Wall Street Will (Again) Kill The Passage Of A Fiduciary Standard

By: Jacob H. Zamansky Thursday, May 27, 2010 4:37 PM

The Cato Institute recently reported that there are no less than 28 "studies" recommended in the Senate's version of the financial regulatory reform bill. Of all these "studies," the most wasteful and harmful is the proposed SEC study on a broad application of the fiduciary standard for brokers.

It's wasteful because the SEC already conducted a study on the fiduciary standard in 2008 at a cost of $875,000 to tax payers. And it's harmful because the results of the 2008 study show that investors do not see a distiction between a financial advisor, which adhere to the fiduciary standard and put client interests ahead of their own, and a broker, who can recommend any product so long as its "suitable."

As an investor advocate over three decades, I can say with authority that when a broker recommends a product, the investor thinks this is a form of financial advice. Yet unbeknownst to most investors, brokers often act in their own interests and compensate themselves accordingly. Indeed, brokers are much closer to car salesmen earning commissions than to financial advisors.

Because of this confusion, and the ubiquitous salesmanship of complex securities on Wall Street, its necessary that brokers adhere to a fiduciary standard. Just a few months ago Wall Street, regulators and investor advocates were in agreement that a broad application of the fiduciary standard would be included in the reform bill. The change's effect would have been better service for Wall Street's customers, more disclosure, and lower fees, yet it didn't make Senator Dodd's final bill.

This is even after Goldman Sachs was discovered to have torpedoed its own clients with securities built to fail, and outraged members of Congress stole headlines announcing plans to support the broad application of the fiduciary standard.

While the House financial reform bill includes a fiduciary standard for brokers in limited circumstances, I'm fairly certain history will repeat itself and the provision will mysteriously and entirely disappear when the House and Senate reconcile their respective bills. Congress has yet to show it has the political will to pass a measure that would dramatically curtail Wall Street's highly lucrative business exploiting individual investors.

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