't understand is this guy is just trying to be a big Macher in the synagogue." Fine.

It goes to the Commission after review by people like Leonard Rossen and all the rest of it -- Stanley, Irv.

It goes to the Commission. It gets there.
Hamer Budge is the chairman, and Hamer looks at Stanley, who is up there presenting it, and says, "Stanley, why don't you admit it? This fellow is just trying to be a big maker in the synagogue."

JUDGE SPORKIN: A great story.

JUDGE DUFFY: I told Hamer how to pronounce it four times, and it still came out . . .

JUDGE SPORKIN: You won that one, didn't you?

JUDGE DUFFY: Yes, I did.

There was some -- there was some great people.

Mike Greenberg, who was head of small issues. Billy Nortman. Eddie Nordlinger was --

JUDGE SPORKIN: Dennis Block.

JUDGE DUFFY: Dennis Block was there. Yes, indeed. Eddie Nordlinger is the only one left out there.

We had a wonderful time. A lot of young people who were willing to work overtime for nothing.

JUDGE SPORKIN: You had somebody else there. I forget his name, who was -- was it in the mutual fund area? What the heck. Not Goldman. Oh, a wonderful -- a very able guy. A career --

MR. POLLACK: Okay. You'll have to try and think of the name later so we can move on.

JUDGE DUFFY: There was this business about reorganizations.
While I was there, there was one reorganization. They put in an executive director of the regions, a fellow by the name of A. Jonas Yorke.

A. Jonas Yorke was an interesting soul. The first time I met him, I walked into his office unannounced, and I said, "What does the 'A' stand for in A. Jonas Yorke?" He looked at me and said, "Who the hell are you?" And I said, "Doesn't matter. Just answer the question. What does the 'A' stand for?" He said, "It's Aaron. Why do you ask?" I said, "I just wanted to know what else you were hiding." He said, "Now, I want to know, who the hell are you?" I told him. He said, "Oh, they warned me about you."

JUDGE SPORKIN: Before your time, there was Paul Windells.

JUDGE DUFFY: Yes. Paul was the regional administrator long before me. There was a lot of good guys.

JUDGE SPORKIN: I would just say, you had Hammerman. Steve Hammerman. Otto was your appointment, wasn't he? Otto Obermeier.

JUDGE DUFFY: No, he was --

JUDGE SPORKIN: Steve's appointment?
JUDGE DUFFY: No. He was there while I was there.

Joe Daly was there, but Joe Daly was there much before -- Joe Daly was there while the real Judge Duffy was still branch chief.

JUDGE SPORKIN: These people -- this is a great legacy.

Let me ask you something here. What made the great lawyers that these people were talking about was not only the fact that they were honest, had integrity, and believed in the program, but they also had judgment.

And some of the comments I hear now is that that last element might be a little bit lacking. And I don't want to be critical, but Randy, is that a fair statement now? Do you find anything that --

MR. ROSSEN: Stanley, when I invited Randy to attend and participate in this program, I assured him that we -- and I spoke for all of us -- would not put him into any difficulty of any kind. I feel a commitment that we stay with that.

MR. FONS: Thank you, Len. I intend to be gainfully employed come Monday. With the SEC.

MR. ROSSEN: One of the things that has come through -- and again, I don't appear before the agency --
JUDGE SPORKIN: First time somebody has overruled the judge here.

MR. ROSSEN: I don't appear before the agency in the same way I used to when I was a part of the agency, but I have enough almost daily contact with folks who do, to say that I have the distinct impression that too often there is a single-minded focus on "making the case." And that's a great goal, and we encouraged that as hard as we could, but there are times when making a case has to be tempered by the human aspect of what we're doing; the impact -- the real impact that we can have -- and that's part of the training the young kids, to not abuse this power.

The real impact that we can have on people, and I -- I fear that -- I'm hearing this so many ways from so many parts of the country; that too often there is this focus on "making the case," which I'm sure is statistic driven, and I understand that. And we all know how to be mindful of statistics, but too often, there is not adequate consideration given to, "What is the real goal of what we are trying to do with the industry? How are we trying to impact the industry?"

And I don't know how you train that. I think you train it with the right kind of supervision. This may touch on where someone said, we get AUSAs in to run regions. That my be part of it.
If you've come through the agency, which is, of course, what I'm geared toward, I think you can better accomplish the mission -- and it really is a mission. And I don't think you get it if you just come in from outside, and you say, "Okay. Now I'm going to run this office."

JUDGE SPORKIN: Let me ask you this. We've got to cover the cooperation, which has been touched on, with the self-regulatory bodies, with states, and with the U.S. Attorney's office. Anybody want to comment on that?

I gather, Jack, you had very good cooperation up in Seattle; is that right?

MR. BOOKEY: We had great cooperation with the states.

The first -- the concept of the regional office conference, the state/federal conference, I think was conceived by my predecessor, Jim Newton, along with Hugh Owen, when Hugh Owen was still the Oklahoma state securities administrator.

And they put together the first conference in the Pacific Northwest. Brought in all the state people, U.S. Attorney's office, IRS -- all the federal agencies, brought Commission people in. And then -- then I think Stocking brought that conference out to Denver when he came. We used -- I used to kid with Davenport, "Our conference is a year older than your conference."
MR. DAVENPORT: Depends on how you figure it.

MR. BOOKEY: We did it the right way.

MR. ROSSEN: Oh, no, no, no.

JUDGE SPORKIN: But right now, I guess there is more cooperation than ever existed. If you look at the Global settlement, it was a magnificent aspect of cooperation with everybody.

MR. FONS: Well, I can do a little bit on current cooperation. I think that that is true. I think there is a huge amount of cooperation that is going on now between the NASD and the states and the federal and criminal authorities.

Cooperation, particularly with folks like the U.S. Attorney's office, has always been peaks and valleys, I think. At least, since I've been here, there has been peaks and valleys. And I think right now we're at peak.

I think that the administration in Washington has told the U.S. Attorney's office, "We want you bringing these cases." I think the NASD is very interested in doing a lot of things with the SEC. I think the states are also looking around and trying to figure out how they can get their agencies into helping out in the securities markets.

And so I really do think that, right now, we are at, from my relatively short-term perspective, in the best place we have been in many, many years in terms of
MR. BOOKEY: I'm really glad to see that, because in our office, we have developed an expertise of working with the U.S. Attorney's office, and we would provide attorneys to them who were specially appointed. In particular, they liked the forensic accounting that we provided. But we got criticized in our office because we were spending too much time on criminal cases and not developing enough statistics on -- on the injunctive cases. So I'm really glad to see that's been taken care of.

JUDGE SPORKIN: Kevin.

JUDGE DUFFY: There was a time when I first came to the Commission that the U.S. Attorney's office would treat some of the people from the SEC as if they were messenger boys and so on and so forth.

One of the things I had done when I was at the Commission -- or at the U.S. Attorney's office years before, was to be involved in the drafting of the Guterma indictment. So I knew something about the area.

Mike Seymour was the U.S. Attorney when I arrived, and I went to Mike and complained.

But there were other districts in the region that didn't know us, and what I did. I think it's something that still can be done, where there's an
injunction, and you find the guy going back into business, doing it all over again, is to bring a criminal contempt proceeding.

And you go, as a matter of courtesy, to the U.S. Attorney's office in the distant region -- whatever it is -- the people who won't know, and say, "Look, I have a criminal contempt. I don't know whether it belongs with you or with us. We have the expertise. We got the indictment -- or we got the injunction. Let us try it." And they all responded with, "We don't know anything about it. You go ahead and do it."

And I sent John Peloso to do a couple of them, and John did a bang-up job. The judges told the U.S. Attorney. And the next thing I knew, we had wonderful relations with the districts, other than the southern district of New York.

JUDGE SPORKIN: What about these task forces now? Is there -- Bob Friese has been -- you were ahead of everybody else in warning everybody that this is a potential problem area. Have you backed down on that, or are you still committed to that as an idea that needs to be addressed?

JUDGE DUFFY: Bob, come on up and take this.

MR. FRIESE: On March 19, I issued the fourth semiannual report, an eight-page report, on the increasing
criminalization of securities matters.

And it started a little over two years ago, actually, when Bob Mueller, the now head of the FBI, the then U.S. Attorney for the northern district of California, created a seven-person unit -- a bang-up unit, I might add -- with fellows like Patrick Robbins, as its current head, and Leslie Caldwell, who is now heading the Enron investigation, also very active in that unit.

And for the first time in the 30-plus years I've been observing the process in the northern district of California, you could get cases taken.

I sat for a while on the Organized Crime Strike Force, and all we did was listen to stories about guys bringing dope down on donkeys from the Golden Triangle, and drug busts and stuff, which is interesting, but it's not securities stuff.

Now -- and I mentioned to Len during the break, Joe Grundfest asked to be on a panel at the Stanford Directors College two years ago when Bob Mueller was still U.S. Attorney, as, in Joe's words, the agent provocateur to the point/counterpoint, and Bob said, quote -- not paraphrased -- "We're not waiting for the SEC in these cases." And we're seeing that now.

And the concern I've got -- and in fact, we were pushing for a greater consistency. That was the original
thrust of what Stanley is referring to, is in the criminal
process.

Now, the bulk of what we do -- some plaintiffs' work, too -- is, essentially, mostly defense work. But in that context, when you're now -- and all these cases are going joint, so you have parallel proceedings. And apart from the cost issues in defending someone, which can be difficult, one of the toughest threshold questions is whether or not there is going to be criminal interest.

And you cannot cooperate, as the Commission wants, if you think there is -- realistically think there is criminal interest in the case.

And we were told in our region -- and I know elsewhere is the case -- you have to assume -- and I would guess -- Randall, I guess you would agree -- that there may well be criminal interest in any case that is potentially a fraud case, certainly, that the Commission looks at.

And I have made it a bit of a cause, as Stanley knows, to -- about 250 people around the country have received these periodic reports which are, as much as anything else, requests for feedback. I get a lot of feedback from a lot of people.

And I can tell you, without any doubt that, whereas there is now greater consistency since Deputy Attorney General Jerry Thompson has written the 94-odd
U.S. Attorney's offices, saying, "Bring these cases."

What is also happening, sentencing guidelines, which is driven by politics -- it is not driven by the judges. The Orin Feeney amendment, which now takes away discretion of judges, which drives every judge I know crazy.

You are seeing instances where, despite the good thing of consistent enforcement now nationwide, you can look at the litigation releases, and enforcement is going well across the country.

You're also finding that -- in a number of instances, I've had people tell me, "Well, we got to plead to something, because we can't afford to put on a defense, or the sentencing guidelines are such that we cannot afford to role the dice," even though we think the first guy who pled just raced in, knowing that he would get the good deal and then rollout.

JUDGE SPORKIN: Let me say this.

MR. FRIESE: That's kind of a long answer, but the bottomline is, Stanley -- I'll close it off.

I was hoping you would get into this. And I would like to hear the feedback from this panel as to what their observation is.

JUDGE SPORKIN: It used to be, Irv, that you would personally evaluate every case before it was prosecuted.

You or your group.
MR. POLLACK: Well, that was in the early days. As I mentioned earlier, the Commission set that up in the early days when they were developing the implementation of the Act. They wanted to be sure that something wasn't done that would cause a problem.

But you have a tremendously different problem today. You have the greatest corruption across every part of the participants in the capital markets that I have seen in 57 years. And the only way -- as Kevin has already indicated -- that you can stop some of this is, you've got to criminally prosecute the people.

It will not only take care of the recidivists that he has mentioned; it will also instill, hopefully, a more ethical integrity upon the part of the people who participate in this industry. And that goes for everybody, from the corporate people, to the broker-dealers, to the investment advisors, to the analysts, to the mutual fund operators, to the lawyers, to the accountants.

And a program has to be effective. You know, you really have to establish in these people the kinds of things that we were establishing in our own performance; that we had to be more virtuous than the people we were going after. We had to be fair, but we had to be aggressive.

And unless you are, you're not going to make the capital markets work. The greed out there is too great.
You must have effective regulation and effective enforcement.

And remember, you can't have a policeman watching every guy in this business. So you've got to place the responsibility on the companies that are operating, and the people who are the gatekeepers, if you want to call them that -- their advisors -- that they have a responsibility, particularly to make sure they are acting honestly when they're handling public money.

JUDGE SPORKIN: The only thing is -- the question I have to everybody here is -- at least when the program was run by you, is that you had a consistency, you had standards. And what is happening now is, it's an ad hoc situation.

As I look at these -- at the cases every day, is that you find some two-bit insider trading case going criminal, and you find a lot of cases in which people are getting passes of -- you know, I discussed it with you -- doing some heinous things, getting passes. So you've lost, it seems to me, a little bit of the consistency that I think Bob is talking about.

What do the other fellows think here? Do you see that -- is there somebody now evaluating and saying, "Look, this kind of case, we're going to go criminal. This case doesn't meet those standards." Are there standards that are
being applied?

MR. SCHIEF: I don't know. Maybe he can answer it. Maybe he can tell us how it's now being done.

But I think, to answer your question, somebody would have to rule on whether a particular proposed defendant got a pass, if it was in the Denver office, for example. Am I not right?

MR. FONS: Well, from a criminal standpoint, if that's what you are talking about, that's -- frankly, we're not considering that to be our call in most cases.

If we have a case where it seems to be some fairly egregious fraud, we will take it to the U.S. Attorney's office, and we'll say, "Here's what we got. We've got our civil case. This is what we're doing. These are our facts."

But from our perspective, it is very much up to the U.S. Attorney's office as to whether they are going to run with it from a criminal standpoint. So I think that has changed a little bit in terms of, do we still try and go sell cases to them, or pitch cases to them to try to get them to take them. Absolutely.

But if I'm going to make an error in judgment, frankly, I'm going to make an error by offering it to the U.S. Attorney for him to decide whether to prosecute it.
JUDGE SPORKIN: But Randy, you know every violation is a potential criminal case. And some of them, you say, hey -- you know, it's like in fishing. There is something called a keeper and not a keeper. And if it's too small, you throw it back. It's not a keeper.

And I'm not worried about -- and Bob isn't worried about the SEC, because I think that's under control. Irv and Jerry and everybody here knew what a criminal case was and what case you didn't . . .

But now, you find that the -- that the U.S. attorney's, they're making their own judgments. They're not waiting for Randy to come to them with a package and say, "Prosecute this." They're reading that same newspaper that somebody here was talking about -- those MUIs, they're reading those newspapers, and they're saying, "Hey, wait a second. This guy traded some stock on inside information, and therefore, he is going to go to jail."

Have I misperceived that, or is that happening?

MR. FONS: I don't think you've misperceived it. I guess I'm just trying to figure out, from the perspective of this panel, or the people that are currently at the SEC, and what we do.

If it's a problem, it's a problem that's easily solved by the people at the Commission.

I mean, I can and have talked with U.S. attorneys
about relative importance from my perspective, and if they're looking at a case that I don't understand, and I bring them a better case, I may have a discussion with them saying, "Why aren't you doing this case? Why are you doing that? Why aren't you doing this?" And try to convince them to take what I perceive to be a better case.

But it makes me very uncomfortable to go to the U.S. Attorney's office, and, in essence, set their priorities.

MR. STEWART: I don't know why you feel that way. There is never going to be an effective criminal enforcement program unless the Commission is aggressive. Like Irv says, you have got to be fair, you got to have judgment, but if the Commission isn't pushing -- these U.S. Attorney's offices -- and I have worked at one -- have so many pressures; domestic security, terrorists, this and that. The Commission has simply got to be aggressive in this area if it's ever going to be effective.

MR. FONS: I guess my response, I was looking at what Stanley was saying more as the U.S. Attorney's office is taking things that, perhaps, they shouldn't take.

JUDGE SPORKIN: Right.

MR. FONS: I am just as aggressive in going to the U.S. Attorney and FBI and Postal Inspector and trying to
push my cases and trying to get them to do these things
criminally, particularly in the environment that we have
today. But I am less inclined to go to them and say, "This
one that you have found by yourself that was not coming from
us, that shouldn't be a priority," because if I do --

MR. SCHIEF: Maybe Stanley knows cases that a
particular U.S. Attorney's office shouldn't have taken.

My experience was, when I was with the NASD, that
the U.S. Attorney's office in Philadelphia had, through the
FBI, developed some evidence, some manipulation, by a whole
group of Philadelphia promoters.

They asked the NASD to help them through -- the
request actually came through the SEC. They went to the SEC
first. The SEC said to the NASD, "You guys help them."

So we sent three people up there full time for
three months. We put them in apartments. They got per diem
for the whole time. So they helped the U.S. Attorney's
office and the FBI interpret these telephone tapes that they
had gotten a court order to do.

So my experience has been that no U.S. Attorney's
office is going to go through a lengthy case like that
without getting some expert help from the people who are the
experts, whether it's the NASD or the SEC.

JUDGE DUFFY: I remember a particular
situation. We talked about the paper crunch and then the
capital crunch. It was a particular case where the paper crunch caused a capital crunch which caused the business to go out of business.

The U.S. Attorney wanted to prosecute the net capital violation as a fraud. They came to me looking for someone to do it. I said, "You're out of your mind. I'll go help you, and then you can put me on the stand, and I will explain the net capital rule to the jury. And by the time I'm finished, there will be no one in the courtroom who understands what the hell I'm talking about. Now, if you want to prosecute that, you can." They said, "No, I don't think so."

JUDGE SPORKIN: I think what you have now is what's known as a task force, where you're having -- the SEC and the government are working together, and they are bringing dual prosecutions.

And you had a recent flap down there in Alabama. You saw what was going on there.

And the -- what I'm trying to say, historically, where you had the power group who would oversee this program, and the -- you didn't have the task force, but you would -- Irv would make sure that every case --

MR. POLLACK: There was a problem in our period, Stanley. U.S. attorneys were reluctant to prosecute cases.
It must have taken me umpteen years to convince
the southern district of New York that our cases that would
take three weeks to try, or four weeks to try, was something
they ought to do.

And when we finally got them to do one case, and
they saw the results of it, then they said, "Why don't you
send us more cases? And how can we set up a fraud
prosecution unit here?"

U.S. attorneys are subject to that today.

Somebody has mentioned it. They have all these different
priorities they have to deal with.

Now, maybe an occasional U.S. Attorney may pick up
a case, such as you mentioned, because he can do it quickly
and get a plea. But when you're looking at the overall
program -- and I'm watching it now. I don't have
familiarity with the facts -- look at how long it is taking
them to prosecute cases which have all the semblance of
being the greatest corruption we've had in public
corporations of tremendous size.

And so I don't know, because I don't have the
overview, but I don't sense that you have U.S. attorneys
running around trying to grab these cases.

JUDGE SPORKIN: You have task forces now.

MR. POLLACK: But a task force is operating in
areas where they need cooperation.
In our day, you had to send people up there. We spent time with them. We would subjugate our own cases to service them. And eventually, you got to the point where they recognized the importance of these cases.

I just emphasize, looking at it from the outside today, I see tremendous burdens on U.S. Attorney's offices, who have all these additional priorities to cover, and it's so important that these people be prosecuted. Because if the top guys can walk away and say, "Gee, I made a couple hundred million and all it cost me was a couple million bucks in the civil action," you're not going to accomplish anything.

JUDGE SPORKIN: All I was suggesting to you is, in the old days, we had quality control. And the question is: Has that been lost? That's the real question.

MR. WATSON: As Irv says, Stanley, we are confronted today with a situation that's unique in his 57 years and in my 40 years of experience in the capital markets.

It is not totally unlike the situation which confronted the SEC at its inception, when, after the hearings in Congress, it had come out that there was tremendous corruption in the capital markets at that time. If we are fortunate, we'll get the same kind of bright people that the SEC got then, working on these cases,
because of their importance and because of, frankly, the publicity they are engendering.

We'll also get the same bright people at the U.S. Attorney's office, and maybe, from that, we can continue to develop more of what we saw when we were there.

JUDGE SPORKIN: I'm not quarreling that these are bad times, but I've been looking through some of my old papers, and I'm going back 25 years, and I found that, in 1977, we had 650 major corporations confessing to crimes.

Now, they weren't all prosecuted.

MR. WATSON: Are you talking about the Foreign Corrupt Practices Act?

JUDGE SPORKIN: Yes. And they were -- you had managed earnings. You had everything going on then that you have today. I looked through the history and found out that that was so, but that's not the point.

Well, listen, we're getting down to the end. We haven't asked the audience whether they have any questions before we sum it up here.

JUDGE SPORKIN: Does anybody have a question that
you want to come up with? Nobody has a question?

MR. POLLACK: Let me just take a minute.

There are two regional administrators, former regional administrators, that are not here because of illness. One is Steve Hammerman, who was the New York regional administrator for many years, and his name has been mentioned. The other one is Jule Greene, who was the Atlanta regional administrator for many years, and who did tremendous jobs, and I just want to recognize them.

If we can -- make it a quick question here, because I would like to give the panel --

JUDGE SPORKIN: Yes. A couple of minutes to sum up with some comments that they would like to make, which can be beneficial.

MR. FAGAN: My name is Phil Fagan. I used to be securities commissioner in Colorado.

When I started my 20-year career, I felt like I was a regulator who occasionally had to dabble in politics. When I left, I felt like I was a politician who was able to occasionally dabble in regulation.

I'm wondering if, given your collective experience, you think securities enforcement and regulation has really become more politicized now, so that there are other factors to consider in addition to just investor protection?
JUDGE SPORKIN: What do you folks think? That's a good question.

MR. SCHIEF: I've got to answer it from the standpoint of what I see in the news, Phil. If Eliot Spitzer can bring the case that he participated in in New York against the major brokerage firms, with all the political clout that they have, and get that kind of a settlement, I would say that -- that there isn't that kind of pressure that maybe you saw in Colorado. That's my surmise.

MR. POLLACK: Kevin, you have a comment, maybe, in that area.

JUDGE DUFFY: I have a comment on everything. But my problem is, in the 30-plus years I've been a district judge, I have only seen two -- believe it or not -- two civil cases coming to me involving securities fraud enforcement. It bothers me no end. I haven't seen one in the last -- well, you can drop out the last ten years because I'm playing a different game with the terrorists. But before that, it was ten years, and I saw nothing. Now, I was one of 28 regional district judges at that time, and I should have seen a lot more than that many.

Do I see less enforcement? On a personal basis,
absolutely. It's unfortunate, but there you go. I see a lot of pleas, but not the civil enforcement that there used to be.

JUDGE SPORKIN: Does that include consents too, Kevin? You only had two consents?

JUDGE DUFFY: That's it.

JUDGE SPORKIN: In 30 years?

JUDGE DUFFY: Yes.

MR. POLLACK: Michael, quickly, so we can give everybody an opportunity.

MR. STEWART: Well, I just think criminal enforcement is probably the most important thing the Commission can do, because if jail -- the specter of going to jail will deter a white-collar criminal. It won't do anything to the street criminal. And I think the Commission has really got to push that.

JUDGE SPORKIN: Why don't we give everybody a minute.

MR. POLLACK: Bill, would you like to say something in the end?

MR. SCHIEF: I think I've said enough.

JUDGE SPORKIN: Why don't we give everybody a minute to sum up. Jerry.

MR. BOLTZ: Maybe because of the economy, but many of the states are suffering financial crises, and as a
result of that, some of the securities departments within
the states have been cutting back. California, for
example, has cut back enormously on its enforcement staff.
So I think that's a concern; that the states
aren't going to be doing as much as they have.
JUDGE SPORKIN: Randy.
MR. FONS: I'm the new kid on the block, so I
don't have much to say as far as history goes. I guess the
only thing I would say, it will be very interesting to be
sitting here in this chair ten or twelve years from now,
doing another tape like this, to talk about what we are
seeing in the markets right now.
The enforcement activity that's going on, the
legislative activity that is going on, the rule-making
activity that is going, the Public Company Accounting
Oversight Board, all has a lot of potential for possible
good, but it will be very interesting to see what happens
over the course of the next two, three, four, five years, so
we can talk about it ten years after that.
MR. BOLTZ: Sarbanes-Oxley provides a lot of new
opportunities.
MR. FONS: Yes. And it will be interesting to see
whether regulators and Congress and the industry and the
profession take advantage of the opportunities.
MR. SCHIEF: I have a question of you. Do you
believe, currently, the SEC staff and all the facilities
does it have the ability to spot an Enron? All the financial fraud detection devices that we have?

MR. FONS: I don't know the answer to that. You know, I think that no matter how many firewalls you can put in place, and how many people you can put into the Corp Fin, and how many examiners you can have out there, and all that, it goes back to the old saying, "You can't legislate morality."

And if somebody wants to do some sort of Enron-type thing, or WorldCom-type thing, or something where they're just going to work harder at defrauding somebody than they are going to at conducting a legitimate business, I think it's going to be very difficult to detect. I don't know whether we've got the resources right now to do that.

MR. SCHIEF: How about the new rule that requires the execs to sign off, certify?

MR. FONS: You know, for somebody who is going to run a multibillion dollar fraud, I'm not sure having them sign something saying, "I'm not running a multibillion dollar fraud," is going to keep them from doing it.

MR. DAVENPORT: You know, I think, following up on some of these comments, that no matter how many resources the Commission obtains -- budget, personnel -- it always still needs some help in keeping integrity in the
marketplace.

And that goes back to what Jerry mentioned, the states -- Irv Pollack, Hugh Owens, were the greatest advocates of cooperation with the states.

Irv would send me speeches to give before the state legislature, trying to get money for the state's securities commission.

NASD -- like Bill mentioned, they were a tremendous resource during the 1982 penny stock crash. I mean, they did a tremendous job. They did the work in the firm. Frank Bergfeld testified at the court hearings.

So I think that in this whole process, trying to develop -- Don Stocking, every time he would go to a different state, he would make it a point to drop in to the U.S. Attorney's office and say hello. I'm talking Don Stocking, regional administrator from Denver. He was always nursing that relationship.

So I think, you know, today, as busy as they are, Randy -- and the rest of these regions, and Washington -- there is more out there to prosecute than you know what to do with.

So you still got to remember that you do have states, you do have state criminal authority, you still have the NASD, and the U.S. attorneys, and you try to bring together as many resources as you can to accomplish the
ability of keeping the integrity of the marketplace.

MR. WATSON: You haven't mentioned, Bob, what I thought you were going to mention, and that's a group that was addressed by Judge Sporkin a few years ago, when he said, "Where are the accountants and the lawyers in this matter?" And that's a question we all need to be asking ourselves and our professions, because none of this could have gone on for as long as it did without either the active or tacit participation of those professions.

MR. BOLTZ: I think that's a good question, and I think we also have to ask, "Where was the SEC?" Because adding more people to any organization doesn't make it better, necessarily.

I think the Commission needs to be reinvigorated. It needs to be more effective, become more efficient.

As far as I'm concerned, it doesn't need a professional union. It's become too bureaucratic. And it needs good leadership. With that, I think we can have markets that are effectively policed.

Irv, you want to say anything? Anybody want to say anything?

MR. POLLACK: No. But I'm reminded by some of the comments here of when I was interviewed for the job in general counsel's office in 1946. And the lawyers in that
office did not want to work on criminal cases because they thought it was beneath their dignity, if I can put it that way.

And I remember that the assistant general counsel at that time, a fellow named Rubin, after I said I would be perfectly willing to work on criminal cases -- I would have been willing to work on anything at that point -- he said to me, "Well, you'll know as you work in this field, that the one thing that the broker-dealers fear are those bars, and that criminal prosecution is the only way for effective, complete enforcement with respect to the people who are going to be malfeasors in the business."

I think, in closing, we're all influenced by our own periods and by our own problems.

And I just want to emphasize that I think the Commission has, perhaps, the greatest challenge that it has had in years. But the public -- corporations, lawyers, the accountants -- the people who are out there and are supposed to be conducting their business honestly are the ones that have the responsibility, in the last analysis, to make the system work. The Commission can only be an effective regulator and an effective enforcer. But you have to convince the participants that it pays to be honest.

JUDGE SPORKIN: I wanted to thank Carla Rosati for putting this program on. I think this demonstrates
what an important group of people the SEC has.

The SEC has the reputation of being the finest administrative agency in Washington, or in the country, and a good part of the reason you people have experienced here today, is that these people that ran the regional offices, they're clearly the backbone of the Commission. Extremely important. They are the SEC enforcement officer on the beat. And we can all be very proud of their legacy. And the thing that I'll repeat once again, the most honest people, with the most integrity that I've ever found as a group. Remember, not a single scandal among any regional administrator that I can recall.

So I, again, thank you, Carla, for putting this on, and I think it's going to add a lot to the history of the Commission.

MR. POLLACK: Thank you all.

WHEREUPON, the within proceedings were concluded at the approximate hour of 5 p.m. on the 29th day of May, 2003.

* * * * *
REPORTER'S CERTIFICATE

STATE OF COLORADO       )
                          ) ss.

CITY AND COUNTY OF DENVER )

I, YVONNE JORENSEN WALLACE, Registered Professional Reporter and Notary Public, State of Colorado, do hereby certify that the said proceedings were taken in machine shorthand by me at the time and place aforesaid and was thereafter reduced to typewritten form, consisting of 114 pages herein; that the foregoing is a true transcript of the proceedings had.

I further certify that I am not employed by, related to, nor of counsel for any of the parties herein, nor otherwise interested in the outcome of the proceedings.

IN WITNESS WHEREOF, I have affixed my signature and seal this 12th day of June, 2003.

My commission expires September 14, 2006.