



# **CORRECTED: Wall St watchdog won't roll over: Finra CEO**

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(Corrects paragraph two to reflect that Allen Stanford has not been convicted, adds background in paragraph four)

By Joseph Giannone and Rachelle Younglai

NEW YORK (Reuters) - One of Wall Street's biggest watchdogs concedes that it needs more bite.

After the biggest financial meltdown in history, the Financial Industry Regulatory Authority accepts responsibility for some of its shortcomings and is trying to do more to protect investors from multibillion dollar frauds such as the one committed by Bernard Madoff.

"We did take a hard look at how we operate with respect to both Stanford and Madoff," Finra Chief Executive Richard Ketchum said this week at the Reuters Global Exchanges & Trading Summit in New York.

Texas billionaire Allen Stanford has been accused of bilking investors of billions of dollars in a Ponzi scheme and is awaiting trial in January 2011.

"We could have done better on both," said Ketchum, who took the helm in April 2009 after about 30 years mostly at the New York Stock Exchange's regulatory arm; NASD, a Finra predecessor; and the U.S. Securities and Exchange Commission.

Finra, which is funded by the financial industry, supervises nearly 5,000 brokerage firms and is overseen by the SEC.

Like the SEC, Finra has been criticized for failing to catch Madoff before he bilked investors of \$65 billion. Finra has also been criticized for being captive to the industry it is supposed to monitor. Although the SEC oversees Finra, it is seen as being hands-off.

But Ketchum said: "We aren't unaccountable. We are tightly interwoven into the securities regulatory environment. The suggestion of a lack of accountability is, I think, a political suggestion."

Now as Congress and the White House try to reform the way the financial system is supervised, Finra is trying to expand its jurisdiction to include investment advisers.

The watchdog is also trying to bolster its enforcement division, creating a whistleblower office and vowing to be more aggressive in investigating the advisory activities of the registered broker dealers.

But although Ketchum has spent more than three decades moving through the regulatory ranks, he is not seen as a tough regulator.

"I have a high opinion of Rick, but that goes to his acute knowledge about the microstructure of capital markets and not to either his regulatory zeal, enforcement experience, or overall management style, none of which have

been tested before moving to the NYSE, then Nasdaq and Finra," said James Cox, a securities law professor at Duke University.

Ketchum has been a regulator through some of the biggest U.S. securities scandals, including the insider trading scandals of the 1980s and the Nasdaq trading-spread scandal of the mid-1990s to the dot-com bubble at the turn of the millennium.

The trading industry views Ketchum as someone who understands markets thoroughly. "There's no regulator who cares as much about markets as Rick," said Chris Concannon, the former head of transaction services at Nasdaq OMX and a former SEC attorney. Concannon is a senior partner at electronic trading firm Virtu Financial LLC.

At the Reuters Summit, Ketchum spoke out about the need for a consistent fiduciary standard for brokers and investment advisers who provide financial advice. He also said Finra's fraud detection and whistleblower offices will "ensure that we have a central focus with respect to people who are sophisticated from a fraud detection standpoint."

To his credit, Ketchum has often been brought in to help clean up messes such as when he became general counsel of Citigroup's investment bank in the aftermath of its tech bubble scandal. For the first time in his regulatory career, Ketchum will be solely accountable for the successes and failures of his organization.

"I have no doubt about his integrity, and I'm telling you no one in the regulatory sector has more experience," said John Coffee, a securities professor at Columbia Law School.

"Yes, he's been around some collisions that have damaged others' reputations. ... But that is far different than saying I think he's responsible."

(Reporting by Rachele Younglai; Editing by Richard Chang)

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