

Reed plans to continue examination of ETFs

Rhode Island senator: 'This market deserves more attention'

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Exchange traded funds will soon undergo more scrutiny on Capitol Hill.

Sen. Jack Reed, D-R.I., chairman of the Senate Banking Subcommittee on Securities, Insurance and Investment, indicated that he would follow up on a hearing he held last year on the investment vehicles with another one in coming weeks.

"The [Securities and Exchange Commission] is closely monitoring this issue, and so am I," Mr. Reed said in a statement emailed to InvestmentNews.

On Tuesday, the Financial Industry Regulatory Authority Inc. [levied \\$9.1 million in penalties](#) on four brokerage giants – Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Financial Services and [Wells Fargo Advisors](#) LLC – for selling complex ETFs to retail clients whose conservative portfolios shouldn't have contained the risky investments.

The brokerages agreed to pay \$7.3 million in fines and \$1.8 in restitution to customers who bought unsuitable inverse and leveraged ETFs.

In October, Mr. Reed held a [hearing](#) that featured industry officials and experts exploring whether ETFs contribute to market gyrations that can whipsaw investors.

"My hearing last fall shined a light on these products, which may be affecting market structure, volatility and price discovery and has the potential to harm investors," Mr. Reed said. "I think this market deserves more attention from both domestic and foreign regulators, and I plan to hold another hearing on ETFs and related issues in the near future."

Finra said that the brokerages it disciplined had failed to properly educate their representatives about the intricacies – and dangers – of leveraged and inverse ETFs, which hold derivatives and magnify

market movements. The sales people then turned around and unloaded them on uninformed investors.

“The added complexity of leveraged and inverse exchange-traded products makes it essential that brokerage firms have an adequate understanding of the products and sufficiently train their sales force before the products are offered to retail customers,” Brad Bennett, Finra executive vice president and chief of enforcement, said in a statement. “Firms must conduct reasonable due diligence and ensure that their representatives have an understanding of these products.”

The firms settled their cases without admitting or denying the charges.

Allowing companies to agree to penalties without acknowledging culpability has created controversy in the courts and on Capitol Hill. On May 17, the House Financial Services Committee will hold a hearing on regulatory agencies' settlement policies.