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The Proliferation of Complex Investment Products May Lead to More FINRA Enforcement Actions and Arbitration Claims, PLUS Journal

By Gregg Breitbart, George Meierhofer, Rina Spiewak
(June 12, 2014)

The Financial Industry Regulatory Authority ("FINRA"), which regulates securities broker-dealers and their associated persons, has placed the broker-dealer community squarely on notice that it intends to carefully examine, and rigorously enforce, industry rules relating to the suitability of brokers' recommendations of complex investment products to retail customers.[1] In its January 2014 letter to the industry[2], FINRA identifies among its top priorities for this year the close review of the practices and procedures utilized by firms in describing and recommending complex products, especially those whose risk-return profiles—including sensitivity to interest rate changes—may be challenging for investors, and the brokers recommending these products, to understand. FINRA will focus on the disclosure practices of firms and brokers with respect to complex investment products and will seek to ensure that retail investors receive a "balanced" explanation of the risks and potentially negative scenarios that might result in customer losses.

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