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Volcker Joins Finance Leaders Calling for Fiduciary Expansion

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A dozen luminaries of the financial world, including former Federal Reserve Chairman Paul Volcker, have signed a petition calling on lawmakers and regulatory authorities to expand the scope of fiduciary responsibilities to encompass more segments of the investment advisory industry, part of a month-long advocacy campaign the Institute for the Fiduciary Standard is planning in September.

The signatories plan to present their Fiduciary Declaration to Securities and Exchange Commission Chairman Mary Schapiro at a meeting on Sept. 11, an event the institute is billing as a highlight of a month it has designated "Fiduciary September."

The declaration warns of a gap in the current level of legal responsibility for various financial professionals as a result of the inconsistent application of the fiduciary standard. The document calls for "evenly applying the fiduciary standard to all advisors and broker-dealers who render investment advice."

"Fiduciary advice is right for investors. The trust it engenders is essential for capital markets," Knut Rostad, president of the Institute for the Fiduciary Standard, said in a statement.

In addition to Volcker, the signatories of the declaration include Vanguard Group founder John Bogle, former SEC Chairman Arthur Levitt and Daniel Kahneman, a Nobel laureate in economics and professor emeritus at Princeton.

Separate proceedings are underway at the SEC and Department of Labor that could alter the extent of the fiduciary standard. The SEC is considering whether to adopt a uniform definition of the term that would apply to broker-dealers the same obligations that investment advisors currently face when serving retail clients. The Labor Department has proposed expanding the fiduciary standard to include advisors who provide advice to retirement plans.

Both proposals have met with strong pushback from various corners of the industry, with some critics warning that a uniform standard could effectively destroy the commission-based practice model, while opponents of the Labor

Department's proposed rulemaking have argued that it would prompt many practices to stop providing advice to retirement plans.

The Institute for the Fiduciary Standard, a nonprofit group formed in 2011 to advocate on the issue, has identified six duties for advisors to meet their obligation under an appropriate standard. They are: to "serve the client's best interest"; "act in utmost good faith"; "act prudently -- with the care, skill and judgment of a professional"; "avoid conflicts of interest"; "disclose all material facts"; and "control investment expenses."

"Fiduciary conduct is an underpinning of the economic system, and is in danger of being effectively marginalized. Regulators and industry participants should keep this threat in mind," said Tamar Frankel, a signatory of the declaration and law professor at Boston University. "Fiduciary conduct requires undivided loyalty and the highest standard of professionalism."

In addition to the meeting with the SEC, the institute has organized a series of activities next month to raise the profile of the issue in Washington, including the release of a report making the case for a stronger fiduciary standard and a public forum at the Cato Institute scheduled for Sept. 25.

Kenneth Corbin writes for Financial Planning.