

SEC Historical Society
Interview with Pete Driscoll
Conducted on March 15, 2023, by Kenneth Durr

Ken Durr:

This is an interview with Pete Driscoll for the SEC Historical Society's virtual museum and archive on the history of financial regulation. Today is March 15th, 2023. And I'm Kenneth Durr. Pete, good to talk to you.

Pete Driscoll:

Well, thanks so much for having me. Thank you.

Ken Durr:

Well, thank you for having me. It's a great place here. Well, let's start with the beginning and go back into your education and untangle how you ended up in this career.

Pete Driscoll:

Sure. At college I was looking for a major and a number of my family members were in the accounting space. So, I thought that at the time there was pretty strong job placement in the accounting area, particularly with the large accounting firms, I think at that time it was Big Six. And so that's what I focused on and majored in in undergrad. Then went to work for a Big Six firm right after I graduated with a few friends.

Ken Durr:

Where did you go to school?

Pete Driscoll:

So, I went to St. Louis University, that's where I grew up, was in St. Louis, Missouri.

Ken Durr:

Okay. Talk about that experience at one of the Big Six accounting firms. What was that like?

Pete Driscoll:

It was a great experience. The thing I liked most about it was just the variety of different types of clients you had and that you saw. I had clients that were mining clients, I had clients that manufactured whiskey barrels. I had large automotive manufacturers. So just a wide variety of different types of clients. And for me, that was very interesting to learn about business, but also to learn different approaches from an accounting perspective, an audit perspective.

Ken Durr:

So, did you have any interface with regulations, securities regulation in particular?

Pete Driscoll:

You know, I didn't. I always had an interest in it, and which was something that—particularly at that time, I started to follow the stock market a little bit more. This would've been early '90s. And for me, it was always an interest. However, at that time, I didn't have any publicly traded clients, so I was in a group that was called Entrepreneurial Services, which dealt primarily with private.

Ken Durr:

Okay, so very different requirements then, if they're private firms.

Pete Driscoll:

Exactly. Yes.

Ken Durr:

Okay. So how did you come to the SEC?

Pete Driscoll:

Sure. So, it's interesting. What I ended up doing is, I ended up leaving public accounting and I was financial controller for a company. And I remember having a conversation with someone who worked for the US Attorney's Office in St. Louis. He was a sibling of a friend of mine that I had known for a long time. And the work he did for the US Attorney's Office just seemed incredibly rewarding. And so it was that day that I hung up the phone and said, "I'm going to go to law school." And so, I ended up embarking on a four-year journey where I went to law school at night, also at St. Louis University, and worked during the day as a financial reporting manager and accounting position, and just loved the law school experience.

But as I got closer to graduation—I had a career in the accounting space, but I went to law school for a reason, so I looked around at where I felt I would best land. And I thought back to that conversation with somebody from the Department of Justice, and I thought, "Boy, working for the federal government would be a really rewarding experience. Serving the public, serving others." And I ended up thinking, "Well, but with my accounting experience, I could leverage that at a government agency like the SEC." And mind you, this was back in 2000, so it was before WorldCom, Enron. It was before Sarbanes-Oxley. I would like to say that the agency was a little bit sleepier then. And then I started at the SEC in September of 2001. So just right after 9/11, later that month, and moved to Chicago, and that started a 20-year career.

Ken Durr:

So you went into enforcement, right, in Chicago?

Pete Driscoll:

I did, yes. So, it was interesting. When I was coming out, I had interviewed with... Well, actually, just step back. I failed to mention I did an internship. I was a summer intern in the Division of Enforcement in Chicago. And that was a great experience. I worked with some very seasoned enforcement attorneys like John Sikora and Jamie Davidson and Jane Jarcho and Dan Gregus and some folks that—I really had a great experience and I loved it. And so, when I was looking to decide what to do permanently, I interviewed in DC at the Division of Corporation Finance, and then I also interviewed in Enforcement. And ultimately, I chose to do Enforcement. One, it was closer to home, but two, I had worked there the previous summer and I knew people, and I just really enjoyed that aspect of it. So yes, I joined

Enforcement at the Chicago region. Well, I was actually the Midwest Regional Office at that time before they changed the nomenclature a little bit.

Ken Durr:

I understand people still called it the Chicago Regional Office anyway though.

Pete Driscoll:

Yes.

Ken Durr:

Who was the regional administrator at that point?

Pete Driscoll:

So, at that point, it was Mary Keefe. And so, Mary Keefe actually hired me, and it was great because I got to work for her when I was an intern, but the limited exposure to the regional director at the time. But she was involved in the hiring process, and I met with her. And fortunately, I got on. And very fortunate. I love the role.

Ken Durr:

So, were you a staff attorney at that point?

Pete Driscoll:

I was staff attorney, yes.

Ken Durr:

What kind of work did you do?

Pete Driscoll:

I did investigative work, but then I also, early on, three months into the role, I ended up being put on a Ponzi scheme based out in LA. And it was about a, I don't know, \$300 to \$400 million Ponzi scheme, and it was based in federal court. So, we had to go into federal court. We did a TRO, we did an asset freeze, we had a receiver appointed. And it ended up being some work that I did for a number of years after that, particularly working with the receiver to recover money for investors. Then also in terms of just going through that process to litigate it, because it wasn't a settled matter, it was litigated. And so great experience for me. And then because I had some Fed court experience, they ended up assigning me to some other cases like insider trading cases that had been brought and a few other matters, and I really enjoyed that. But I did a lot of litigation at that time.

Ken Durr:

Did you work with the DOJ?

Pete Driscoll:

I did, in a couple of instances. A couple of my cases had criminal elements, and some of the defendants in those cases ended up being indicted and convicted.

Ken Durr:

So, you were a litigator, I guess, in this first part of your career?

Pete Driscoll:

Surprisingly so, yes. When I had my interview with Mary Keefe, she said, "Don't expect to be in federal court in your first few years." And I kind of got lucky. And so, I got that experience very early on.

Ken Durr:

What's the difference between what a litigator would do in that situation and an investigative attorney?

Pete Driscoll:

So oftentimes an investigative attorney will investigate an alleged wrongdoing, do testimonies, talk with company witnesses or outside witnesses, talk to victims, and really try to work to build a theory of the case. To see, one, has there been a violation and, two, assess whether or not we should bring a matter in that case. And then once the matter is actually brought, at least at this time, then typically the case was turned over, if it was going to be litigated in federal court, turned over to trial counsel, which is a position in Enforcement. They're typically seasoned trial attorneys.

So, John Birkenheier in the Chicago office led that program. And then Amy Cotter, who was really instrumental in my experiences and Kay Pyszka, they both really helped me. They were both trial counsel at the time and really helped me because I was a newbie. And so, they really helped me, along with Jane Jarcho, who was my supervisor, and Jamie Davidson, and I worked very closely with them throughout that case and a few others. So, you'll hear Jane was really a mentor to me in multiple points in my career and all the way through to both of our final days at the SEC in senior roles for exams.

Ken Durr:

This sounds like great experience, this litigation type experience. But at some point, you decided to go to the exam side.

Pete Driscoll:

I did.

Ken Durr:

Was that the accountant in you saying, "I really want to use that skill"? Or what was going on?

Pete Driscoll:

It's interesting. What happened there is, before I joined the SEC and went to law school, I was a manager. I managed people, and a couple of things initiated my move to the exam side. One was there were some postings for branch chief positions in the exam program. And so, I applied to one of those because it was a manager role, it was progression from a career perspective. The real driver though is that I was really excited, not that there was anything wrong with the litigation piece, but it was oftentimes suing for prior conduct or investigating conduct that was maybe a couple of years old. And what was attractive to me about the compliance examination program was you would get ahead of those issues oftentimes and try to fix the issues before they became a real problem, before there was investor loss, before the need for enforcement action would come in. So that really drove my

perspective in terms of, I loved the enforcement experience, but at the same time, I thought I could help people more quickly by being in the exam program. And I think as we talk today, I think what you'll see is that's driven a lot of my approach as I've had various roles within the exam program.

Ken Durr:

So, getting out in front of things, I guess.

Pete Driscoll:

Yes, exactly.

Ken Durr:

But you ended up in the investment company, investment advisor area.

Pete Driscoll:

I did.

Ken Durr:

Was that just the job that was open? Did you have a choice?

Pete Driscoll:

It's funny you say that. Both the broker dealer program and the advisor program had openings. And at the time I thought, well, I probably would fit better just with my accounting background in the broker dealer program. But I was open to both, they were both branch chief roles. And I ended up getting selected for the advisor, investment advisor, investment company space. And I'm very happy I did. Considering the growth trajectory for investment advisor registrations and assets under management and the mutual fund growth over the last 20 years, I was really fortunate that I landed there just given everything I saw. And it actually, at the end of the day, aligned a lot with my own interest that I mentioned earlier that once I started public accounting, I just had an interest in the markets. And a lot of it was driven based on investing.

So that's where it was a good match for me. And I was lucky because I ended up working for Tom Kirk there, who was my assistant director and had the pleasure of working for him for close to six years. And he was just a wonderful man, spent his career in that program, subject matter expert in the mutual fund space, and just a great mentor to me. That was a very pleasant time in my career in terms of just having a great boss and someone that I learned a ton from. And Tom was a natural teacher, and so very, very good experience for me at that time.

Ken Durr:

Did you know what you were getting into, the fact that the investment advisor industry was just growing by leaps and bounds?

Pete Driscoll:

I did not. I did not. I knew a little bit about it, and it interested me, they were moving to these large mutual fund complexes that were very retail based. So, I spent some time there focused on that, but not ever anticipating how fast it would grow and how broadly it would grow.

Ken Durr:

You mentioned the mutual fund complexes, which was one part of the growth, I guess. What were some other things that were behind that growth from your perspective?

Pete Driscoll:

So I think retail investors investing more in mutual funds more broadly, towards the latter part of my time there, and then the introduction of ETFs, exchange traded products, which some of those were registered investment companies, and so we'd be responsible for examining them and they would fall in the SEC's jurisdiction. But I think generally though, I think the ability and the connectivity of retail investors to that space. And honestly, you know, think about that time, the internet really was blowing up in the late nine 1990s and then the 2000s. So, I think the ability to interface more directly on a retail basis with some of these large mutual fund complexes where you'd send in a check or potentially wire money. So, there was just more availability, I think, and awareness. And a lot of that came from, I think, just the proliferation of the internet. And I sound really old when I talk about that, but I do think that that was a significant factor in some of the growth of these, just because it allowed for a lot more investors to be reached by mutual fund complexes.

Ken Durr:

So, talk about the day-to-day. I assume you had a number of clients or companies that you were looking at. Just give me a general, what your day was, what your week or month was like.

Pete Driscoll:

Sure. No, it's a great question. We were responsible in the Chicago region of, I think it was eleven states. And so, we would go out on exams typically one week a month. I'd be teamed, I'd be the branch chief on a particular exam, and it would be staffed with a lead examiner and oftentimes other examiners. And we'd travel to a city. And if it was a large investment advisor or mutual fund complex, we may spend the whole week at that firm or multiple weeks, particularly with large mutual fund complexes. Those would be larger teams at the time, and just a lot more to look at. And oftentimes if we went to a firm, we would cover all the registered entities. So, we'd cover the advisor, we'd cover a transfer agent for a mutual fund, and we'd cover all the mutual funds that were registered. So that was something that we spent a lot of time doing.

And what was neat about that is that the day-to-day at that time, branch chiefs would also take areas to look at. And so we'd work with the team, we'd divide up the scope areas that we were responsible for to look at, and then each take an area, and then the assistant director that was assigned to that exam, once we were finished, we'd draft up, at that time it was called a report. And this was before technology improvements and workflow processes and certain systems that we developed after. But early on it was, we'd draft up a long report, and then at the end of the report, there'd be a letter. So, we'd send that deficiency letter to the registrant asking them to fix things basically, or observations of things we've identified.

Ken Durr:

Were these cause exams or cyclical exams?

Pete Driscoll:

A combination of both. At that time, there were more cyclical exams, because frankly, there were fewer registrants. So, we had enough staffing so we could set some cadence to how often we'd actually go out and do an exam. But oftentimes we would get tips that came in or investors that would call up saying, "Hey, I can't get my money. I can't reach my investment advisor. They're not answering the phone. I go to their office space and it's vacant." It's things like that all of a sudden, okay, we're bird-dogging this to run it down to find what's going on. Did they just move or is it something more nefarious than that?

Ken Durr:

For an examiner, did those two types of examinations feel different because of the situation?

Pete Driscoll:

Oh, absolutely. There was a lot more planning that took place when we would do a more routine or cyclical type of exam, because there were a lot of things that we wanted to cover. We wanted to be thoughtful about it. If this was our one shot within a couple-year period, three to five years, we wanted to make sure we did a thorough job and cover the important areas. With cause exams it was, "We're going out tomorrow." It was, "Let's see what we can get in the meantime." And then show up at a firm and say, "Okay, here's the books and records we need to see immediately." So, it was a very different style. Oftentimes, they weren't announced. Whereas in a routine exam or cyclical exam, you'd announce it ahead of time that you're coming, "Okay, this week we're going to be out. Please make sure that you have people available." Things like that. So there definitely was a different temperament and urgency when those cause exams came in.

Ken Durr:

And I would suppose that the firms themselves had a different attitude toward the examiners under those circumstances?

Pete Driscoll:

Yes, they did. Sometimes those could be very hostile and difficult registrars, particularly if they knew that there were some challenges going on. And oftentimes, they didn't necessarily understand the impact of us being there and the significance of that, that if we found certain things that we believed could be happening, that we would refer to Enforcement. And then a whole different temperature existed in terms of having that backdrop where the firm was going to potentially get sued. Then in some cases it could be criminal, and so there could be US Attorney interest depending on what city we were in.

Ken Durr:

Okay. Just a couple more points on your Chicago time.

Pete Driscoll:

Please.

Ken Durr:

Technology. How were you doing your work? Was it spreadsheets? Was it manuals and checklists?

Pete Driscoll:

So, I think early on it, the documentation was note pages and some Word documents that would get printed out. It was paper files typically. There were also some we would save, like disks were common, this was before CDs, disks, a little three by three or whatever it was. Those would get put in the file, and those would be document productions we received from the firms we were examining. That progressed to where things were typed. A lot of Excel spreadsheets too. There was a lot of analysis that was done. So much of the work we did on investment advisors was looking at financial statements, looking at accounting records, looking at certain filings. So, there was a lot of analysis and analytics that was done, just more manually. Trade blotter analysis, so we look at trading that the firm would do. And I think that this is an interesting place where certain tools that were developed later really, really improved that process.

But the trade blotter was a list of every trade that the firm did, and it was in Excel. And so, say we were going to look at cross trades, we'd have to sort the Excel spreadsheet by same security, same day, buy, sell to see if there was a cross. And oftentimes the Excel spreadsheets for the larger firms, we couldn't fit everything into one file. So that was a challenge. So, we had space limitations in a standard Excel document. I think what ended up happening is we leveraged technology toward the end of my time at the Chicago office where we were getting better tools to help us more analytically analyze the trading in a way that was more automated, allowed us to exceed some of the space limitations we previously had with Excel. We used Access, and then ended up hiring quants to really blow out that program. And now it's the National Exam Analytics Tool, NEAT. And that was built by a lot of quants with the help of a number of examiners, particularly in the Chicago office. We had Andy Shelton, Ahmad El-Sabbagh, they really helped us build out that program because they had the Federal securities law and examination experience, and the quants had the technology experience. And matching those two really helped us build out a tool that is so user-friendly.

Ken Durr:

Did you do that in Chicago, build that tool?

Pete Driscoll:

A precursor to it. That team was very instrumental in building out the national tool because we were leveraging technology that was owned and controlled by the Office of Information Technology in DC. And so, there were a lot of stakeholders in the development of those types of tools. It included the subject matter experts in Chicago. And other regions got involved, New York got involved and other regions, LA. And then we had the quant team, which in many ways they're very much technologists. And then we had the Office of Information Technology that really drove as an agency, they had budget, they had resources from the system, they knew the systems and how the tool that we built would fit into the SEC's network.

Ken Durr:

But you had a prototype in Chicago, was that just moving to Access from Excel?

Pete Driscoll:

Yes, I think generally. And that was a big move for us versus Excel. Because in Access, you could build in some templates of and run some queries that you couldn't necessarily do, it was much more manual in Excel, yes.

Ken Durr:

Okay. One other thing, you were ethics liaison for a little while.

Pete Driscoll:

I was.

Ken Durr:

Right?

Pete Driscoll:

Yes.

Ken Durr:

What did that involve?

Pete Driscoll:

Sure. So, what that involved is, we would have new employees come in, and at that time, every regional office had an ethics liaison, which would cover anything that was included in the Office of Government Ethics guidelines. So, it included personal trading and holdings of securities. It included conflicts of interest. So, if we had someone from a law firm come in, they were very careful not to assign them to somebody that they had represented when they were at the law firm. Political contributions, there were some regulations around that. There were a number of areas that every federal employee at the SEC had to abide by. And then there were also incremental ones for the SEC—particularly trading stocks, mutual funds, things like that. So, I couldn't do an exam of a mutual fund if I had a dollar in it. So that was the threshold.

So oftentimes, like a Chicago region, we would hold mutual funds for personal investment outside of the Chicago region, because likely we wouldn't be doing those exams. It would be covered by another region. So that was an area. So I'd consult new employees, I'd give them a training. And then issues would crop up where we would have to work through those challenges that may come up. And so, I worked directly with, at that time it was Merri Jo Gillette, who was the regional director of the Chicago office. She and I worked through a number of things related to her role as the leader of that office to ensure that none of our employees tripped any ethics regs.

Ken Durr:

Anything else we should touch on from that Chicago period?

Pete Driscoll:

The one thing I didn't mention, and I kind of alluded to but I didn't get to, is where Jane and Ahmad El-Sabbagh really helped drive the precursor to the program called Trends. And I mentioned notebooks and disc drives and things. We really tried to automate that program. And part of this started post-Madoff when I was still in Chicago. And they did a great job building out a workflow tool where you could upload documents, you would memorialize a particular exam in the system as opposed to on a yellow legal pad. Then there was the availability that you would have a record that you can refer back to, that they still refer back to. "What did the exam do in 2003 for this particular firm?" And having all that documentation together, have it memorialized. The risk areas were built in that individual examiners could select risk areas and then execute out on that exam based on what those risk areas

were. And then there would be materials, exam resource materials that they could tap into to help them with that.

Ken Durr:

Okay. You mentioned the Madoff revelations. Talk about how that affected you in Chicago just generally and the work.

Pete Driscoll:

So, it's interesting. I left the SEC in 2008. I went and took a role in-house at a manufacturer in St. Louis, doing ethics investigations, and I missed the SEC a lot. And I came back a year later, and by that time, it was after a lot of the events had come to light. And so that period of time for me when I was in Chicago from 2009 to 2013, I worked on a number of project teams to help improve exams. We were getting resources for people for technology. There were some consultants that came in that helped the agency try to improve and fix certain gaps. So I think there were 20 project teams, and this was the time that Carlo Di Florio became the director of OCIE, Norm Champ was the deputy director, and a lot of it was change management.

And so, they pulled together 20 different project teams that covered different areas, whether it be technology tools, whether it be process, whether it be training people, hiring expertise, and subject matter experts from the street to come into the building to help. There were a number of focus areas that were led. And so, I participated in some of those. And so, it was very much a time of change, which was hard. I think a lot of people ... there's a lot of people, just from being a leader of the program, change is hard for some people. And so, trying to move people to a place where you wanted to be and we felt was the right place to help mitigate some of the challenges and risks we may have had in the past.

Ken Durr:

Was there a sense of possibility in here too? I mean, you had people all over the country serving on these focus areas.

Pete Driscoll:

Right.

Ken Durr:

So, I would suppose that in some respects it was a good experience to get these people together to talk about it.

Pete Driscoll:

Oh, it was fantastic. It really made it a national program, because with the regional offices, at that time, there was a lot of autonomy in the regions. And I think that with Norm and Carlo, it really drove a national approach. So, I was working on a project team with somebody from Philly and somebody from Atlanta and somebody from LA. And so, I really got to know other people throughout the program, not just in Chicago. And I think all the project teams were like that. They were made up of a number of the different regional offices, whether it was a small office, a large office, or a medium-sized office, generally to get their voices on these.

And I think you're right. I think a lot of the ideas that came out that led to these project teams came from our program and came from our people saying, we should really do this, and we should really do that. And the other thing too is there were certain things that we weren't legally permitted to do. I think that changed, particularly with Dodd Frank and other hurdles that we may have had, that we were able to overcome that historically, we would've thought, oh, we can't do that.

So, for instance, asset verification. So, the idea of going to a custodian and saying, okay, we want to confirm that this advisor says they have \$1 billion in assets under management, and these 500 client accounts, please provide that information. That was not something we could do before the Madoff event. And I think what ended up happening is post that time period, we were able to get the ability to do that. In my last year, we confirmed over \$5 trillion in assets under management and really kind of built out that program and the processes. And so that was a big result, I think, to be able to go to a third party and independently confirm that the assets they say they manage for a client actually exist and they haven't stolen them.

Ken Durr:

Did the Commission have to write a rule for that? Is that a Dodd-Frank?

Pete Driscoll:

No, it's not an internal rule. It was something that we were able to get support from externally.

Ken Durr:

You mentioned Madoff in the context of the technology improvements, and it sounds like you were on that focus group. Talk about moving the technology forward and what changed, say, during Carlo's time and into Drew Bowden's time in technology.

Pete Driscoll:

Right. So, I will say one, resources. That was a big push in the project teams like, "Hey, we need some resources to build out these tools." Part of it was individuals within the program that really drove those changes. Like I mentioned, the Trends program that was really driven hard by Jane Jarcho and Ahmad El-Sabbagh. They showed some tremendous leadership in pushing that program forward as we brought in subject matter experts from outside.

So, we brought in 20 experts covering different expertise, whether it be equity trading, fixed income trading, whether it be municipal securities, whether it be valuation. We had a lot of different experts, and we brought in a quant. And I think bringing in that group of experts also drove ideas for new technology and new ways of doing things because oftentimes, they ended up being from large financial institutions that we regulated, and they had these great experiences that we could leverage.

So that drove. And then Drew, it was a very noticeable change. He really transformed how we handled data and how we expanded our quantitative analytics unit. And to the point now where when I left, there were around 20 quants in the program. And I will tell you, and it's no knock on examiners, but towards the end, if I could hire a quant, I would choose a quant over five examiners at any point because the ability of the quant to analyze information across hundreds of firms gave us such a leg up. And I think towards the end, we had built out the national exam analytics tool that was better than anything commercially available. For once, the government had a tool that was better than industry. And the credit to Drew Bowden for really starting on having that vision that we were able to carry out with Marc Wyatt—he was an expert that we brought in from the private fund space and then towards my time too.

The other person in that group was the risk team. Jim Reese, he was the chief risk officer for the risk analysis and surveillance team. And he ended up really introducing machine learning and text analytics to the point where we were able to put all the Form ADVs, which is an advisor form, into one database and run text analytics for keywords like guaranteed, risk-free, integrity, ethical, that sentiment language that you may say, how are you going to support that you're risk-free and guaranteed. And then it also was a tool to use, it was certain topical things at the time. So, LIBOR, securities-based swaps, ESG, so that's a tool that carries on that they can surf all the Form ADVs. And so that was another example of technology that was built up.

Ken Durr:

It sounds like this national exam analytics tool was sort of an iterative thing that developed over time.

Pete Driscoll:

Yes.

Ken Durr:

When was it? When did you feel like it was done or ready to go out on the road?

Pete Driscoll:

I think it still continues to be, but I mean where really—we had hired as part of the expansion of the quant team, we hired Elcin Yildirim and Jordan Fisher. Jordan was a video game programmer, and so very graphic-driven, and their goal was to make the analytics tool be like a tax preparation software. And so, where there were next buttons it would automatically run errors if there was some sort of issue with how the information was input. So, there would be some flags there, but then once the information was clean, then it would automatically populate potential leads to the point where they were testing dozens of different rules through that system.

And the goal was to get as many—I kind of look at people that adopt technology: you have 20 percent that are on the advanced end, and then you have another 50 percent, 60 percent that are after adopters, and then you have a 20 percent, that can potentially, it's a struggle for them to adopt new technology. They were really focused on getting that middle, that large group, to be users quickly and to understand it in a way that was user-friendly. And they did an amazing job on it.

And so I would say 2017, 2018, it really was a mature, and then in teaming with Pam Dyson in the Office of Information Technology, we were able to get the support on that to get higher-end processing, to get better storage, really because all the analysis, it took some ump from a tech perspective. And so being able to get the agency to really help us build that out, to be able to manage all that information in a quick usable way.

Ken Durr:

Were people using this throughout the 2010s even though it hadn't been developed completely? Or was there a semi-startup?

Pete Driscoll:

I think it started with Drew. So, I think Drew would've been 2013, 2014 maybe. So, I really think that prototypes were being developed and yes, I think by the time I left there, they were probably on version seven. I mean, it was a very valuable program, and so they continued to update it. So for instance, one

of the later versions when I was there, they were able to get a feed of pricing from an outside vendor that fed into the system so they could compare the pricing that was coming from a registrant to what the high-low was for the day, to see if there's some sort of outlier there.

And it also had newsfeed. So if there was a significant event, like an earnings release or an acquisition, there would be newsfeeds that would tie in, that could correlate to a spike in price, or if a firm bought it for one price and then it sold ... but it would also be a trigger for insider trading. So, if we were able to note that, "oh yeah, this firm was purchased yesterday." They could run it back three days to see when the firm actually bought the securities in the acquired company at the press release and determined whether or not well, did they know something. So very fascinating tool that continues to grow and grow.

Ken Durr:

Now some of your contribution to this technology came in Chicago. I guess you came to DC as managing executive, is that right?

Pete Driscoll:

That's correct, yes.

Ken Durr:

Tell me about that job. That's not one I've heard of a lot.

Pete Driscoll:

So, the managing executive role was created ... I was the second one. It would've been created around 2011. And what it provided, it was like the chief operating officer. At that time, it was all the divisions, and we were a large office at the time at OCIE. At that time there were around 900 people. And basically, you were responsible for the operations of the organization. So, the director could focus on the key issues in their mission. So for purposes of the roles I had, I ran technology, I ran risk, I ran human resources, so I'd be responsible for hiring. I worked with all the regional directors and regional associate directors in terms of rolling out processes and policies and procedures to really focus on that national exam program that we were building post Carlo and then Drew.

So that role was a great role for me because I had an advantage because I came from a region, so I had a regional voice in that role. I wasn't necessarily a so-called bureaucrat from DC rolling out something. I had a good working knowledge of how the regions worked, which I think helped me be more successful in the role that I had. And it also helped the regions because I had ideas and I had their ear or they had my ear in terms of trying to, "Hey, we really have this pain point, we need to fix it." And so, whether it be with some of the other divisions from a technology or human resources perspective or whatever it may have been at the time, budgetary constraint.

So another area is just trying to deal with budget. And so, if we had a continuing resolution from Congress or if we had limited budget dollars that we could use for travel and for other purposes, I'd work through that. And you think about the exam program. It is about almost a fourth of the agency, fifth of the agency at that time. And so, it was over a \$250 million budget with all the people.

Ken Durr:

So, you're moving a lot of things out to the regions to people in OCIE all over the country. What was the toughest one? You're making a lot of sales, you're sort of convincing people to do things. What were the challenges that you remember?

Pete Driscoll:

I think the biggest thing was system-driven. Getting adoption for trends was a tough one because different regions—it was often seen, because Jane and Ahmad did such a great job about building that out, it was often seen as a Chicago thing, and I think other regions had their own versions they wanted to utilize. And so, I think getting all of them together to say, it doesn't have to be just one person driving it. We had a Trends committee. We made it up of small regions, medium regions, large regions. We brought in all the key players.

The other thing too is we built out a technology team in DC that was led by Ed Schmidt, who was our chief technology officer. And Ed had a really difficult job because he had to drive change from a technology perspective that was being driven by the agency, but it was also being driven by our leadership and trying to satisfy a lot of different stakeholders. That, by far, I think, was the toughest thing for me. And then that carried over to the National Exam Analytics Tool because then it became multiple projects that were—from a budget perspective, we had a limited budget. So those teams would compete in terms of, well, who's going to get the allocation in terms of money? Because money wasn't unlimited. And so, having those fights to try to say, okay, how are we going to try to move both in a productive way that will help the program?

And then the second thing I think is new slots that would come, new positions that would become available based on the budget process, how to allocate those to the different regional offices, because every region needed more people. And so, making those decisions was always a difficult one because you were picking between children.

Ken Durr:

Let's talk about risk. OCIE had been interested in risk for a long time, and you look at some of the old documents and they're talking about risk, but it seems like it was becoming more emphasized, perhaps people were thinking about it differently post-Madoff. Tell me what your experience was with that.

Pete Driscoll:

So, I think how I looked at risk, and I think the three things that I really focused on in my time, particularly as director, was the mission, the people, and managing risk both externally and internally. And so, when I thought about risk, the risk team that Jim Reese led had a lot of analytics that they were doing and ever-expanding. And what drove a lot of it was the growth in the investment advisor space because we didn't have enough people, we just didn't have the resources to adequately cover that space.

You mentioned cyclical exams earlier. The exam program truly is now a risk-based program. And they had to move to that place because they didn't have the luxury and resources to continue on an every three to five year cycle. Just didn't have that. And so, then it became risk-based. And so that risk team really built out some analysis where they looked at probably 50 different factors, whether a firm had custody, whether a firm had a disciplinary history, what were the previous exams, risk rating, did they have an enforcement action, how many representatives do they have, how large are they. A number of different factors that were considered in coming up with who do we believe are the top two to three thousand highest risk firms, not that they're high risk, they're just the highest risk.

And some were high risk, but others were just because they play in nuanced security types. They do a lot of securities-based swaps, or they had certain investing styles in the private funds space, because back in 2013, all the private funds started to register with us, and that was kind of a new set of specialization we had to build out, but a new set of risks. In public funds, the mutual funds, there's regular filings.

There was an auditor, a board of directors, they had a lot of third-party service providers, so there were a lot of independent eyes looking at the mutual fund space, the private fund, it's called private for a reason. And so, the visibility, and as Drew Bowden put in his big speech, the "Sunshine," I think was an important factor. But utilizing that risk team, Jim Reese's team, to do that background information, and then he'd provide all that. Him and his team, Brian Snively and others, would provide that information to all the regions on an annual basis.

Actually, they update it every six months. And so, the regions were getting updated information about new registrars, registrars that withdrew, but then also just how the risk profiles were changing for those entities. They may not have had custody before, but all of a sudden in 2017, they now had custody, which is a big factor for us to look at. And so, I think risk was a very, very important. And then in 2000, I guess it was 2016, we really kind of blew out operational risk as well, because it wasn't necessarily only risk looking outward, but we put in place an operational risk team. And Chuck Koretke had led that for a period of time, and he was somebody that came from the Chicago regional office and was a branch chief there, and he moved out to DC.

Ken Durr:

Define operational risk. What do you mean?

Pete Driscoll:

Sure. So, there were internal factors that we had to consider in terms of our management of external risk—resourcing, technology. Data protection became a significant issue back in 2017, but there was a lot ... How we operated as a national program, we needed a risk function to really focus on that. Where should we put new positions based on regional growth? If Miami is growing dramatically, they're going to need more people down there. So doing that analysis. Doing the analysis in terms of adoption of technology and the risks associated with us not fully adopting where we have people on different methods, which created some one inconsistency. I mean, one of the big things I wanted as director is I wanted was an exam in LA to be an exam in New York, with that consistency. Obviously scoped differently depending on the registrant, but in terms of process, we should have a uniform process, and op-risk really helped drive that.

Ken Durr:

OCIE had modules, they had roughly speaking, the same modules being used all over the country, but it sounds like the regions sort of imparted their own flavor to the examinations over time.

Pete Driscoll:

I've heard that. I think it just depended. Certain regions had a real specialty in techniques. So, the Philadelphia office had really become the experts in performance advertising. That was something that they were well known for, and they built out a performance calculation tool, like investment performance calculation tool. And so, they were known for that. Chicago was known for, you had a lot of, particularly in the broker dealer space, a lot of muni activity, a lot of options activity, just given Chicago and the entities that are there. Obviously, New York had the big banking affiliates, and so their expertise was a little bit different than, say, LA. LA had more mutual funds in the LA region. And so, they had that specialty. San Francisco had private funds, hedge funds, private equity, Silicon Valley, and so looking at all the different expertise of there are going to be differences in those programs just based on where they're focused, where they see risk.

Miami, a lot of elderly and retirees down in Miami. So, the risk of fraud by financial professionals was higher there because it was a vulnerable population. So, there were some differences. What I wanted though is I wanted the core to be consistent because frankly, the core was something that was well-thought-out, planned, worked through from a risk perspective, and built out through all those project teams that we had done back in 2010, '11, '12.

Ken Durr:

One more landmark before you become acting director, and that's creating the Office of Risk and Strategy. It sounds like you've been setting the table for that in your discussion of risk, but talk about where the idea came from to create this office and what you did, who supported you, that kind of thing.

Pete Driscoll:

Sure. So as the chief operating, as managing executive, I had technology, I had people, HR, I had risk, and I had some other areas. And then there were also risk teams outside. The quant team was separate. The risk analysis and exam team, and the Ray team were separate. That was a small team primarily out of Salt Lake that had about five, six people, all doing great work. But at times I was worried, and so was Marc Wyatt, because Mark and I worked on this together, worried that there was some duplication, but then also worried that we may have really good technology in one group that the others could utilize that they weren't getting access to. So that was one driver. The other thing too is the role of the managing executive. So much of the time was being spent on technology in HR that I thought that we really needed devoted chief risk and strategy officer.

Pete Driscoll:

So, at that time, the decision was that, okay, so let's break out those two teams, the risk team, and then we brought the quant team in, and we brought the Ray team in. So, you got all the risk people, all the data analysts together, and that I think really created some significant synergies, both from technology use, but also just information sharing. And honestly, it brought some of the best minds that we had into one team. And so, it was really a powerful thing and I think that drove technology use, I think that drove better exams, it drove analysis of hundreds of firms through datasets at one time. So, when you think about a program that's understaffed, that was an area that we could really leverage to look at hundreds of firms through a dataset instead of doing individual exams. And so, from a risk mitigation perspective, it really was an effective way. And then that got leads that they'd find anomalies with different firms, and they'd send that to the different regional offices as referrals, and then the regional offices would be able to run that information down. But it all came from a central place.

Ken Durr:

Yes. And communications, did it function pretty well with the regions talking to the Office of Risk and Strategy in DC?

Pete Driscoll:

It did. It's funny, actually, communication's broader. Let's touch on that just because I think that's an important point. One of the things that Carlo and Norm put in was executive committees, operating committees, technology committees, they really put in some governance, and those committees had representatives from all the regions. So, in terms of sharing of ideas, sharing of information, tackling some of the challenges, the program was working together through that governance that was established and in a really effective way, which I think broke down a lot of barriers in communication.

And included in that you had people like the head of risk, now, the managing executive. So, you had DC and the headquarters involved in those discussions as well and trying to solve the problems for the regions. So, I think from a communications perspective, bringing those committees together really set the stage to where we expanded it out.

We had a people committee, the technology committee, we had a trends committee. There were a number of different areas that we were able to really get buy-in from people. And it really helped, one, make a better product because you got a lot more influence in terms of input. And it also made for a more effective approach and buy-in to go forward in a direction. So, I think from a communications perspective, which was important. From a risk perspective, each of the regions would focus on risk with their registrants in their region. Some were informal, some were more formal, even though they had dedicated positions. And I think that interplay with the risk teams got a lot stronger once we formed the Risk and Strategy Office. I just think because, one, you had a dedicated team and brought in some very productive teams into one place, so the regions would have one place to go to get what they needed and to solve issues.

So, for me, I just thought that that was a pretty effective move that we did. Mark and I brainstormed on this, and one of the great things about Mark was every time I saw him, it was like, how can we make OCIE better today? And I think that time period, to me, was that was a place where we made OCIE better and it took a lot of work, but it got there, and I think everybody kind of agreed that this is the right place for them to be.

Ken Durr:

Okay, so your next step after that was Acting Director?

Pete Driscoll:

I was Acting Director. Surprisingly, Drew left, and that surprised me because I loved working with Drew. He's the one who really, I worked as his right-hand person as the managing executive for a couple years. And then Mark came in, who, I had worked with Mark too, and he became Deputy and then he left. And that one was a surprise just because of the timing, but it was something, there was a change in elections and oftentimes there's some turnover at the director level. And so Acting Chair Piwowar reached out and I went and chatted with him, and he asked if I'd step into the Acting role. Of course, I was like, absolutely. And I will tell you that I never saw myself as that.

Ken Durr:

You what?

Pete Driscoll:

I never saw myself as director. Absolutely not. I never aspired to it. Never saw me in that role.

Ken Durr:

Well, at first you were acting, and a lot of acting directors, or acting anything, you assume the job is to keep the ship pointed straight and don't screw anything up. Was that the approach?

Pete Driscoll:

That was not my approach. This was my program, I had been in it since 2004, and I was like, I may only get a few months to do this. I am going to fix the things I want to fix, and I'm going to make some

change and I'm going to own it because this may be my only chance. And that was the approach I took. I felt like I had nothing to lose, and I wanted to really, if I could fix some things, I was going to do that.

Ken Durr:

So, what was the first step?

Pete Driscoll:

The first step, I had some ideas in terms of both growth and personnel, just with change and rollover of positions. I thought it was important to have multiple deputies and multiple owners of certain programs just given their size. Jane and I had worked through, Jane was Deputy Director at the time, and I really needed more help in DC. So, we talked about trying to get a little bit more backstop for me in DC. And then also a lot of the big program areas I think needed support. So, you saw this movement to the IA/IC program. It had Kristin Snyder and it had Jane. So you saw large programs having two heads and people would say, ah, that never works. But not these people. I mean, we all worked together pretty darn well. And so, you also saw the New York program and the Chicago program. I just felt that we needed a little bit more support in the leadership space. Not because anybody had done anything wrong, it was more, there was just so much growth, or more slots were going to New York and Chicago just given their presence. And so, we added some associate directors in both of those offices and gave opportunities for people to get promoted as well, which I think that that was important to me.

I grew up in the program. I thought it was important to have opportunities for advancement in the program because that trickled all the way down. So, we also had Dan Kahl, that was our chief counsel. And Dan I worked with quite a bit. He also led the Home Office Investment Advisor program. So, what you saw was you saw people having multiple roles, and that, I think, was really important because you had a lot of regional presence. Like Kristin Snyder was in San Francisco, Kevin Goodman was in Denver, Jane Jarcho was in Chicago. And so, you saw some of this overlap. And then Marshall Gandy got into the mix where he was co-head with Kristin Snyder of IA once Jane retired. So those were areas that I just felt were important.

And then we had cybersecurity, and one of the biggest challenges I faced when I started as Acting was Jay came in, Jay Clayton, and cybersecurity and data privacy, those were significant areas because of certain market events that had taken place at that time. The exam program had just been brought into starting to do exams of Reg SCI entities because that rule became final. So, one of the things that, and I'm given a plug to the technology team because I haven't touched that yet, is we built out. Ed Schmidt was primarily in that, and now Dmitry Chesnokov followed Ed's footsteps. But really to try to build out a cybersecurity team, and we went out and we hired six or seven ex-CISOs, chief information securities officers, from registrants and from the street, talk about bringing in some amazing experience. And then we built out a team of contractors that could end up being like a call center for any sort of cyber event. And now you're going to see that expand with new proposed rulemaking, but exams really built that, and I was really proud of that. I mean, I think that Ed Schmidt really did a phenomenal job, Rich Hannibal.

And then we were able to hire Keith Cassidy to be the leader of that team. He had been in Leg Affairs previously under Mary Jo White, and I was able to get him to lead this cyber team. With that, that team really gelled and really became a center of excellence for the agency to the point where they were leveraged in many different cyber scenarios that were taking place by other divisions and offices because we had that real expertise built into that team. So that was something I was faced with early, and that continued to be a top priority. Even today it's still a top priority.

Ken Durr:

It sounds like you kind of had to build that one from the ground up, too.

Pete Driscoll:

We did.

Ken Durr:

There was no sort of precursor to Reg SCI?

Pete Driscoll:

No. We had a few folks that came over from Trading and Markets that were part of a team called the ARP. But then once that rule came into play, we had to hire new people and really grow that program just given the significance and importance of it. And that team was leveraged throughout under Jay Clayton, and it's being leveraged very strongly today. It's just really turned out to be that team really did a great job about building it out.

Ken Durr:

Historically, whenever the examiners would start looking at something new, or even when the exam program was beginning way back when inspections, the SEC would give people time. They'd give the firms time to absorb this new way of doing things and get used to it. Was that the case with something like Reg SCI? Was there sort of a handholding period?

Pete Driscoll:

Yes, I think there was with cyber generally, because we also started doing exams of investment advisors, of mutual funds, of broker dealers in the cybersecurity space. And the approach that we took was very much, look, we get that firms are victims and there's cyber criminals, there's state actors out there trying to hack into our top financial institutions, and we want to make sure that you have the resources and support you need and the information you need. So, we ended up putting out a number of risk alerts in the cybersecurity space. Some if there was a significant event going on and some more generally, that here's our findings from exams we did. It was the first instance that I remember where we actually published the request list announcing that we were going to do these exams and here's what we're going to look for.

I think one of the big themes that I'd like to touch on, just because I think it was important because it really drove a lot of my decision making, is that we didn't have enough resources to cover what we needed to cover from an exam perspective. So, the next best thing was to put out as much guidance as we could, because I felt that if we had that guidance out there, it would help chief compliance officers, it would help firms address risks and address issues more proactively. And we could reach more people by doing that. We could send a risk alert to 15,000 investment advisors or 3,600 broker dealers, and we could only examine 15 percent or 10 percent of them. So that was something that I really felt was important. And cyber was one where we really tried to get information out there throughout my time, particularly as Director, where we did risk alerts, published the request list, and then in early 2020, I think it was January 2020, Jay Clayton, Chair Clayton really wanted to put something more comprehensive out. And so, he and I worked on, along with the technologies control program team, the cybersecurity resilience report.

That was a comprehensive report to really explain what some of the risks are when it came to cybersecurity and financial institutions and our population that we regulated, but then also provide information about what we were seeing and what we were finding and some areas to think about. That was the only report that we put out in exams in the four years that I was director. I mean, that was significant for us. We put out about 30 risk alerts in total in my time, but that cyber report was important to put out just given where the market was at that time.

Ken Durr:

Risk alerts have been around for a while. Did they change substantially under your leadership?

Pete Driscoll:

I really tried to get more and more out and build a pipeline and have a plan. So, over the four years, we put out, I think it was like 32 maybe. So, I was doing close to eight a year, and then we had a pipeline of a couple dozen, and we really tried to incorporate the regional offices with some of these. So if a regional office did an exam initiative, and they had thoughts that they thought would be helpful to get out in a risk alert, the regional office would take the initiative to actually draft the risk alert, and then we'd be able to funnel that through the process. They get reviewed by all the commissioners and we get comments from all the commissioners, and then they get reviewed by the Chair's office. And so that process was always an interesting challenge at times, depending on what it was like, say for instance, ESG, that was an important one to get out.

So, it was a combination of things that were based in DC, but a lot of them came from the regions. They were regional ideas, it was regional work, and it was regional exams that they were summarizing and getting out. So, I really tried to push that publication a lot because the feedback we received and the thought processes behind, I can reach 15,000 entities with a risk alert when I may only examine 3,000 in a year. And so, to elevate the level of compliance by doing risk alerts, I think really helped.

Ken Durr:

Another thing about publications, you've used the phrase "branding of the exam program." How did you go about doing that?

Pete Driscoll:

So that idea, I learned a tremendous amount from Drew Bowden, and that was an idea that Drew had that he really felt that we could improve on. That was important to me because it also was part of my theme about getting more information about risk and about priorities out to the registrant population, and particularly chief compliance officers. That was really my audience. And so, if you look back to before 2017, the priorities documents were typically five, six pages and it was just the priorities. Here's our priorities for the coming year from an exam perspective. I just felt that our program had grown in a way where we had a lot of different program areas. The clearing program was new. One thing we haven't talked about is the creation of FISIO and the BD exchange programs. So, we had those programs that were relatively new, we also had municipal securities that we were covering, and then we had the technologies controls program in addition to IA/IC and other programs.

So, there was a lot going on that was behind the scenes besides just priorities, and I really wanted to put out an informational document almost like an annual report. So, we pulled together in 2017 a much larger document that included a lot of information about market risk, things that were going on such as LIBOR or cybersecurity or different things to make it meaningful for the reader besides here's what

we're going to examine. And so, we spent a lot of time putting that together, and I thought that that would be a very informative document. It also announced our results on what our coverage was in certain areas, how many exams we did, but more importantly, it was about identifying risk. Because if we're worried about a certain risk, we want to make sure that all the firms are in the know on that, because to me, what kind of regulator are we if we're identifying risks and we're not telling the public that they should be worried about them?

So, for me, that was a very important tool of change. And so those documents ended up being close to 25 pages, but I thought that that was important information to share as well as the priorities. We expanded those out as well, and we changed—Dan Kahl had a real influence on how we changed the approach we took as opposed to being pure program area, we took a thematic approach. And Kristin Snyder, too was very instrumental in this because she ran the IA/IC program, she ran the San Francisco exam program, so she had regional experience, and then she was now Deputy Director as well. Having her influence on this document to talk about retail investors, it impacts broker-dealers, it impacts investment advisors, it impacts mutual funds. So, we became more thematic in that document to really drive home certain, you know, cybersecurity is being covered by all our program areas so that became a theme. I think that that was an important document and that was a good way for us to get more information out in our voice.

Ken Durr:

Back to risk, the Event and Emerging Risk Examination team. Tell me about where that idea came from. What was the need there?

Pete Driscoll:

So, in my time, what's unique about exams is you cover all the acts primarily. You have Trading and Market acts, the Exchange Act, so you're dealing with broker-dealers, municipal securities exchanges and clearing agencies. And then you're dealing with investment advisors and investment companies and ETFs and pension consultants and all the things that are in Investment Management. And then you have cybersecurity, which kind of overlays over all of them. And then you end up, one of the things that we had is we had all the different areas. So, it just seemed that when there was a market event, OCIE was there, but TM was there, Enforcement was there, IM was there, Office of Municipal Securities was there potentially, Office of Credit Ratings, a number of different players. But the thing that we had is we had the ability to go in quickly and to help with a market event. And so, we had had versions in the past of committees and things, of certain things that would come up that we pulled together a committee with all the divisions and offices that were relevant. DERA is another one.

But this idea came from Jay Clayton, Chairman Clayton, in terms of we should really have something like a SWAT team within the exam program that can go out in an emergency situation and get information, glean information about emerging risks. Not necessarily because of exams, those were covered by the regional offices. More like, here's an emerging issue. Say it's a bank run or something like that, say it's some sort of significant event. In fact, COVID was a good example with the market declining so quickly. Having a team that was available to go get information for the whole agency, because OCIE was always monikered as the eyes and ears of the Commission because we were one of the few that actually went out, visited registrants, and traveled all over the country. And so, I think that the thought was really have an expert. And then we were able to hire Adam Storch to lead that team.

Adam had previously been the Managing Executive for Enforcement. So, he had been the chief operating officer for the Enforcement Division under Rob Khuzami. So, he had some amazing experience and he agreed to, and was selected for, that role to lead that team. And so, then we went out and we

hired, we felt it was important to have some continuities with some real examiners, but then we hired another team. I think we hired eight more experts in different areas, whether it be cybersecurity, quants, whether it was valuation, because oftentimes if there's a market event, particularly in the investment advisor space, oftentimes there's a valuation concern as well. So, we brought in a number of different experts. And so that was kind of the formation of that team and then it became utilized right away. When COVID hit, we were able to use that team right away to help us deal with certain issues that were going on at that time, whether it be through market volatility or other matters that created some challenges.

Ken Durr:

Another kind of joint venture was you got together with Trading and Markets on a securities-based swaps joint venture. Was that a response to a particular event?

Pete Driscoll:

So that was in response to rule making. And the thought was we put out some rules that had been required by Dodd-Frank, and what we found is in that process, there was just so much collaboration between Trading and Markets and Exams. The thought was, and this came from Chair Clayton, is like, let's have a joint venture where those teams worked together, both on the registration process of these new swap dealers that had to register with the SEC, the surveillance, because this rule was unique because it required the SEC to do explicit surveillance in the rule, historically that was the first time that that had happened. We always did surveillance, but not like this. And so, it's a little bit more robust, and then have an exam function. And so having those teams work together in this joint venture, it was a new type of registrant for us that we didn't have a ton of experience with. And so, it was important to have that collaboration and honestly have the thought leadership from Trading and Markets and the operational expertise that the exam program had. So, we brought in some experienced folks and actually started hiring when I was left to build out that team.

Ken Durr:

Okay. Some other new things that are, it seems like a lot of new things are coming through Reg Best Interest.

Pete Driscoll:

Right.

Ken Durr:

This is another one of these whole new things. What was the challenge of implementing that and examining for that?

Pete Driscoll:

Yes, so it was interesting there. That was a controversial rulemaking. I think that there was a lot of pushback from certain industry participants. There's some litigation that was involved in that process. I think for us is, it was a new standard on the broker-dealer side that was a little like the investment advisor side. And so, we had to train staff, we had to prepare training materials for our teams. We had to pull together an approach on how to examine. We also wanted to educate the registrant population about how we were looking at implementation of the rule in coordination with Trading and Markets. So,

I think those were the big things. And staffing. That was something that we needed more people for in the broker dealer program.

And so, John Polisi did an excellent job in terms of, he led the broker-dealer exchange program, and he did an excellent job putting together different phases of exams, first testing, implementation, training, policies, and procedures. And then after a period of time then testing, trading, and actual activity. And so, it was a long period of time to plan for that. And so, I think that we did it and we put out some risk alerts both before and after. And I think that those were helpful for the industry as well, just for them to get a feel. Ultimately with the goal of protecting retail investors. I mean that was the drive.

Ken Durr:

You had some precedent with the way investment advisor exams had been done to draw from?

Pete Driscoll:

Right.

Ken Durr:

ESG is another one. I can't imagine there was a lot of precedent for that.

Pete Driscoll:

Well, it's funny. There was not, but there was a little, and let me explain that. So, with ESG, how that came about is, this would've been back in 2018, so pretty early on, almost five years ago, I started getting calls from firms saying, "Hey, look, we're a true ESG shop. We have governance, we have rigor, we have discipline. We've been doing this for a while. We're real players in providing investment products and investing in ESG." And now everybody's getting into ESG or so they say. And so that exercise, it's interesting. I went to Chairman Clayton. I said, "Look, I think we need to look at this more from a fraud angle and a misleading disclosures and advertising angle," which that's something we always do, whatever it was in terms of representations by advisors. But this one just so happened to be pretty mainstream and pretty in the news at the time with ESG.

So we went out and did exams of firms, and we used some of the technology that I mentioned earlier in terms of text analytics for Form ADVs, because there wasn't a central place we could go, well, they all checked this box in the ADV that they're an ESG provider. We'd go to websites, and we'd go to their form ADV and do some searching and things like that. And that's how we identified who was advertising and who was out there proclaiming that they were ESG. And then those exercises became, "Are your disclosures accurate? Are your policies and procedures in place? And is your advertising not misleading?" And so, whether it's emerging markets or whether it's large-cap or whether it's municipal securities, whatever it is, this one just happened to be ESG.

So, it was a very different subject matter. ESG is so wide, but the principles were the same. And so, if we were citing firms, it was under Section 206 for advertising 206 (4-1). It was things that we typically had cited for misleading disclosures and advertising—and even before these new rules which had been proposed came into play. And that was a big initiative. And I mean, there's been risk alerts since of findings and things like that. And I had a big priority for the agency.

Ken Durr:

Did you have firms back out of it and say, "Okay, fine, maybe we're not ESG after all?"

Pete Driscoll:

I'm aware of certain firms pulling back since the proposal came out last spring. But at the time, no. I think there were so many firms getting into the space, because honestly, investors wanted it. And particularly institutional investors were really driving, like, "Do you do ESG? Because for pension plans and things like that, we want that option."

Ken Durr:

Talk about COVID.

Pete Driscoll:

Yes.

Ken Durr:

As a landmark and really unprecedented.

Pete Driscoll:

Yes, that was an interesting time. And if you would ask me my most significant challenge leading the program, that was it for a number of reasons. But thinking back to that March and April, the toughest decisions were, at least they seemed like it at the time. It was very grave overall. But the toughest decisions were our own employees making that decision, "Hey, look, everybody stay in your homes, shelter in place until we figure this thing out." And then pulling out of the field and doing exams remotely. And the benefit that, I mean, the agency struggled with that in every division. How they were going to continue to operate. The benefit exams had is our whole role was to operate remotely. We'd go out into the field and conduct an exam. We'd go to Cincinnati or we'd go to St. Louis or we'd go to California. We'd do exams out in the field.

So, we were fortunate that we were used to working remotely, just not from a home. We would do maybe 30 percent correspondence exams where we actually wouldn't go out to the field before COVID hit. So, we had some experience there doing paper exams, but it still was a chance for us to not be able to go into an actual firm and see what's going on and do an exam there. So that was a challenge. The other challenge too was, and this is the tough... I mentioned that the people were important. My approach to being the director, I wanted happy people. I wanted people to be excited, as excited as I was to go in every day, whether I was a staff attorney or whether I was a branch chief or whether I was an assistant, I just loved going in every day.

I loved my role, I loved the job, I love the mission. And to me, that was important because not everybody felt that way in such a large program. So, trying to take away pain points for them was important for me. But with COVID, I mean, that was life and death. We had people pass away. People I knew well, and that to me was very difficult. But I will say that the team really rallied. The support from the top leadership at the agency, the Commission, particularly Chairman Clayton, was phenomenal, to help us do the right thing to protect our people. So that was one piece. Now the core piece is how to remain effective in an environment where you were doing correspondence exams for over two years. And I think that the team really found ways through technology and through efficiency to actually get to the same number of firms in an effective way and still conduct effective exams.

And that showed up in recoveries that we had identified that needed to be repaid to investors, to referrals, to significant findings. There were a lot of areas that we had qualitative measures on what was effective for us? It wasn't just coverage. We needed to measure, "Are we finding things?" And I think

that that team, our team really did a great job about continuing to ensure there was effectiveness and actually working with the industry too, because the industry, a lot of them went remote. And so, working through some of those challenges with the industry from a policy perspective, how they supervise their firms and things like that in this new environment, so difficult time. Certainly, probably the most significant thing I had to deal with, honestly in my 20 years at the SEC and I really credit the team and I credit Chairman Clayton and the commission for being human and still being responsible. And I thought that that balance was very good.

Ken Durr:

Speaking of balances, something that definitely came up as OCIE was getting more effective and maybe even becoming better known, was the idea that somehow the line between enforcement and exams was getting blurred. What's your take on that?

Pete Driscoll:

Yes, so it's funny, when examiners were very focused on a number of things, they felt like in terms of what was a good exam? A good exam was finding fraud, which typically ended up in enforcement. A good exam was finding an over-billing to a client or a set of clients and requesting that that money be paid back. Those would often be referrals, fraud, finding real theft, misappropriation. Those would be good findings. Custody rule violations. There's a number of really egregious, misleading disclosures. Like the examiners when they find that, if they can't fix it themselves, and it's egregious enough, referring it to Enforcement was the standard. And that was always seen as a positive result from an exam. And rightfully so. I mean, we're trying to enforce federal securities laws. So, the exam program was a player in that process. I think with the advent of the asset management unit, you saw more enforcement interest in examinations.

And so that too, I think, accelerated some of the interest and some of the discussion about blurred lines, that Exams is really an arm of Enforcement. And which to me, that troubled me because let's go back to the whole reason I wanted to go to the exam program back in 2004. It was because I wanted to fix things. I wanted to fix them quickly, and I wanted to fix them before they needed to go to Enforcement, because I thought that that was much better for the investor. And so how I ran exams was, look, "No, we're autonomous. I mean, we have our own identity, we have independence, and we're going to do what we think is the right thing to do." And we got along great with Enforcement, as we did all divisions, but we also had our mission. And I think Enforcement referrals were part of it.

But if you see something like what we did in recoveries, we started recording and tracking the amount of recoveries that the examiners would find, and ask firms to repay clients for over billing, for system errors, for whatever it may be, but where there was harmed investors, outside of an enforcement process. And that was important to us. I thought that went to the whole reason that I moved to exams. It's just like instant refunds to harmed investors. And to me, I thought that was really important, among other things.

And it's funny you bring that piece up because I think that drove a lot of my motivation to really push for OCIE to become a division. And that was really critical for me is to put OCIE as a division where we would be independent of in a clearer way than the Division of Enforcement, the Division of Trading and Markets, the Division of Investment Management.

I mean, not to mention we were over 1,000 people at that time, but particularly, I think that was an important message to send that we're an exam program. We have our mission and our function, and it's an important one, and it's independent of the other divisions. We collaborate and work together in

things all the time. But I thought that that was a really important message, both internally, but also and most importantly, externally. I thought that that was important to send.

Ken Durr:

So, you mentioned OCIE getting division status. Was that one of Chairman Clayton's initiatives?

Pete Driscoll:

It's interesting. When Chairman Clayton started back in 2017, he asked me, "How could he help? What would OCIE want?" And at the time I had my list of things. A lot of it was slots, people, technology, budget, things like that. But at the end, I kind of in passing said, "Oh, and we'd like to be a division." And there's certain political sensitivities just given how the exams program was first born in the mid-nineties. And certainly, there's been some opinions that are adverse to the existence of OCIE as its own organization and then potentially seen better fitting under other divisions. But at that time, we were so large that it didn't make sense.

And each year I'd kind of joke with him about, "That would be great if we could be a division." And I will say that he was very responsive. He's like, "Well, what does that mean? What would you need to do to change it?" And there was both a political piece to that, but there was also a process piece where things had to get approved. We had to document certain things, and in fact took some, I think some rulemaking to change some of the rules from OCIE to, in this case, we picked Exams as the name, but throughout that process, occasionally it would come up.

And then in 2020, it was the 25-year anniversary of exams, because I think it started in 1995. And to me, I thought, "I'm in my last year as director possibly," and I thought, "Yeah, I'm going to really try." And so, Jay and I talked about it, and he was like, "I'm supportive of this." He's like, "You guys have done a great job. I think it makes sense for you to be a division. And the thing that I ask is we want it to be unanimous among the commissioners." So I went to the different commissioners, and fortunately I had one that used to be in Exams, and that was an easy vote to get, and they were all supportive. The only concern that I had to address was, there was concern that if OCIE became a division would OCIE be creating its own policy outside of the policy divisions like IM and TM?

And so, we put in place some internal controls in our policies and procedures too... Which was something we did already, but we memorialized it to reflect that any issues of first review that were policy driven, we would consult with Trading and Markets, Investment Management. We included OMS as well for muni securities. And we got a unanimous vote to become a division. I say vote, but there wasn't a formal vote. But to me, it was probably the highlight of my career at the SEC and actually the highlight was telling the team... I called a Zoom meeting with 1,000 people, and I think everybody thought... This was late 2020. I think everybody thought that I was going to announce that I was leaving, but I was able to say that, "We are now a division," and we picked Exams. We wanted to keep it simple because we got questions like, "Well, what's the difference between an inspection and an exam?" And I was just like, "Let's just keep it simple." Division of Exams, and now it's called the Exams.

But that was a real highlight, just to see the Brady Bunch on all the Zooms, all the smiles and the excitement and the little emojis coming up with fireworks and stuff. It was really, to me, a really special moment for me as director.

Ken Durr:

How has it worked out? Have your successors let you know and said, "Hey, this has been the best thing going?"

Pete Driscoll:

I think so. I mean, there's certain challenges they're now facing, going back to work, going back into the field. But I think generally though, the way we left it when I left, we were humming. We were doing exams, we were efficient as we could be. We were doing great publications. I think that we really were effective in many ways. And I know Director Best, Rich is in place now. He ran three different regional offices, and so he's very familiar with the SEC and the Exam program. And so, I think it's in good hands.

Ken Durr:

Talk about your decision to leave.

Pete Driscoll:

That was a tough decision. I love the SEC. I originally went there thinking I'd spent three years and move back to St. Louis where I'm from, and then I stayed 12 years in Chicago and then... The Chicago office. And then I moved to DC thinking, "Well, I'll spend three years in DC, and then move back home," and I'm still in DC. And to me, I really enjoyed the work. I felt that I was in the role. It was about four and a half years, and I thought, "It's probably time for somebody with some fresh ideas to take the helm." And for a number of reasons, it was a very tough decision because I loved the people, I loved the program. I felt like I really excelled there, but I really enjoy my new role, and that's been a great change.

Ken Durr:

In the old days—we already talked about how the investment advisor area was expanding so greatly. That was always a problem. And Marc Wyatt made the decision to really change things up a lot. Tell me about the two challenges you had. One is moving broker dealer examiners into the investment advisor area and also getting FISIO up and running.

Pete Driscoll:

Right. Yes, that was a very difficult time in terms of trying to, we talked about operational risk and trying to put our people in the right spots to help us address risks as an organization. And so, one space was, we had this, as you mentioned, this tremendous growth in the investment advisor space in terms of population. While the broker-dealer space had, it has an SRO in FINRA. And so, the coverage that we were getting was in the mid-fortieth percentile annually of broker dealers when we were only getting 10 to 15 percent in the investment advisor space.

So, we offered on a voluntary basis for examiners to sign up to move over to the investment advisors side to help shore up some of the coverage issues we were having. And fortunately, we were able to get, between new additions of positions that at the time the chair had given us, as well as people moving from the broker-dealer program to the investment advisor program, that actually got us a huge jump in what we could do from a coverage perspective to the point where in 2017, it was around 17 percent, which was, I think it went from 11 percent to 17 percent as a result of that.

One thing that came out of that is we were relying more on FINRA to do their role and continue to do exams. So, we established a dedicated team. The FISIO, which was a supervisory and oversight team over the FINRA organization. And that solved a couple issues because there was some strangeness in terms of the interplay that we had with FINRA and the regions where we would go out and do exams together, and then we turn around and oversee those exams in an oversight function. And we thought that we would put in place a dedicated team to only do oversight. And that, I think, helped relations, but it also actually helped us improve quality and work with FINRA in ways for improvement overall. And

Kevin Goodman ran that team. He was seasoned associate director for us. He led the Denver program. He also had filled in a number of times as regional director on an acting basis, both in Fort Worth and as well as Denver.

And so, he's a great leader for that, and really stepped in and was able to build out that team because that team was a new team that needed to be built out. And similarly, we've better defined the clearing program because we had a clearing program. It arose out of Dodd-Frank, and it was responsible for regulating less than 20, but very critical backbone for the financial markets, the clearing agencies. And we put Dan Gregus in charge of that team and got them some more resources to help them because of the significance of that program and its mandate, particularly all the transactions clearing through a few different entities. I mean, there's just a high point of risk.

And Dan, he had run the broker-dealer program in Chicago, and he had a great background to jump into that role and lead that team. And half of that team was in Chicago and half in New York. So, from a geography perspective, it made sense for Dan to step in there. And he still, again, with multiple roles, he still ran the Chicago broker-dealer program, but then he led our national clearing program too.

Ken Durr:

Well, this has been a great talk. You've shed an awful lot of light on some things that I've been working toward for a long time. So, thank you very much.

Pete Driscoll:

Ken, thank you. And it's so fun to talk about, and so many memories come back. And so really appreciate you taking the time to record this for us, because honestly, I think it's important for people to know the history of this agency in a documented way. And I think we can learn a lot from what I've learned in the past and what other people have learned in the past. So, thank you.

Ken Durr:

Sure. Terrific.