Professional Insights

Opinions from Business Leaders We Know and Respect

Interview with Susan M. Boudrot

"If financial firms pay attention to the fundamentals, they will have the best chance at success."

Susan M. Boudrot
Compliance Consultant

What's your backstory?

I grew up in a middle-class family in Massachusetts. My dad was a teacher and my mom stayed at home to raise my sister and me when we were young. They both taught us to be fair and honest, to work earnestly, to enjoy travel and to appreciate history. I attended Regis College, where I majored in Political Science based on my interest in how laws are passed, interpreted and enforced. Then I attended Boston University because they offered a combined JD / MBA degree program. I believed that the MBA degree would position me with prospective employers as someone who took the time to understand business, and as someone who was highly motivated.

Why did you pursue securities law?

Compared with torts, contracts and other legal concepts dating back centuries, I found securities law to be a lot more relevant and interesting. My law school internships also nurtured my interest in securities law. In particular, for two years I interned in the Boston office of the Securities and Exchange Commission, which I greatly enjoyed. That exposure led to my taking a position as an enforcement attorney in the SEC's Los Angeles office, after I left private practice.

What was the reason you left private practice?

There were a few reasons why I didn't like private practice. For starters, I hated billable hours, and charging clients for every minute of your time. I understand the economics involved, but I was more interested in building relationships. I also felt as though I was not in the middle of things. You're there on a transactional basis, to help with litigation, to deal with regulators or draft contracts, but you're not involved in the decision-making process or the culture. I had no interest in someday being a rainmaker. I discovered that working for a law firm was not the right path for me.

What did you enjoy the most and least about your SEC experience?

I enjoyed going after bad guys – wearing the white hat. I liked going through documents and taking testimony to find the fraud or the failure to supervise. I disliked the bureaucracy. While I was at the SEC, we had to write extensive memos to do everything: to get subpoena power, to open a case, to make it an official case, and to close the case. People all the way up the chain, until you reached the Commissioner's office, would re-write what was written in those memos. The bureaucracy, combined with my desire to relocate from Los Angeles back to the Boston area, are what eventually caused me to leave the SEC.

You have extensive experience working for major discount brokerage firms.

After I left the Commission, I joined Brown & Co. -- one of the first discount brokerage firms -- and was their General Counsel and Chief Compliance Officer, where I did everything from writing and negotiating contracts, to handling arbitrations, to writing procedures, to handling registrations and exams and responding to regulators. I had a very small staff and gained a lot of hands-on experience during my 5 years there.

From there, I joined Schwab as Vice President of Compliance, in San Francisco. My original role there was supporting operations, but my responsibilities grew over time to include compliance support for Retail, Marketing, and International. I enjoyed the fast-paced environment and creating new products and services. It was an exciting time to be in compliance.

I was not looking to leave Schwab, but Fidelity approached me at a time when my parents had some illness and I wanted to be closer to them. I also liked the people who interviewed me so I took a compliance position with Fidelity in Boston. I started out providing centralized support for brokerage divisions and investment advisors and managing the privacy office. Over my 7 years there, I served as Chief Compliance Officer for their Retail and Workplace divisions, and supported their insurance and trust businesses. When I left Fidelity, I had no intention of working for another large company, and planned to be my own boss by opening a consulting practice.

But then Jim Reilly from TD Ameritrade asked me to join that firm. I resisted at first, but eventually became the CCO of its retail broker-dealer. I quickly realized how much I enjoyed the work and the culture there. I was given more responsibility as the years went by and when Jim left, I was asked to become its Global CCO. Although I loved working at all of my companies over the years for different reasons, this was the best job by far and I was sad when the company was acquired. Now I'm consulting again.

Do you have observations on the evolution of the discount brokerage business?

I believe that May Day changed everything. When Chuck Schwab, George Brown, the Ricketts family and others offered direct access to investments to average citizens for a reasonable price, it gave Americans (and eventually people around the globe) the opportunity to gain financial freedom. People were no longer tied to banks that paid paltry interest. With a little bit of research, they could participate in the market and make their money work for them. It was a game-changer for the middle class.

Thanks to the internet, there's more and more tools and information available for people to use the discount model and have it work for them. But almost every discount firm, or at least the bigger firms, tend to move beyond the discount model because they realize over time that a portion of their clients need advice or asset management if investing is not a full-time job or a big-time hobby. Also, to be fair, there's additional money to be made in offering people advice or asset management as these are more reliable income streams than relying on commissions and order flow for revenue.

Discount trading is good in that it allows customers of average means the opportunity to make their money work for them, but you need to provide education for these people - it's just core. Many people get into the market don't know what they're doing. They buy a stock, it does really well, they think they're a genius, and then the market becomes bearish and they realize that they're not as brilliant as they may have thought. Maybe they were lucky and bought something like Apple, Tesla or Amazon when they were low, but you cannot rely on luck. In order to be successful in the long term, investors should understand the fundamentals, including the information available on individual companies and funds, how trading and investing work, and the different instruments available to purchase and sell, and the risks involved in participating in the market.

How much of a long-term impact will the "democratization" of investment (Robin Hood, fractional shares, etc.) have on the securities industry, for better and worse?

I think the democratization of personal investment benefits the nation. The more people there are who invest in public companies, the more those businesses can offer. It is good for investors and traders because they can earn income from investing, and it is healthy for the economy as a whole. A lot of people believe that fractionalization of shares is not necessary. I don't agree. If the valuation of Google or Amazon is sky high, the average investor can't buy into those corporations. Companies used to split their stock all the time. It's not as common now to see stock splits. Many corporations want their stock prices to be high, but the average person can't buy at those levels. So fractionalization has to be the way to go.

Can firms expect to see increased or different types of litigation related to investment democratization?

Litigation will always be with us. Litigation and arbitration increase 1) whenever more people participate in the market and 2) with market volatility. As a lawyer, I know that some lawsuits are justified, whereas others are fairly specious. People will always find a reason to litigate. Some people who lose money in the market, even though they made all of their own decisions, will always want to find someone else to blame. Well-written agreements and disclosure of the risks are the best ways to combat claims of all types.

I've been an attorney and compliance officer for a long time, and have learned that litigation and arbitration are not necessarily bad things. Some good can come out of them, because companies often change and improve their systems, processes, policies and procedures when they determine something has failed or something needs clarification or improvements. My experience is that most of the good claims are settled before they make it to litigation or arbitration. This leaves, on balance, more tenuous or bad cases going forward to arbitration and litigation. That does not mean that good plaintiff's cases are always settled but I would estimate that a majority do not proceed to an arbitration panel or courtroom.

Do you expect any significant change in the regulatory climate in a post-Trump era?

Yes. The past administration and the Republican controlled Congress wanted to roll back regulation. Now there are some high profile Democrats who want to significantly increase regulation. I think the right place is somewhere in the middle. Financial firms have multiple audiences - shareholders, customers, employees and regulators. They offer services and products to their clients that are meant to add value to the consumer. Adding this value presumably will increase customer satisfaction and add to the customer base. In turn, corporate profits and shareholder wealth will increase. However, products, services, processes and systems may not work as planned. Regulation protects customers from harm by requiring financial firms to think about what can go wrong both in the design phase and after launch. Regulations often require firms to look for issues and fix problems when things go awry. On the other hand, too much regulation stifles innovation and competition, which can also harm investors. You absolutely cannot prevent people from taking risks and losing money. What's most important is that there is a level playing field in the market, that product and services work as advertised, and that disclosure and education are made available to consumers, so that they understand what they are getting into.

Regulatory agencies in other industries are holding firms accountable for significantly higher standards with respect to cybersecurity. Do you envision a similar trend for financial services firms?

We are already there. The SEC and the CFTC, as well as the SROs, all have been maniacal about cybersecurity for more than a decade. They have experts on staff who have come into firms to review controls and to investigate privacy breaches. I'm certain they are now focused on ransomware given its rise in corporate America.

What's the most significant regulatory / compliance risk where firms need to apply greater focus and resources?

That's difficult to determine. The risk landscape changes constantly in the securities industry. If financial firms pay attention to the fundamentals, they will have the best chance at success. Whatever the risks are - and there will always be risks - firms need to do these 3 things:

- Develop robust controls when you launch a new process, product or service;
- Ensure there is ownership of all processes in the company; and
- Put in place on-going testing both at the corporate and division/ department level. Anticipating and looking for things that could go wrong before there's a problem is key.

Are new products and services a common problem area for compliance?

I would say it is more of an area of opportunity. Making sure you put in appropriate controls at the outset is important. I have found that executives, department heads, product managers and developers always want to move on to the next sexy project, so they will tell you they need to build a minimum viable product (MVP) to launch and will add in other phases later. To accomplish that, Compliance might work with the development team to put in simple controls that will suffice for a pilot or small initial launch. What can happen if Compliance, Risk and Legal are not vigilant, is that the product managers and developers never go back and put in the more robust controls that may be warranted as the product starts to be used by more and more clients.

Getting agreement at the outset ensuring that more robust controls will be put in place after the product or service is launched and successful is a must. Preferably, that agreement will be in writing – the best place being in the original project specifications. Everyone in the Compliance, Risk and Legal chain should be committed to telling management that the controls need to be enhanced for the product or service to continue.

In your CCO role, how did you convey "hard truths" to senior management?

The first rule is to be honest with your business partners, by providing information that is true whether it helps or hurts your argument. You must also be open to their views but you cannot compromise on what you know is the right thing to do.

Also, do your best not to say "no." Sometimes it is the only answer but, most often, there is another way to get to the desired result. You must be able to offer alternatives or new ways of thinking about an issue. Your specific suggestion may not be accepted, but it can lead to other ideas and a better solution. Come to the table with solutions and not just problems.

Ideally, ask for a seat at the ideation table. At product launch, no one wants to call somebody's baby ugly. It's better to provide guidance, ideas and perspective upfront while the project team is determining what the product or service will be. More often than not, my business partners have been surprised at how much value the Compliance team brings to the table. In the end, the more solutions brought to the ideation table, the better – and more compliant – the results will be.

Who were some of the people who've had the greatest influence on your career?

I have been very lucky in my career to have worked with several wonderful managers who have boosted my career. They include George Brown at Brown & Co., Fred Kubler at Schwab, Jeff Carney and Chuck Senatore at Fidelity and Jim Reilly and David Kimm at TD Ameritrade. That said, most of the managers and executives I have worked with have also taught me valuable lessons. I've also learned a great deal from my peers and people who reported to me.

What are some of the leadership lessons you've learned from your mentors?

Here are just a few of the lessons I've learned:

- No one is a fantastic leader immediately. It is a skill that is learned like any other. I try to learn what works for others and see if that will work for me. More importantly, I try to see what someone has done wrong and actively try not to mimic that behavior. You can learn a lot from a bad boss.
- It's extremely important to set annual and multi-year goals, and hold yourself and others accountable for them. This includes checking in on those goals at least quarterly and communicating those goals to the staff. You will not move your program forward in a meaningful way without those goals. You will just be putting out fires.
- Solicit feedback from everyone around you – not just your boss. You will never improve if you cannot see your blind spots.
- Don't pretend to know something when you don't. It's not hard to say, "I need to research that," or "I want to get more opinions." Do your homework and come back with answers.

What guidance would you offer someone starting out in their career?

1) Make sure you wake up most days, if not every day, looking forward to what you have to do that day. In other words, love what you do. If it's mainly a grind

for you to complete your daily work, go find another job that is more exciting for you. 2) When people ask you to do more, say yes, even if it is a beyond your comfort zone. That does not mean you should claim to be an expert in something you are not. 3) When you take on something new, don't ask for more compensation. I have found, for the most part, if you prove yourself, the reward will come. If it does not, give your boss an honest list of accomplishments at raise or bonus time. If it still does not come, ask your boss what it takes for that extra raise or bonus. 4) Don't expect to get the biggest raise or the most bonus, options or shares all the time. Other people need motivation too. 5) If you truly are not recognized, take what you have learned in that job and move on. Go to another department or leave the company altogether. Someone somewhere else will see your worth if you just keep saying yes to responsibility.

What are some of your personal interests?

I really love to travel, and have been all over the world. I enjoy seeing new and different things. I've always been an animal lover, and currently have 3 dogs and a cat. I also work on my garden and make time for some craft work. I am also happy being near water whether I am swimming or boating. But more than anything, I love intellectual challenges - which is why I have always enjoyed my work. Puzzling out a solution to a problem gives me great satisfaction.

Susan M. Boudrot Biography

Susan Boudrot is currently President of Susan M. Boudrot Consulting LLC. She was formerly the Global CCO of TD Ameritrade. Prior to TD Ameritrade, she ran her own successful consulting practice. She previously was CCO of Fidelity Personal & Workplace Investments, Vice President in Compliance at Charles Schwab, CCO and General Counsel at Brown & Company Securities Corp., an Enforcement Attorney with the SEC and an associate in private practice. She has a JD and a MBA from Boston University and a BA from Regis College.