Statement

Protecting Investors' Assets

Commissioner Jaime Lizárraga

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Protecting investors' assets is a fundamental component of the SEC's mission. The proposal before us today strengthens and modernizes an existing rule that was designed to provide meaningful and enhanced protections directly to investors, and in particular, to working families who hire an investment adviser.

Our responsibility is to ensure that the public can invest in our markets with the confidence that their assets are protected from misuse, loss, theft, or misappropriation.

In 1962, the Commission first adopted a rule to implement the statutory prohibition on investment advisers engaging in fraudulent and manipulative acts and practices when they have custody of client assets. That same rule, being amended today, required the independent verification and segregation of client assets.

Over time, the Commission strengthened the rule, both to keep up with new market developments and to prevent investor harm from fraud. But egregious misconduct, like the Madoff and Stanford frauds, eroded the investing public's trust in our financial system.

To restore that trust, one key provision of the Dodd-Frank Act -- which has been instrumental in bolstering oversight of our financial markets, promoting financial stability and protecting consumers -- strengthened protections for clients when an adviser has custody over their assets.

Since that provision's enactment, the Commission has pursued numerous enforcement actions against advisers, for example, alleging unauthorized transfers from client accounts, misappropriating assets, and creating false account statements. Regrettably, this type of misconduct occurs far too often and highlights the enormous value to the investing public of the Commission's work in preserving market integrity through robust enforcement.

Today's proposal represents another important step in the Commission's efforts to modernize and strengthen the implementation of our federal securities laws. By expanding custody protections, the public can invest with the confidence that their assets, whether more traditional or novel, are appropriately safeguarded. Strengthened investor confidence also carries with it the potential for increased retail investor participation in our capital markets.

I invite the investing public to visit the SEC's investor portal, Investor.gov. There, you can find the SEC's Investor Bulletin explaining custody of investment assets, including a section on what it means for investors, and possible questions to ask when you are setting up an account with an investment adviser – such as who will maintain custody, how frequently you will receive account statements and how to reconcile discrepancies, and the effect of fees on your investment.

I am pleased to support today's proposal and commend the Division of Investment Management and Commission staff for their diligent work on this proposal and their dedication to investor protection and the public interest.