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Wanted: an honest broker on Wall Street

In the 1939 film *Mr Smith Goes to Washington*, Jefferson Smith heads to the US capital to take on ethically challenged politicians and power brokers in his fight for justice and fair play. Investors today could certainly use a Mr Smith on Wall Street.

While the calls from politicians and regulators to provide increased safety to the financial markets are numerous, a credible voice that speaks for the interests of the typical retail investor is conspicuously absent. Meaningful reform must be driven by leaders with unquestionable integrity and an untainted record as guardians of the public trust.

But with the exception of Eliot Spitzer, New York attorney-general, those leading the charge for change are themselves mired by conflicts of interest, past enforcement apathy or questionable ethics. Look at the record:

The Securities and Exchange Commission: William Donaldson, SEC chairman, has emerged as one of the leading critics of the compensation package awarded to Dick Grasso, the former New York Stock Exchange chairman. But he was himself the recipient of a $19m pay package for a mere 13-month stint as chief executive of Aetna, the insurer – a tenure widely regarded as troubled.

The New York Stock Exchange: Mr Grasso's departure from the NYSE has been portrayed as being driven by umbrage over his hefty compensation. Whispers on Wall Street, however, suggest that the pay issue was convenient cover for a cadre of senior executives from powerful Wall Street firms who want to create an electronically linked, national market system for US stocks. The bulge bracket firms would essentially control this system, which would radically diminish the NYSE's significance. Mr Grasso had the power and stature to oppose such a move.

Moreover, the structural reforms proposed by John Reed, the NYSE's interim chairman, do nothing for individual investors. For example, Mr Reed has made no provisions to overhaul the exchange's arbitration process. The current system provides for a three-member arbitration panel composed of one securities industry member and two public members. But frequently these public members turn out to be industry arbitrators in "public" clothing.

State treasurers: Alan Hevesi and

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Phil Angelides, the state treasurers of New York and California respectively and guardians of state pension plans, were among the most vocal in their calls for Mr Grasso's resignation and for a radical overhaul of the NYSE. But they have both engaged in "pay to play" – accepting political contributions from financial institutions and then rewarding them with lucrative bond business.

As New York City comptroller, Mr Hevesi approved the investment of $130m in New York City pension money to a private equity fund that contributed or helped raise more than $100,000 for his earlier mayoral campaign. The revelation inspired a call for curbs on campaign donations.

Meanwhile, Mr Angelides received campaign contributions from Wall Street executives whose companies were awarded significant California bond deals, in a blatant attempt to thwart SEC rules prohibiting this practice, Bloomberg reported last week.

The public securities markets have always been stacked against individual investors, in much the same way that Las Vegas casinos favour the house. There will no doubt be some meaningful legislation and regulation introduced in the next few weeks but more aggressive measures are needed. The SEC must be overhauled, including the possible replacement of Mr Donaldson. The NYSE must appoint some directors who represent the interests of individual investors, and bring in a more diverse group of arbitrators.

And if Mr Hevesi and Mr Angelides are genuinely concerned about effective corporate governance, they should support a proposed rule that would prohibit money managers who do business with state pension plans from making campaign contributions and adhere to a similar rule that already applies to the municipal bond industry.

Regrettably, individual investors must remain wary of Wall Street. Without honest and credible leaders fighting for their interests, the powerful Wall Street brokerage and money management firms will invariably find a way to circumvent any new rules and return to doing business as usual.

Pack your bags, Mr Smith. It is time to go to Wall Street.

The writer is principal of Zamansky & Associates, a New York securities law firm representing individual investors