

Susan Light Talks to *Financial Planning* About Problematic Oversight of Fraudulent Behavior in Wealth Management

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Financial Markets and Funds partner Susan Light was quoted in *Financial Planning* about the Financial Industry Regulatory Authority's (FINRA) regulatory oversight of brokers with checkered histories. Detecting a broker's negative past history, including crimes and disciplinary records, so that he or she does not harm a customer's finances, is often a challenge.

To address these concerns and reduce such risks, on March 10, FINRA issued Regulatory Notice 21-09, which announced its adoption of new rules to address brokers with a significant history of misconduct and the broker-dealers that employ them.

“It can be difficult for the industry to detect bad actors precisely because bad actors try mightily not to get caught. Whether it is the brokerage firm, the regulator or the public, everyone is fully aligned in making sure that the broker no longer works in the industry,” Susan said.

In addition to stronger regulations, firms can adopt other best practices to limit fraudulent behavior, including requiring a two-week vacation for brokers (where they can't be in the office to relieve client doubts about phony account statements, and supervisors or other staff would be able to detect problems), creating a plan in addition to requirements imposed by state regulators when representatives switch firms, keeping track of which brokers are receiving sales-related client complaints each quarter, identifying big changes in the products and services sold by a broker, performing ongoing credit checks on representatives with financial disclosures, and reviewing brokers' emails.

A black eye for FINRA? Brokers with checkered histories cast doubt on enforcement efforts.

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