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# Finra Members Want Say-on-Pay, Independent Madoff Investigation

By Jesse Westbrook - Aug 13, 2010

U.S. brokerages want to weigh in on how much the Financial Industry Regulatory Authority pays its senior executives and urged the watchdog to hire outsiders to investigate its ties to convicted money manager Bernard Madoff.

Securities dealers backed say-on-pay after Finra's 20 top managers received a combined $29.1 million in 2008, the industry-funded regulator said today in a statement announcing voting results from its annual meeting. The pay proposal and the demand that Finra conduct an independent study of Madoff are non-binding, meaning they can be ignored by the board.

"The board of governors continually reviews Finra's policies and practices in order to ensure they support its mission to protect investors and the integrity of our markets," Finra said in the statement. "The board will carefully review each of the proxy proposals beginning at its next meeting."

Elton Johnson Jr., president of Moreno Valley, California- based Amerivet Securities Inc., submitted the proposals and campaigned for them after complaining that Finra's executives are overpaid.

Of brokerages that cast ballots, more than 71 percent supported the provision that would give them an annual vote on the compensation of Finra's five highest-paid executives. More than 68 percent supported the Madoff probe.

Finra, which is overseen by the U.S. Securities and Exchange Commission, gets its funding from the 5,000 brokerages it regulates. The managers whose pay Johnson has questioned include SEC Chairman Mary Schapiro, who received $3.26 million in 2008 while serving as Finra's chief executive officer.

Pay Disclosure

Brokerages also approved a measure that would require Finra to disclose the compensation of its 10 highest-paid employees in the regulator's annual report. That information is now disclosed in tax filings that Finra reports to the Internal Revenue Service.

Other non-binding proposals approved by Finra members include a mandate that the watchdog disclose investment transactions and hire an inspector general to scrutinize its performance as a regulator.

The voting results are "hardly a surprise given Finra's closed-door, secretive culture," Johnson's legal team said in a statement. "It is now up to the board to act on these initiatives."

Johnson sued the Washington-based regulator last year, seeking access to documents that he said may help him determine what caused Finra to lose $568 million on its investment portfolio amid the 2008 financial crisis.

Board Examination

An examination conducted by four members of Finra's board found the regulator uncovered information about Madoff that should have been pursued further. Finra officials have said in congressional testimony that the regulator was handicapped because it only had oversight of Madoff's brokerage, not his money-management business.

Johnson wants investigators not affiliated with Finra to examine connections between Madoff and the regulator's current and former senior executives.

Madoff is serving a 150-year prison sentence after pleading guilty in 2009 to a Ponzi scheme that cost investors as much as $65 billion.

Another proposal approved at yesterday's annual meeting would require the watchdog to unveil IRS documents related to the 2007 merger that formed Finra from the NASD and most of the New York Stock Exchange's regulatory unit.

NASD officials, before brokerages approved the merger, said each member firm would get $35,000 as a result of the combination. Brokers were told at the time that they couldn't get more money because the IRS limits payments by tax-exempt organization to its members. Two brokerage firms questioned the veracity of that statement in an unsuccessful lawsuit filed against Finra in 2008.

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