

MEMORANDUM

TO: Investor Advocates

FROM: Public Investor Advocate Bar Association (PIABA)

DATE: March 20, 2025

SUBJECT: Financial Advisers Failing To Protect Clients From Frauds

The Public Investor Advocate Bar Association (PIABA) has launched a multi-year effort to review lax financial industry practices now enabling substantial investor losses. At present, Americans lose over \$10 Billion annually to scams and frauds. Reports from the United Nations document that transnational criminal groups now operate organized scam rings at scale never before seen in American history. Often, these fraudsters target retirement savings accounts because these accounts usually hold the vast bulk of a person's liquid assets, and many times target the elderly.

Now, inventive fraudsters continually refine their approaches to penetrate American retirement accounts. Today's common scams range from romance scams, to impersonating legitimate financial industry customer service or help desk scams, and even impersonating government officials. Although scammers take varied approaches, inflicting the worst losses generally requires gaining access to a person's liquid assets custodied by brokerage firms, banks, and cryptocurrency exchanges. Reducing the harm and volume of scams requires stopping the outflow of investor assets custodied by brokerage firms and financial advisers.

At present, financial industry practices fail to meet their obligations to investors. In recent decades, explicit changes have been made to provide increased protection for an aging population and to allow brokerage firms to stay distributions when a person appears to suffer from some cognitive problem or otherwise be unable to protect their own interests. Yet the current rules do not explicitly require financial advisers to respond to the existence of red flags around scams transactions.

Scammers will often coach their victims to obfuscate the true purposes of their withdrawals to avoid the interruption of their schemes. This should not work as well as it does because the odd stories and behavioral shifts serve as red flags signaling the need for intervention. Unfortunately, many financial advisers now behave like mere order takers instead of the trusted financial experts they hold themselves out to be.

PIABA is working to release a review of the existing obligations for brokerage firms with suggested reforms to increase the likelihood that brokerage firms will respond to red flags. In addition, PIABA is working to provide potential legislative options to Congress.