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Equifax Lawyer in Hot Seat

Board reviews actions of chief legal officer in connection with executives' share sales

By AnnaMaria Andriotis And Emily Glazer

The board of Equifax Inc. is reviewing the actions of the credit-reporting company's top lawyer in connection with share sales by executives there in the aftermath of a massive data breach, according to a person familiar with the matter, as it tries to size up who knew what, and when, about the hack and how it was handled.

John J. Kelley, Equifax's chief legal officer, had the ultimate responsibility for approving share sales by top executives days after the company discovered in late July that it had been hacked, according to people familiar with the matter. He also is central to broader questions facing the board because he is responsible for security at the company.

Both Equifax's security approach and the share sales are expected to be the subject of extensive questioning at three congressional hearings this week where the company's former chief executive, Richard Smith, is set to testify. Equifax announced last week that Mr. Smith would step aside as both chairman and chief executive. Before he resigned in what he called "the best interests of the company," Mr. Smith wrote that the breach was the "most humbling moment" in the company's 118-year history.

Equifax's security practices have been a matter of intense interest since the company said hackers apparently breached its data via a publicly identified software vulnerability, which it said it has since patched. Analyses based on publicly available information of Equifax's security systems in the months before the hack by four cyberrisk-analysis companies found weaknesses, showing the company was behind in basic maintenance of websites and scored poorly in areas that would likely play a role in the data

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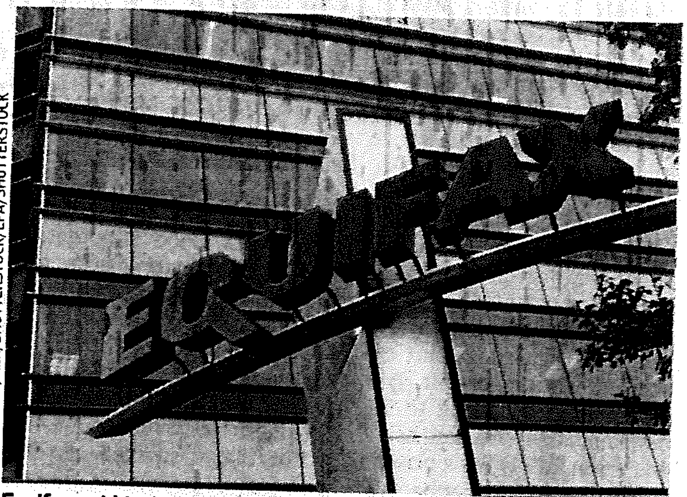

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Equifax said it discovered a massive data breach in late July.

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breach.

Equifax didn't respond to requests for comment. An Equifax spokeswoman previously said the company takes seriously its responsibility to protect the security of consumers' information.

"We have taken short-term remediation steps and continue to implement and accelerate long-term security improvements as part of ongoing actions to help prevent this type of incident from happening again," she said.

Mr. Kelley didn't respond to multiple requests for comment.

Mr. Kelley's position at Equifax differed from peers at rival credit-reporting companies in that he had broad responsibilities beyond legal services, according to people familiar with the industry.

He is one of the senior Equifax executives in charge of security. The company's former chief security officer, Susan Mauldin, reported to him, according to people familiar with the company. She, along with the company's chief information officer, retired a week after the hack was publicly disclosed in early September.

Mr. Kelley was involved in hiring Ms. Mauldin for her role and was her main contact among senior leadership, both for flagging potential issues and for capital requests, according to one of those people.

Equifax put the chief legal officer in charge of cybersecurity so that the chief security officer would report to an unbiased executive, someone who didn't have to choose between IT and cybersecurity when allocating money, according to the same person. Mr. Kelley's predecessor also oversaw security.

Mr. Kelley is also in charge of government and legislative relations, as well as corporate governance and privacy functions.

Three Equifax executives sold shares on Aug. 1 and Aug. 2.

The sales were reported in company filings to the Securities and Exchange Commission on Aug. 3 by a deputy of Mr. Kelley, who as Equifax's chief legal officer was ultimately responsible for approving them, according to people familiar with the approval process.

SEC Chairman Jay Clayton appeared to confirm that the sales are now being investigated by his agency in an exchange with Sen. John Kennedy (R., La.) during a Senate Banking Committee hearing last week. "I'm glad to hear that you're investigating," the senator said to Mr. Clayton, who replied, "Thank you."

Equifax has said the executives, who included finance chief John Gamble, were unaware of the hack at the time of the share sales, which netted the three executives nearly $1.8 million in total, according to company filings.

The company's board is doing its own review to learn more about the trades, one of the people familiar with the matter said.

The executives don't appear to have been involved in meetings about the breach, and the share sales were made during a period when they are permitted, the person said. The sales' approval from the chief legal officer's office has shifted the board's focus to Mr. Kelley, the person added.

It isn't known when Mr. Kelley became aware of the security breach, which Equifax said its security staff discovered on July 29. The company said it patched a vulnerability that was exploited for the hack.

Equifax released its earnings report after the market close on July 26 and held its earnings call the next morning. The company's usual rules barring trading for executives after an earnings report would have made Friday, July 28, or Monday, July 31, the first day they were allowed to trade, according to a person familiar with the company.

On Aug. 2, Equifax contacted Mandiant, the cyber-investigations division of FireEye Inc. to probe the breach. Mandiant was hired by Equifax's outside counsel, and Mr. Kelley likely would have approved that decision, according to another person familiar with the matter.

Mr. Kelley, who goes by "J", joined Atlanta-based Equifax in 2013 from the law firm King & Spalding, where he had worked for 27 years. King & Spalding is one of the law firms handling legal issues pertaining to the Equifax breach.

The law firm handled some of Equifax's legal work for years before the breach, though Mr. Kelley wasn't one of the lawyers assigned to the account, according to people familiar with the matter. Mr. Smith, the former CEO, recommended hiring Mr. Kelley after Equifax's previous chief legal officer, Kent Mast, decided to retire.

Mr. Kelley received total compensation in 2016 of some $2.8 million, according to the company's proxy statement. He received a "distinguished" rating from the company's board for the year in part because of his work on the company's global security.

—Robert McMillan contributed to this article.