

FINRA's Ketchum Emphasizes Fiduciary Standard; Increased Scrutiny of Variable Annuities

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Although some of the “most profound” proposals in regulatory reform made during the wake of the economic collapse are now not likely to happen, Richard Ketchum, chairman and chief executive officer of the Financial Industry Regulatory Authority said Thursday that the financial services industry still has a responsibility to act aggressively at detecting fraud before it cleans up the mess at the end.

Delivering the keynote address at the Insured Retirement Institute's Government, Regulatory & Compliance Conference in Washington, D.C., Ketchum continued his call for a universal fiduciary standard among advisors and broker-dealers.

He said FINRA will emphasize a stronger risk-based exam program, while adding that there should be a minimum standard that makes certain salespersons are tested and qualified across all financial services products.

Ketchum said that FINRA examiners must be more knowledgeable about what makes various firms ticks—and argued that there is not enough understanding among regulators about smaller businesses. He added that FINRA examiners will focus more on firms that present real risks, and focus less on firms that don't.

Ketchum emphasized the importance of regulating the annuity industry, particularly sellers of variable annuities. With an aging population that grows more concerned with having guaranteed income, he said that the United States is “on the cusp of an era” where anyone associated with selling annuities or other insured retirement products will become increasingly important.

Ketchum said that the sale of variable annuities has increased to \$264 billion in 2008 from \$164 billion at the end of the last century. He also complimented President Obama for recognizing the importance of these products.

Yet, Ketchum said the inappropriate sale of variable annuities continues to be a “major concern” for the industry. He called on sellers to go beyond regulatory requirements to make certain clients understand the products.

All of this leads back to the need for anyone giving financial advice to be able to reach the conclusion that the recommendations being given are in the best interest of the client, Ketchum said. It was a central theme of his address on Thursday, and a message he has delivered numerous times since being named CEO of FINRA more than a year ago.

“Investors are harmed when there are gaps in regulation,” Ketchum said. “We must create an authority where a regulator can adapt to changes in the financial services sector.”