Heck Of A Job, FINRA!

By Editor Test *Sun, Jun 7, 2009*

Mary Schapiro spent the past ten years as president of FINRA or its predecessor, NASD. During that time, FINRA dithered while two stock market bubbles and the Enron crime vaporized the savings of millions of Americans.

The E*Trade commercial where the baby spits up his pablum after he off-handedly explains how easy it is to trade securities online occupies an honored niche in my pantheon of favorite TV commercials.

But while as a viewer I find the commercial very funny, as someone who wishes that the Street policed itself more effectively I don’t think it’s amusing at all.

If E*Trade intends the commercial to popularize day-trading by suggesting that it is child’s play—and what other purpose could it have?—then the ad should have been censored long ago as promissory.

Day-trading, as everyone knows (unfortunately, I don’t have the statistics at my fingerprints), is a sucker’s game. Even active trading is dangerous; day-trading eventually ruins most of the people who pursue it. It’s like crack cocaine.

In a responsible world, Wall Street’s narcissistic watchdog, the Financial Industry Regulatory Authority, would have blocked that commercial from ever traveling over the airwaves and coaxial cables to the ears of the naïve.

That’s just one reason why **President Obama** shouldn’t have picked **Mary L. Schapiro** to become the chairman of the **Securities and Exchange Commission**.

Ms. Schapiro spent the past ten years as president of FINRA or its predecessor, NASD. During that time, FINRA dithered while two stock market bubbles and the **Enron** crime etherized the savings of millions of Americans.

In 1998, Ms. Schapiro talked tough about the need for a rule requiring variable annuity sales to be suitable. It took almost 10 years for her organization to promulgate a suitability rule. Perhaps Wall Street, via K Street, thwarted her. Either way, she’s been ineffective.

FINRA’s compliance lawyers are fastidious about ensuring that variable annuity marketing writers don’t imply that clients’ investments will appreciate. But when it comes to preventing the likes of a **Bernie Madoff** scandal, FINRA has slept as soundly as **FEMA** when Katrina hit New Orleans.

The inconsequence of FINRA—during the Madoff affair, the press has largely ignored it and held the SEC accountable instead—makes Ms. Schapiro’s super-sized compensation as its chief executive unjustifiable.

As the *Wall Street Journal* reported on January 29, FINRA paid her $2.7 million in 2008. She earned hundreds of thousands of dollars a year more as a board member at **Kraft Foods Inc.** and **Duke Energy Corp**.

But her annual compensation, the story said, is dwarfed by “a lump sum payout of between $5 million and $25 million from defined benefit plans of her former employer.”

Call me a wild-eyed radical, but I think I speak for everyone who recently who lost 30% of their savings, or their job, or their home, in asking why someone who protected our money so poorly deserves such lavish rewards.

First, the fact that the securities industry can afford to pay its top watchdog $25 million demonstrates that our supposedly efficient markets aren’t. If the system contains so much slack, investors are paying too much in fees.

Second, the money fatally compromises Ms. Schapiro. She’ll recuse herself on matters related to Kraft, Duke, **Walt Disney Co.**, **Starbucks Corp.**, and **General Electric Co.**, whose shares she owns. But how can she play hardball with an industry that pampered her? How tough will she be on executive compensation?

When I started this rant, I thought I held a minority opinion. Then I read a chain of reader comments about Ms. Schapiro’s appointment on the *Journal’s* website. Her selection irks, insults and confuses many of us who hoped for a fresh start after years of regulatory dysfunction. It’s disappointing. Like that baby in the commercial, I feel like spitting up.

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