

GUARDIAN OF THE INVESTOR

SEC Chairman Arthur Levitt Jr., who began his career as a stockbroker, has been pressuring Wall Street firms to abandon sales and pay practices that he says hurt investors.

Levitt appointed a blue-ribbon panel, including Merrill Lynch & Co. Chairman Daniel P. Tully and billionaire investor Warren Buffett, to study conflicts of interest in the relationship between brokers and investors. In the spring, the Tully committee concluded that brokers frequently recommend investments based on the commissions and fees they earn, rather than what is best for investors.

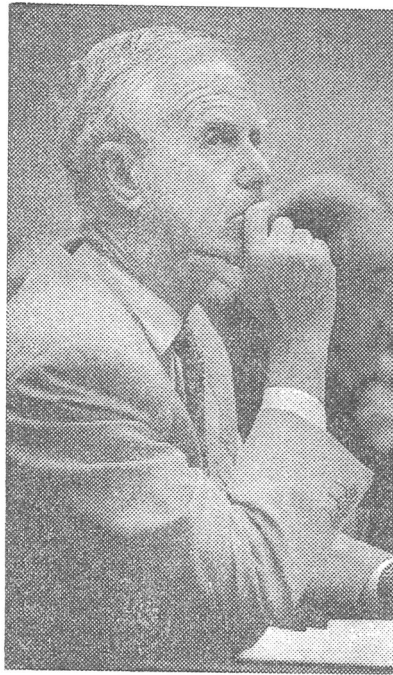
The report cited numerous pay practices that discourage brokers from giving customers the best advice about what stocks, bonds or mutual funds to buy. And it said that if the retail brokerage industry were created anew, the committee would abandon the conflict-ridden pay system that exists today.

"The customer is never quite sure whose interest the broker really represents and that is because the practices surrounding compensation kind of fly in the face of professionalism," Levitt said.

Levitt has taken his message directly to the industry through speeches, private meetings and tough talk aimed at brokers and industry executives. And he has attended town meetings with investors across the country.

But he is running into opposition in Washington. Earlier this month he found his program under attack when a Senate committee cut funding for the agency's investor education program.

In the House, legislators also are threatening to curtail the Securities and Exchange Commission's power and are soliciting ideas from Wall



BY RAY LUSTIG—THE WASHINGTON POST

SEC Chairman Arthur Levitt Jr. says he prefers identifying problems and encouraging brokerage firms to make voluntary reforms.

Street firms about how to diminish the agency's influence. Rep. Daniel Frisa (R.-N.Y.), who heads an SEC reform task force, said the agency should help companies raise money cheaply rather than focus on investor protection.

Congress also has pressed forward with tort reform legislation that would limit the right of investors to sue brokerage firms.

Though he has pledged to look for areas where the agency can pare needless regulation, Levitt insists that "the mission of this agency, the obsession, is investor protection. It comes above every other consideration."

Rather than mandating changes on Wall Street, Levitt prefers identifying problems and encouraging brokerage firms to adopt reforms voluntarily. "By recognizing the right kind of behavior and condemning the wrong, hopefully we will have a better industry and customers that are treated in fair ways," he said.

A poll of major firms showed little initial response to the Tully committee report. But Levitt said some giant firms, including Merrill Lynch and Smith Barney Shearson Inc., are beginning to change some of their practices.

Levitt said brokerage firms need to provide investors with information about sales contests and the numerous types of hidden compensation practices identified by Les Silverstone, the broker he nicknamed "Deep Throat" after Silverstone provided the SEC with information about how Dean Witter Reynolds Inc. and other firms operate.

Dean Witter spokesman Timothy Lee said the firm's officials were studying the issues raised by Levitt. "We are planning to announce our response to the Tully committee in October," Lee said.

"This will be a comprehensive response to the SEC's broker compensation report and the best practices it identified. Dean Witter intends to remain a leader in serving individual investors, and we commend the SEC and Chairman Arthur Levitt for their efforts in setting high standards for our industry."

— David A. Vise