

## NASAA wants study into 'inherently conflicted' SROs

By Dan Jamieson

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State regulators are objecting to proposed amendments to the proposed Investor Protection Act that would eliminate a requirement that the an independent consultant hired by the Securities and Exchange Commission look into the failures at self-regulatory organizations.

“NASAA is concerned that these proposed changes are attempts to limit the scope of the [required] study to the SEC without a robust review of the operation of SROs,” said Denise Voigt Crawford, president of the North American Securities Administrators Association Inc. and Texas securities commissioner, in a letter sent today to the House Financial Services Committee.

The committee is considering amendments to the legislation in hearings today.

Original language in the bill called for the SEC to hire an independent consultant, who would review the “internal operations, structure, funding, and need for comprehensive reform of the SEC, self-regulatory organizations, and other entities” relevant to securities regulation.

But an amendment would strike that specific reference to “self-regulatory organizations,” and replace it with “as well as the SEC’s relationship with the reliance on self-regulatory organizations.”

NASAA thinks the change is giving SROs, namely the the Financial Industry Regulatory Authority Inc., a free pass.


“Given the extent of the damage caused to investors by both the Madoff and Stanford scandals – both of which had firms that were members of an SRO – we believe it would be imprudent to limit the scope of the study,” Ms. Crawford wrote.

Ms. Crawford also called for the SEC and states to retain jurisdiction over investment advisers, rather than turn oversight over to private SROs.

“SROs are inherently conflicted and are not independent,” she said in her letter.

Finra spokeswoman Nancy Condon declined to comment.

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