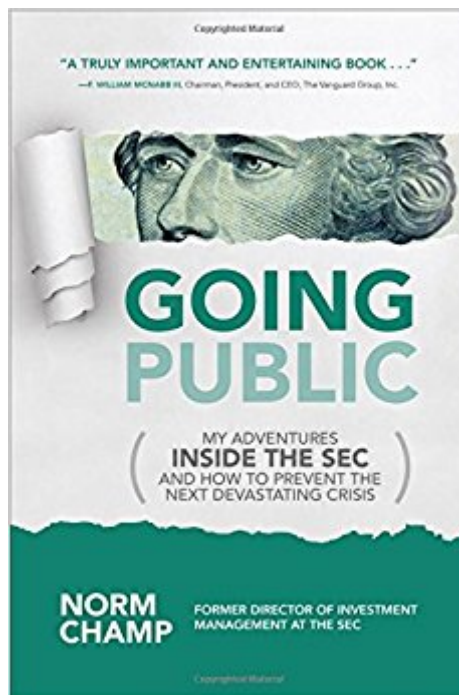




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Going Public: My Adventures Inside The SEC And How To Prevent The Next Devastating Crisis



Synopsis

An insider's look at the SEC and the changes needed to strengthen the U.S. financial system. In 2008, Americans were reeling from the devastating financial crisis that caused the Great Recession. There were searing questions about how the crisis was allowed to happen and calls for immediate reform from Capital Hill, the news media, and the general public. Multiple scandals sent real fear through the investing community and brought unprecedented heat on the Securities and Exchange Commission (SEC). There was little doubt that the SEC had to fix rules that permitted bad behavior, shake off decades of complacency and enforce existing laws. Wall Street lawyer Norm Champ spent nearly 20 years dealing with the SEC on behalf of his clients and as an industry representative working to educate the agency about hedge funds. Believing he could help reform the deeply-flawed agency, Champ left his career in the private sector and joined the SEC. As Director of the Division of Investment Management, he became a key player in stabilizing trillions of dollars of investor capital while reenergizing the SEC's culture and management. In *Going Public*, Champ presents a rare, insider's look at how the SEC operates and explains exactly how the agency impacts the overall economic health of the country. He examines the inner workings of hedge funds, economic policy and politics, investing, and inefficient and frustrating federal agencies. Engrossing and important, this book offers critical recommendations for policy changes that will create healthy, free-functioning markets and help Americans better prepare for the inevitable next crisis.

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Customer Reviews

• With Dodd-Frank and other recent securities-law reforms now under review by a new administration, *Going Public* is, above all, a timely reminder of the benefits of an expert regulator--and of the dangers that may arise when a bureaucracy conducts business as usual. • (Gerald J. Russello *The Wall Street Journal* 2017-04-16) • Champ was so swayed by the impact of the Great Recession, and the failures of the SEC, that he switched teams, joining the regulators in hopes of helping the agency become more successful in its quest to protect American consumers and investors . . . [Champ] advocates for the regulators to be more cautious before taking action, in order to • reduce government interference in the economy. • Government agencies have long been accused of being archaic and inefficient--of being reactive instead of proactive. But if Champ's solution to flawed regulation is less regulation, his ideas might have their best shot under the current administration. • (Gillian B. White *The Atlantic* 2017-04-12) • One of Wall Street's top lawyers is taking aim at one of Washington's biggest regulators. • (Kevin Dugan *The New York Post* 2017-04-15)

• Norm Champ has written a truly important and entertaining book about his time at the SEC in the aftermath of the financial crisis of 2008. • It's been said that history doesn't repeat itself but it sure does rhyme. • Norm's policy recommendations will help America learn the lessons of that period to avoid future crises."--F. William McNabb III, Chairman, President and Chief Executive Officer, The Vanguard Group, Inc. • *Going Public* is first rate, blending policy, history, and anecdotes like only someone who had a front-row seat can. • Norm Champ's account of the SEC, Dodd-Frank, and the financial crisis is a must read for anybody interested in our economy and how our government actually works."--Troy A. Paredes, Commissioner, US Securities and Exchange Commission (2008-2013) and Founder, Paredes Strategies LLC • This is a fascinating, exciting and eye-opening chronicle of a citizen-regulator's five-year journey through a noble dream fast becoming a disaster - the federal bureaucracy. Norm Champ delivers an insider's view of the SEC and he offers a reform plan to promote both protection and economic growth. An outstanding book for everyone interested not just in finance but also in good citizenship. • --Barry Strauss, author of *The Death of Caesar*, Bryce and Edith M. Bowmar Professor of Humanistic Studies, Cornell University. "In *Going Public*, Norm Champ shines a powerful light on one of the most important but least understood components of the American government. • The SEC enjoys little of the attention given to Congress, courts, and the president, yet it regulates the largest and most sophisticated capital markets in the world. • Champ's book vividly illustrates the function and dysfunction of the agency charged with policing America's prosperity. • *Going Public* is an urgent

read for anyone who cares about America's financial future."--William Birdthistle, professor of law, Chicago-Kent College of Law, and author of *Empire of the Fund*

The fallout from financial crime extends far beyond the direct victims. The massive frauds perpetrated by the likes of Madoff and Stanford have compromised the faith investors have in the financial system. Where was the SEC during this time and why were they asleep at the wheel? Norm Champ clearly illustrates how our system failed and provides very common sense solutions which seem obvious to an outsider. While the stories relate primarily to just one department of the government, the SEC, I'm sure that these shortcomings are present in all government branches. Norm, thanks for writing the book, but thank you more for your public service. You clearly left the SEC better than you found it!

Great book Norm! Thank you for your service to the nation on behalf of investors everywhere. It's people like you that government needs more of, you're very inspiring.

Going Public is an interesting, entertaining, and informative read. Norman Champ takes the dry and complicated subject of the SEC and makes it understandable and readable. Going public is a must read for anyone who worries about the US Financial Markets.

Not sure when I last read such a self-satisfied and self-serving account. The author joined the SEC at a low point in its life. He pours scorn on virtually the whole of the organisation at the time and takes virtually all the credit for leading its improvement. There is no shortage of names praised in the book, but the unmistakeable message is "I led the way." Let me highlight (or, perhaps, lowlight) one topic. The secondary market liquidity in corporate bonds is a deeply troubling issue, discussed far and wide as presenting systemic risk. Yet Mr Champ presents the issue as if it was his personal insight which brought this into the public domain and basks in the reflected glory of a conversation with Lloyd Blankfein on the issue. That Bloomberg, WSJ, FT and dealing rooms around the world have been discussing this for years gets not a mention.

This is a well-written account of the author's experience while at the SEC. I have heard similar stories about the inner workings of the SEC, so I find Champ's stories more believable. In some spots though I found myself wondering how he could remember such great detail like how they exactly entered a building and the security that day, etc. Maybe the author simply has a great

memory. In any case, this is not a difficult read and the technical jargon is limited, so I would think many people interested in the topic would enjoy it. The only thing that I didn't like is the chapter on "advice" at the end. Preventing the next crisis is a very difficult task. Regardless of the rules and how they are implemented, there will be people that will try to bend them and, by the law of large numbers, there would be some (by random chance) that would be able to go undetected and end up resulting in catastrophic results.

I liked this book more as a memoir than expose. It is readable with a pleasant, chatty tone. He does a good job describing his role and the challenges facing the financial markets and the SEC. That the government agency is fun like a collection of petty fiefdoms comes as no surprise. The politics and widespread corruption of Wall Street also are not news although they should be. The author does a decent job explaining the mechanics of the system but spends too much time on extraneous material like office supplies. He does make some viable suggestions to forestall the next catastrophe and to accommodate risk. But alas, like the little Dutch Boy, there are too many holes to plug and the hole pluggers won't act until after the dam has broken.

Author Champ previously worked at the SEC (1/25/2010 = start), and now periodically teaches an investment management law class at Harvard. Before that, he'd worked as an attorney in the hedge fund business. On that day no one gave him a job description of his responsibilities as head of examinations of investment firms in N.Y. and N.J. and supervising about 100 examiners, or advised him of problems at the SEC as it and other regulators supposedly struggled to lead us out of the 2008 financial crisis. Previously he'd been warned while interviewing for the job that some employees were capable of anything to stop change - especially coming from someone like him who had not conducted exams before. Champ listened, but couldn't believe that examiners at an agency that had failed to detect major fraud would not want assistance from someone with background in investment funds. Wrong! He soon learned that anonymous complaints were a common tool in the SEC and throughout the federal government - and had been utilized against his respected predecessor. Champ also received many complaints against other managers and employees - something that had never happened before in his 20-years of law practice or at the hedge fund. He, and another senior official spent a great deal of time visiting regional offices and interviewing employees to see what could be learned about those charges. Failure to have done so risked the complaints being forwarded to the agency's Inspector General and/or Congress - they would have questioned how the complaints had been responded to. Regardless, many complaints

left out critical details, wasting considerable time - on average, the 450 investment management investigators only completed on average a little more than two exams/person/year. He quickly realized that an agency in which its employees are guaranteed lifetime employment cannot be laser-focused on its mission of protecting investors. The Madoff and Stanford disasters put Exam on its heels. When an organization is in crisis, everyone who has a stake must charge directly into the emergency at hand. That was not what Champ observed. One of Champ's assistants rationalized these behaviors as due to some staff not wanting any supervision over what they were doing. They couldn't be fired, but the leadership team could! The deadliest weapon in the federal employee arsenal is the IG. An SEC employee is not entitled to representation by SEC lawyers during an IG investigation. The union can send shop stewards with staff. The EEO office is another mechanism for filing grievances anonymously. The usual sign of impending disaster is the inevitable article saying 'this time is different.' Many such had run in 2006 and 2007, predicting real estate would keep rising in value. A 2011 USA Today article stated the federal employees have a greater chance of dying before retiring than being fired. For the fiscal year ending 9/30/11, 5 SEC employees were ousted out of 4,000, vs. a private sector firing rate of about 3%/year. Most SEC employee firing occur in the first two years, when they're on probation. Given procedural and other problems, most government managers rarely even try to fire a problem employee. There's no 'pay for performance' within the SEC - the mechanisms for doing so were never agreed to by the employee union. So everybody gets rewarded the same. The Stanford Group was called out for running a possible Ponzi scheme in 1997 by an SEC Examiner (Julie Preuitt). It was finally seized by the government in 2009 - supervisors wanted more cases, and disliked complicated situations that would impede that. - Their concern was potential difficulties obtaining evidence from a company located in Antigua. In 2011 she protested being reassigned in retribution. There had been 30,000 victims, \$17.5 billion lost. Author Champ had to pay thousands for lawyers and an accountant to defend himself against an anonymous complaint. The SEC has 12 regional offices - none of them had written standards (a manual) for how to conduct an examination - eg. when to ask for trade documentation. (Since Madoff did no trading, this would have ended his fraud much sooner.) Ultimately the SEC has to translate laws passed by Congress into rules and regulations. In 2012 over 250,000 federal employees were allowed to telework. There was no evaluation of its effectiveness - except whether employees liked the arrangement. The two largest groups at the SEC are Examination and Enforcement, and they operate independently. One result - examiners had no access to the detailed tips Enforcement received on Madoff. There was no urgency for change in the examination program after the Great Recession, Madoff, and Stanford disasters. Champ and the head of Examination

tried to create a Kotter coalition of leaders who supported improvements. They called in associate and regional directors from every region to make the case, learn who was supportive and strong, and who was not. The first Examination manual was out in January, 2012. Champ was then transferred to Investment Management in 2012. Money management funds had nearly failed in 2008, and were still problematic in 2012. There was no process to set up a new employee with a computer, etc. The department was known as 'The Wax Museum,' frozen in time and place. Again, no written rules, policies, or procedures. Leaders claimed they were too busy for continuous improvement projects. Champ saw poor working relationships between sections, but they were all very negative towards his suggestion to rotate leadership and other positions. There wasn't even a list of requests from money management firms for waivers - Champ had one created that also listed where each stood in the process. Overall, the group believed they had no involvement in the causes of the near financial collapse in 2008. Champ's recommendations: 1) Merge the SEC and CFTC, OCC into the Federal Reserve. Eliminate government sponsorship of lotteries - poor values, and they also took advantage of their monopoly position to overprice. In today's news (USA Today 4/20/2017), I read that the OCC admitted having 'missed opportunities' to launch an earlier investigation of complaints back in 2010 that Wells Fargo sales incentives pushed employees to open accounts that may not have been approved by customers. It took until September 2016 for punitive action to be taken. Bank examiners assigned to Wells Fargo were aware of about 700 whistle-blower complaints related to the scheme when they met with senior managers in January 2010. There was no evidence examiners investigated these issues further to identify root causes and appropriate supervisory actions needed.

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