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Schapiro: A pro at regulatory hardball

Sandra Block

WASHINGTON - Mary Schapiro, who becomes the top regulator at the controversy-plagued National Association of Securities Dealers next month, is used to dealing with a little turbulence.

When Schapiro took the top job at the Commodity Futures Trading Commission in late 1994, the relationship between the agency and the futures industry was tenuous at best. Futures exchanges, unhappy with CFTC rulings, sought help from sympathetic legislators. Industry leaders called the agency slow and uninformed.

Schapiro didn't waste time. Two weeks after joining the CFTC, she told the industry's movers and shakers to quiet down. "When you attack the CFTC as ineffective, you present yourselves as unregulated or even unregulatable," she told participants at a Chicago commodities conference.

It wasn't the first time the soft-spoken 40-year-old played regulatory hardball. It probably won't be the last.

Schapiro will join the NASD, the USA's largest self-regulatory group for the securities business, during one of the rockiest periods in the organization's history.

The Justice Department is investigating allegations of price fixing in the Nasdaq market, which is operated by the NASD. Critics also contend that the organization hasn't done enough to protect individual investors.

Joseph Hardiman, president and chief executive of the NASD, says Schapiro's experience at the CFTC, combined with her six years as a member of the Securities and Exchange Commission, made her the ideal candidate for the job.

"When we started looking at an appropriate candidate to run NASD Regulation Inc., and we defined the qualifications and started listing candidates, at the top of the list was Mary Schapiro," Hardiman says.

Schapiro's reviews haven't always been glowing. When former president Ronald Reagan nominated her in 1988 to fill a vacancy at the SEC, many in the securities industry criticized the choice.

At the time, Schapiro was general counsel for the Futures Industry Association. "It was awful," Schapiro says in an interview at her CFTC office.

"I was the youngest person ever appointed to the SEC, I was a woman, and everybody was saying I wasn't equipped to do the job."

Schapiro joined the agency during a congressional recess - thus avoiding a contentious confirmation hearing in the Senate - and set out to prove her critics wrong. "The way I approached it was to hunker down and learn everything I could. I made a serious effort to learn before I started making pronouncements."

She tackled several thankless, difficult and unglamorous projects. Her review of the agency's administrative functions led to a reduction in the SEC's backlog of cases. She also worked with overseas regulators on coordinating the settlement of international securities transactions, a dry issue that most people ignore until a big multinational bank or brokerage firm defaults.

In early 1994, the Clinton administration offered Schapiro the job of heading the CFTC. This time, few questioned her qualifications. But Sen. Jesse Helms, R-N.C., blocked her confirmation for months because of an unrelated dispute with the Agriculture Department. She didn't take office until October 1994.

When she finally got in the door, Schapiro didn't have much time to enjoy the view. In late February, she learned that Barings, the venerable British bank, was on the verge of collapse. The reason: Nicholas Leeson, a Singapore-based Barings trader, lost more than \$ 1 billion of the bank's money trading derivatives. The Barings crisis threatened to bring down one or more of the major futures exchanges, a disastrous prospect for U.S. firms with positions on those exchanges. In addition, U.S. firms that had used Barings to clear foreign trades faced a cash crunch.

For five days, Schapiro and her staff spent hours on the phone with foreign exchange officials and regulators. Their efforts paved the way for reforms designed to improve cooperation among international regulators.

Peter Karpen, managing director of John W. Henry & Co. in Westport, Conn., and former chairman of the Futures Industry Association, says Schapiro's management of the crisis raised the CFTC's profile in the USA and overseas. "She presented the CFTC to the international regulatory organizations as a very strong knowledgeable regulator," he says.

Some of Schapiro's initiatives at CFTC drew criticism. Some believed the agency overstepped its authority when it brought an enforcement case against two U.S. units of Metallgesellschaft AG, a German company, for oil-futures trading that nearly bankrupted the firm in late 1993.

Schapiro is unapologetic. "The bottom line for me was, when you have a firm put the entire market at risk, this agency shouldn't look the other way," she says.

Schapiro admits she has mixed feelings about leaving the CFTC now because many of her initiatives, such as overhauling the agency's enforcement division, aren't finished. She says the NASD won out because she believes it has "a very strong role to play in ensuring financial integrity of the markets."

"This job puts together so many things I've worked on for 15 years," she adds. "It seems to fit me very well."

About Schapiro

Age: 40.

Education: Graduated from Franklin and Marshall College in 1977; earned law degree from the National Law Center of George Washington University in 1980.

Political affiliation: Independent.

Residence: Lives in Washington, D.C., with husband, Charles Cadwell, a lawyer, and daughter, Molly.

Hobbies: Adopting unwanted dogs. Schapiro has provided a home for numerous dogs over the years, most of them hounds from the local animal shelter.

GRAPHIC: PHOTO, b/w, Matt Mendelsohn, USA TODAY