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Regulatory Reform: A Multi-layered Approach

The chilling effects of the global financial crisis exposed how flaws in the current regulatory system leave investors out in the cold. Congress and the administration must weave together multiple layers of protection for investors, markets and the economy as a whole. A multi-layered approach should include federal regulators, state regulators and self-regulatory organizations. The Alabama Securities Commission believes an improved system of financial services regulation must be collaborative, efficient, comprehensive and strong.

Throughout the United States, state securities regulators have a long history of providing national leadership on issues of real concern to Main Street investors. The unique experiences of state securities regulators on the front lines of investor protection provide the framework of the following five core principles for regulatory reform.

First, the new approach to financial services regulation must build upon the collaboration between state and federal authorities. Regulating our financial markets is an enormous challenge that requires the combined efforts of state and federal regulators to protect the integrity of the marketplace and to shield consumers from fraud and abuse. State securities regulators must not be preempted or marginalized as mere advisers to federal authorities. Particularly in the areas of enforcement, licensing and compliance examinations, state regulators add an indispensable layer of consumer protection.

Second, the new approach must take advantage of opportunities to streamline this collaborative system. Better interagency communication is the key to greater efficiency. To facilitate communication, the President's Working Group on Financial Markets should be expanded to include representatives from the state agencies that regulate banking, insurance and securities. Existing federal and state agencies also need better monitoring practices to detect risk in financial markets, share their findings with one another and develop coordinated responses.

Third, the new approach must guarantee that no markets escape regulation. Gaps in the current regulatory system have allowed an enormous amount of capital to be traded on opaque financial markets, free from licensing, oversight and enforcement. Closing these regulatory gaps would ensure greater transparency for all financial markets, products and participants.

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Fourth, the new approach must demand higher standards of conduct in all financial sectors. In the area of securities regulation, authorities should impose the fiduciary duty on all securities professionals who dispense investment advice, including broker-dealers. Every sector must be held to more stringent accounting standards and capital requirements to ensure transparency and solvency

Finally, the new approach must toughen punishments for those who violate securities laws. Lawmakers should increase the enforcement budgets for state and federal regulators to fund aggressive investigations into those who abuse the consumer's trust. Consumers must also be assured the right to seek private action against sellers of fraudulent financial products.

State securities regulators also must continue to provide a valuable layer of protection that – in conjunction with their federal counterparts and industry self-regulators – insulates the investing public, the markets and the overall economy from subsequent financial freezes.

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