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Should The Foxes Rule The Henhouse?

Eight ways FINRA oversight of independent financial advisors will hurt advisors and those they serve

ARLINGTON HEIGHTS, IL (May 31, 2012) – House Financial Services Chairman Spencer Bachus is holding a hearing next week on a bill that will hurt small business owners who provide sound financial planning to consumers and who put their clients’ interests first. All advisors, and the American public, should be distressed that this bill would allow the foxes to rule the henhouse. Faced with this reality, the National Association of Personal Financial Advisors (NAPFA) is sounding the alarm.

The seemingly innocently named Investment Adviser Act of 2012 (HR 4624) would strip advisor examination and oversight from the Securities and Exchange Commission (SEC), an independent government agency that has effectively overseen registered fiduciary advisors for over seven decades, to be replaced with a non-government organization called FINRA (Financial Industry Regulatory Authority). FINRA’s member firms are some of the Wall Street broker-dealers who so recently created and sold to unsuspecting consumers the credit default swaps and toxic-mortgage-backed securities, which in large part led to the recent financial crisis.

NAPFA believes there is zero logic in allowing a big business organization with a less stringent Suitability standard like FINRA to oversee independent small business owners who hold to a more stringent Fiduciary standard. If the Bachus Bill is passed into law, FINRA would be allowed to obtain a stranglehold over advisors by charging huge annual registration fees. FINRA would create a hornet’s nest of rules that would make sound advice by independent advisors nearly impossible to economically provide. FINRA oversight would limit transparency and accountability but expand upon the many of conflicts of interest FINRA already possesses

NAPFA sees eight ways in which FINRA oversight will hurt independent advisors and the American public:

1. FINRA’s exorbitant operating expenses and bloated salaries make them more Wall Street than Main Street.
2. FINRA’s mandatory membership fees will put many independent financial advisors who offer advice to middle-class savers out of business.
3. The burden of making small business owners pay mandatory fees to fund FINRA salaries is unconscionable.
4. FINRA is not subject to Sunshine Laws and doesn’t have to hold open meetings.
5. FINRA is not subject to the Freedom of Information Act and is notoriously secret about their books and records.
6. FINRA is an organization run by Wall Street’s executives who, with a “wink and a nod,” purport to oversee their Wall Street colleagues. This is like ENRON overseeing CPAs, or drug companies overseeing your family physician.
7. FINRA has no experience working with financial advisors held to the high fiduciary standard.
8. FINRA acts like a government authority, but without government accountability.

“This issue is too important for truly independent, fiduciary advisors — and the American public — to ignore,” said NAPFA National Chair Susan John, CFP®. “If Chairman Bachus achieves the hostile takeover of small business owners in our industry, he will drive good men and women out of business and harm the consumers they work so hard to serve. NAPFA strongly believes that a properly funded SEC is the best way to ensure investment advisers are truly working in the best interests of those they serve — with accountability and transparency.”

If you would like to discuss the possibility of FINRA overseeing independent financial advisors with NAPFA leadership, please contact Ben Lewis at 301-963-7555 or ben@bdlpr.com.

ABOUT NAPFA

Since 1983, The National Association of Personal Financial Advisors (NAPFA) has provided Fee-Only financial planners across the country with some of the strictest guidelines possible for professional competency, comprehensive financial planning, and Fee-Only compensation. With more than 2,400 members across the country, NAPFA has become the leading professional association in the United States dedicated to the advancement of Fee-Only financial planning.

For more information on NAPFA, please visit www.napfa.org.

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