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The U.S. Securities and Exchange Commission staff is examining the procedures certain investment advisers and brokerage firms have in place for safeguarding client assets.

The SEC is looking at firms' custodial arrangements, controls for safekeeping assets and the implementation of these controls, Lori Richards, director of the SEC's office of compliance inspections and examinations, said in a recent letter to many firms, according to an attorney whose clients received the letter. The letter also said SEC staff will conduct on-site interviews with firm employees who have responsibilities for safeguarding client assets.

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An SEC spokesman declined to comment, noting that the agency doesn't comment on examinations or inspections.

The SEC examinations come amid recent allegations of large-scale fraud by two investment professionals, which have raised questions about the oversight of investor assets. Last month, the SEC charged Texas financier R. Allen Stanford and three of his companies with orchestrating an \$8 billion fraud involving the sale of certificates of deposit. Earlier, the investigation into the alleged \$50 billion Ponzi scheme run by Bernard Madoff revealed that Mr. Madoff's firm, rather than an independent third party, acted as custodian for client assets.

Mary Schapiro, the new head of the SEC, said in a recent speech that she wants to strengthen audits at privately held brokerage firms and the safekeeping of customer assets.

Investors in mutual funds and clients of most independent financial advisers can take comfort in the fact that client assets are typically held by unrelated custodial firms. Meanwhile, the congressionally chartered Securities Investor Protection Corp. provides protection, up to specified dollar limits, when client assets are missing after a brokerage firm is closed due to bankruptcy or certain other difficulties. SIPC is currently involved in the liquidation of Bernard L. Madoff Investment Securities LLC.

### Wachovia Comings...and Goings?

The Wachovia Securities unit of Wells Fargo hired 178 experienced financial advisers in January, the firm's highest monthly recruiting total to date, and then added about the same number in the first three weeks of February, according to a company spokeswoman.

But brokers and recruiters say a wave of departures could be coming following the Feb. 20 announcement that Wells Fargo & Co. won't be handing out retention bonuses following the



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bank's acquisition of Wachovia Securities.

The recently hired Wachovia advisers, who will work in the firm's private-client group, bank brokerage or independent advisory business, had more than \$181 million in combined trailing 12-month production.

Wachovia declined to specify how many brokers left the firm over the same time period. The spokeswoman, however, says that "over the past year and a half, on average, we have attracted financial advisers with higher trailing 12-month production than those we have lost." Recent hires include brokers from UBS Wealth Management US, a unit of UBS AG; Citigroup Inc.'s Smith Barney; the Merrill Lynch Global Wealth Management unit of Bank of America Corp.; and Morgan Stanley.

While there are no retention bonuses following the Wells Fargo acquisition, Wachovia Securities is increasing the payouts brokers can receive in a client loyalty program launched in 2006. Several brokers say, however, that that program isn't going to make up for the lack of a retention package.

In 2007, Wachovia agreed to acquire A.G. Edwards and offered significant retention packages to brokers at A.G. Edwards and a lesser package to those at Wachovia. The former A.G. Edwards brokers are still under contract from those retention deals. However, brokers in Wachovia's private-client group, as well as bank brokers in the Investment Services Group, have said that not offering a stay bonus would result in a mass exodus of brokers, especially top-producing ones, from the company.

Top-producing brokers are being offered as much as 200% of production to change employers, and with no retention package at Wachovia, they will be more likely to do so. Many Wachovia brokers had been waiting to see the retention package "before deciding if they want to look at other firms to go to or not. Now they have their answer," says Darin Manis, chief executive of RJ & Makay, a recruiting firm reaching out to Wachovia advisers.

### *New Arbitration Rules*

The Securities and Exchange Commission last month approved a rule proposal that will require arbitrators to provide a written explanation of an award if both parties in the case request one.

The Financial Industry Regulatory Authority, or Finra, proposed the change in October. It was a second attempt to address concerns about investors' ability to understand the rationale behind awards. Decisions are typically just a succinct statement of the amounts being claimed and awarded, which can leave one or both parties frustrated at the lack of explanation.

A 2005 proposal by Finra's predecessor, the former National Association of Securities Dealers, which merged with NYSE Regulation in 2007 to become Finra, would have required arbitrators to draft "explained decisions" upon requests by investors. It wasn't adopted.

In cases that aren't affected by the new proposed rule, arbitrators will continue to have the option to decide on their own, or on the motion of one party, to include an explanation.

The SEC also approved a rule proposal from Finra that will permit a single public arbitrator to hear cases involving claims of up to \$100,000 -- an increase from the existing \$50,000 cutoff. The rule change will reduce costs for participants in affected Finra arbitration proceedings, the SEC's order noted.

The amendments provide that one public arbitrator will be assigned to claims of \$25,000 to \$100,000, unless all parties in the action agree to a three-person panel. Claims of \$25,000 or less will continue to be heard by a single arbitrator; three arbitrators will continue to be assigned to cases involving more than \$100,000 in dispute.

Neither change is effective yet. The single-arbitrator rule will be in effect as of March 30. The explained-decision rule will become effective 30 days after Finra publishes the required regulatory notice, which hasn't happened yet.

—Compiled by Dow Jones Newswires reporters Kristen McNamara, Annie Gasparro, Brett Philbin and Suzanne Barlyn. Email them at [kristen.mcnamara@dowjones.com](mailto:kristen.mcnamara@dowjones.com), [annie.gasparro@dowjones.com](mailto:annie.gasparro@dowjones.com), [brett.philbin@dowjones.com](mailto:brett.philbin@dowjones.com) and [suzanne.barlyn@dowjones.com](mailto:suzanne.barlyn@dowjones.com).

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