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A Regulatory Update Featuring Mary Schapiro

By Rachel McTague

Restoring the reputation of the Securities and Exchange Commission (SEC), market volatility and market structure, financial literacy, and the SEC's efforts to make further structural changes to money market funds took center stage as SEC Chairman Mary Schapiro fielded questions from Mellody Hobson, Chairman of the ICI General Membership Meeting and President of Ariel Investments, on May 11.

Schapiro cited a number of agency achievements and improvements in her three and a half years as chairman, including more enforcement actions, the reorganization of the Enforcement Division and examination program, and hiring a significant contingent of experts from industry on issues ranging from exchange-traded funds to risk management. "When I look at where we are today, I feel pretty good about it," she said, but went on to say that the commission has "lots of work to do," particularly in the area of technology. "We are on the right trajectory, but we have a long way to go—and we should always feel like we have a long way to go," Schapiro said.

On money market funds, Schapiro repeatedly stated her concerns about "the risks posed, the potential for runs" and the Commission's desire "to confront this issue." Referring to Reserve Primary Fund's breaking the dollar after the failure of Lehman Brothers, Schapiro said: "We know what happened in 2008…it's real, it happened, and we have to be worried" about future risks. While the reforms adopted by the SEC in 2010 are "very good and very positive" and "work well for what they do," Schapiro said that she still "comes in every morning when there's a problem [in markets or economies] and say, 'what's the impact on money market funds?'"

Schapiro said that any rule proposal from the SEC would be accompanied by "an informative, useful cost-benefit analysis." She urged the fund industry to continue its dialogue with the Commission on proposed changes. "I am always open to discussion," she said. "ICI and the SEC historically have a very constructive relationship."

Schapiro cited market structure as an area of deep personal interest and acknowledged that it deserves a "lot more attention and scrutiny than [the SEC has] been able to give it." Following reforms put in place since the "flash crash" of May 2010, the SEC now will consider "limit up-limit down" proposals, requiring a trading order to be within a certain range, and will work on building a consolidated audit trail framework for market oversight. Other matters needing attention are dark pools—off-exchange trading venues that are less transparent than exchanges—algorithmic trading, and the "tactics of high frequency traders," Schapiro noted.

Asked by Hobson whether she is worried about the saving and investing patterns of the younger generation, Schapiro remarked, "We have wholly failed in providing them a financial education." Among other things, she noted the SEC has held training sessions for high school teachers to learn about the markets and investing. However, she called for a renewed commitment and concentrated efforts by regulators and industry to improve financial literacy. Schapiro also suggested a need for policymakers to keep in mind the needs of older investors who are not financially prepared to retire.

Schapiro responded good-naturedly to Hobson's more personal questions. The chairman shared her belief that team sports—including field hockey and lacrosse—in her high school and college years helped her in operating as a member of a regulatory team in all of her roles, including as an SEC Commissioner in the 1990s, head of the Commodity Futures Trading Commission, and CEO of the Financial Industry Regulatory Association. Hobson also asked what Schapiro would say if one of her daughters said, "Mom, my life dream is to be a regulator." Saying twice that she would be proud, Schapiro concluded, "I genuinely hope they do pursue careers in public service."

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