Department of Labor Proposes Stricter Investment Broker Regulations

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May 26, 2015

The U.S. Department of Labor is proposing new regulations on the investment industry, claiming its proposed "fiduciary rule" will protect consumers from unscrupulous investment advisors.

The proposal, which will go into effect 60 days after a final rule has been issued by the Department of Labor's (DOL) Employee Benefits Security Administration, would place stricter standards on investment brokers.

Investment brokers would be held to a "fiduciary standard," requiring them to act solely in the client's interests, instead of the current "suitability standard" that only "reasonable basis to believe that the recommendation is suitable for a particular customer."

Treating Investors like Children

Competitive Enterprise Institute Senior Fellow John Berlau says the proposed regulation treats investors as though they are not equipped to decide what is best for themselves.

"DOL bureaucrats actually say in writing they believe people are too stupid to invest," Berlau said. "According to page 4 of the rule, 'Individual retirement investors have much greater responsibility for directing their own investments, but they seldom have the training or specialized expertise necessary to prudently manage retirement assets on their own.' Therefore, they 'need guidance on how to manage their savings to achieve a secure retirement.'

"The DOL itself estimates the rule could cost $6 billion [in compliance costs] over 10 years, but there could be billions more in knock-on effects in loss of capital for entrepreneurs," Berlau said. "Many angel investors and venture capitalists fund startups through their individual retirement accounts. If the rule closes off this avenue of investing, dynamic new firms will die on the vine, depriving the economy of job growth and innovation."

‘A Great Disservice’

Thaya Knight, associate director of financial regulation studies at the Cato Institute, says the government should trust people to understand what they want in an investment plan.

“I think we do the American people a great disservice if we keep saying, ‘You’re not smart enough to understand financial planning,’” Knight said. “There is this trend where we keep saying this, and it results in infantilizing Americans, and it makes people say, ‘Oh, no, I can’t understand this.’”