Citizen Action
Consumer Federation of America
Consumers Union
Public Citizen's Congress Watch

January 31, 1997

Members of the U.S. Senate
Senate Office Building
Washington, D.C. 20510

Dear Senator:

As the 105th Congress turns to its legislative agenda, we write to let you know of the high priority our organizations place on preserving and enhancing federal and state securities laws designed to protect investors. We are concerned that discussions at the start of this Congress have focused instead on initiatives that could seriously erode investor protections.

Millions of middle-income Americans have come to rely on investments to build their retirement nest eggs, finance the education of their children, and save for major purchases, such as a home. The result is that Americans today have more money invested in stocks than they have on deposit in commercial banks. Fidelity Investments has estimated that roughly half the money flowing into its stock mutual funds is being invested through 401(k) plans. And initiatives are under discussion that would increase the already substantial role securities play in how we save for retirement by privatizing some portion of Social Security.

At the same time, study after study has found that most investors lack even the most basic knowledge necessary to make sound investment decisions. This lack of investment knowledge, the resulting dependence on sometimes unscrupulous financial professionals, and the absence of timely and understandable disclosure leaves many Americans ready victims for securities fraud and abuse.

As you lay out your agenda for the new Congress, we urge you to consider what additional protections may be necessary to better safeguard the investments on which so many Americans now depend. For example, we believe individuals need clearer, more complete, and more timely disclosure about the investments they buy and the financial professionals who advise them.

Also, any proposal to expand bank powers should provide adequate consumer protections and close the loophole that exempts banks from investor protection rules.

We are concerned, however, that legislation potentially damaging to investors is being given serious consideration. Representatives Tom Campbell and Joseph Kennedy already have announced their intention to introduce bills that would deprive many defrauded investors of their right to challenge securities fraud in state court. Others have suggested a further scaling back of state securities regulation and elimination of the requirement that brokers make only suitable recommendations to institutional investors, such as charities, pension funds, and state and local governments.

These proposals come on the heels of two bills enacted in the last Congress that encompass the most significant rewriting of our nation's securities laws in more than 50 years. Between them, H.R. 1058 and H.R. 3005 set a higher threshold for access to federal court for securities fraud lawsuits and reduced public oversight of the securities industry. Only time will tell whether this experiment benefits investors by reinvigorating the economy, as proponents pledged, or brings on a new round of securities fraud, as our organizations fear. Common sense dictates, however, that these laws be given a chance to take effect, and their implications for average investors be carefully studied, before new deregulatory initiatives are enacted.

These are important issues that affect the financial well-being of millions of middle-income Americans. We encourage you, therefore, to seek out a diversity of viewpoints as you consider any legislative initiatives that may be made with respect to our federal or state securities laws. And we strongly urge you to oppose any initiative that would erode investor protection and support initiatives to strengthen investor protection. Our organizations will be happy to work with you in this endeavor. You may contact Barbara Roper of Consumer Federation of America at 719/543-9468.

Sincerely,

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