Proposed Watchdog Agency May Cross State, Federal Jurisdictions

By Editor Test *Tue, Jul 14, 2009*

Under the proposed Consumer Financial Protection Agency Act of 2009, the new agency would regulate the 14,000 investment advisory firms overseen by state securities regulators.

State-regulated investment advisers would be subject to federal jurisdiction under a legislative proposal introduced last week in the House Financial Services Committee, chaired by Rep. Barney Frank, D-Mass., Investment News reported.

Under the proposed Consumer Financial Protection Agency Act of 2009, the new agency would regulate the 14,000 investment advisory firms overseen by state securities regulators, but not the 11,000 advisory firms regulated by the Securities and Exchange Commission.

The SEC regulates investment advisory firms that manage $25 million or more, while the states regulate smaller firms.

Under the terms of the legislation, the consumer protection agency would also oversee any person who sold or recommended such consumer-oriented financial products as mortgages, credit cards and tax refund loans.

Investment advisers registered with states would be monitored by the proposed agency "to the extent that the person provides investment [advice] to consumers or engages in other financial activities in connection with providing other consumer financial products or services," Eric Stein, deputy assistant Treasury secretary for consumer protection, told Investment News.

But "the proposed act contemplates that a state-registered investment adviser would remain primarily regulated by the state securities regulator with respect to those activities," he said.

Approval of the Consumer Financial Protection Agency Act of 2009 could come as soon as August 1.