Friday, February 3, 2012

Volcker, Levitt and Gensler Lead Discussion at John C. Bogle Legacy Forum

Bogle: A "Crying Need for the Fiduciary Standard"

NEW YORK CITY -- Citing the "crying need for a fiduciary standard" in the investment industry, both for investment managers and for advice to investors, John C. (Jack) Bogle's words set the tone for the John C. Bogle Forum in New York on January 31.

Opening remarks included a congratulatory letter from Former President Bill Clinton, which was shared with some 200 invited guests by Institute for the Fiduciary Standard President Knut A. Rostad. "Throughout your celebrated career, you've made it clear that the origins of financial stability lie not within partisanship but within people. I continue to be inspired by your common sense solutions for renewing America's trust with a long-term economic vision," President Clinton wrote.

The Institute for the Fiduciary Standard was the lead organizer of the forum.

Former Federal Reserve Chairman Paul Volcker and Former Securities and Exchange Commission Chairman Arthur Levitt, co-hosted forum. Speakers tackled important investor issues, including Fiduciary Duty: What is the Future?; Corporate Governance and Compensation; and Product Simplicity and Low Cost: The Role for the Indexing Model in The Way Forward.

"Confidence is broken" in the political system, according to Volcker, who advised a ban on proprietary trading and other regulation to stabilize the banking system.

Commodity Futures Trading Commission Chairman Gary Gensler said: "I'm here today as part of an event to honor Jack Bogle, a real innovator who throughout his career was on the side of investors."

Four former SEC Chairmen, Former FDIC Chair Sheila Bair, Former Senator Peter Fitzgerald and many other leading lights in American economics and finance were involved as hosts or speakers at the John C. Bogle Legacy Forum.

When Bogle founded Vanguard and created the index fund, he began a revolution in the investment industry by enabling investors to buy the "market" in one very low cost mutual fund. He structured his mutual fund company for the benefit of its shareholders, who are the company's owners, and as the assets invested in the company's funds grew, lowered fees, benefiting the investor-owners of Vanguard.

That vision, outlined first in Bogle's thesis at Princeton, revolutionized mutual fund investing, has caused fees at other funds to come down in order to compete, and spawned a passionate group of "passive" investors, who benefit from above-average fund performance, helped by the low costs of index investing. Shareholders keep every dollar that doesn't go to expenses and fees, Bogle notes. "I've done the best I could to build a better world for investors."

Princeton economist Burton Malkiel noted what Bogle's vision meant: "Ordinary investors were for the first time given a fair shake." Father of the "efficient market hypothesis," Malkiel also said that Bogle's "cost matters hypothesis" was critically important and that the fiduciary standard was a must when brokers or investment advisors provide advice to investors.

Securities Industry and Financial Markets Association (SIFMA) President Tim Ryan and Former SEC Chair Harvey Pitt, speaking on the fiduciary panel, expressed a very different perspective on the fiduciary standard. They stressed the importance of the fiduciary standard accommodating the needs of the brokerage industry (as opposed to the brokerage industry meeting the requirements of the fiduciary standard).

Dodd Frank legislation authorizes the SEC to extend the fiduciary standard to broker-dealers, which requires that advice to clients be in the client's best interest. Investment advisors already must provide fiduciary advice to investors, but brokers are not generally required to do so. This double-standard has caused concern among regulators. FINRA Chief Richard Ketchum has publicly and forcefully urged brokerage firms to voluntarily meet fiduciary requirements, and not just offer products and services "on the basis of whether they met a minimum (suitability) standard of acceptability."

Forum guests included Nobel Laureate and Princeton Professor Daniel Kahneman and fiduciary expert and Boston University School of Law Professor Tamar Frankel.

In addition to Bogle, Volcker, Levitt, Gensler and Malkiel, many others spoke at the forum:

- Alan Blinder, Princeton University economist, former member of the Council of Economic Advisers, and former vice chairman of the Federal Reserve.
- Jeremy Duffield, Chairman, Australian Centre for Financial Studies (ACFS) Director, MLC; Former Chairman and Founding Managing Director, Vanguard Investments Australia
- Kenneth Feinberg, administrator of BP Deepwater Horizon Disaster Victim Compensation Fund and Special Master of the Sept. 11th Victims Compensation Fund.
- Martin S. Fridson, Global Credit Strategist, BNP Paribas Asset Management, Inc.
- Roger Ibbotson, professor of finance at Yale University, and chairman and CIO of Zebra Capital Management.
- David Ruder, professor of law, Northwestern University School of Law, former Chairman, Securities and Exchange Commission Chairman

- Gus Sauter, Chief Investment Officer of Vanguard Group.
- David Swensen, Chief Investment Officer of Yale University.
- Lynn E. Turner, Managing Director, LitiNomics, Inc.; Former Chief Accountant, U.S. Securities and Exchange Commission (SEC)

The CFA Institute and the Museum of American Finance were co-organizers of the event. Bloomberg LINK was the event sponsor.