



All that's hot in the mutual fund industry

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## Political Upheaval's Impact on Industry Unclear

Article published on Nov 9, 2006

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Tuesday's political elections have produced a change in leadership in some key positions that could significantly affect the fund industry, but industry observers say it's unclear what the impact will be.

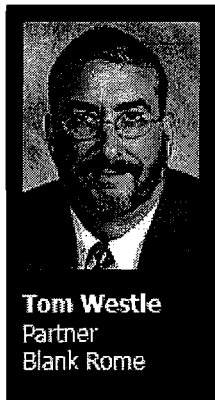
In Congress, Democrats won a majority of House seats and appeared to be winning a majority of Senate seats as of Thursday morning. Democrats had appeared to capture 51 Senate seats (the two independent Senators will caucus with the Democrats), including a tight victory for Jim Webb of Virginia. That gives the Democrats a 51-to-49 majority, which would result in Sen. Chris Dodd's (D-Conn.) replacing Senator Richard Shelby (R-Ala) as chair of the Senate Banking Committee.

With the changes in the House, Rep. Barney Frank (D-Mass) is expected to become the chair of the House Financial Services Committee. In doing so, he will replace retiring Senator Michael Oxley (R-Ohio), who gained much notoriety as co-author of the Sarbanes-Oxley corporate-governance law.

In New York State, Democrat Andrew Cuomo won his bid for attorney general as fellow Democrat Eliot Spitzer won the race for governor.

Observers say the changes in New York and in Congress create an air of uncertainty over the future of regulatory actions for the fund industry.

"I don't think we have a clear path regarding what will happen over the next two years," says Thomas Westle, a partner at **Blank Rome**.



Cuomo has vowed to follow in Spitzer's aggressive enforcement footsteps, but it's unclear to what extent the new attorney general plans to do that, according to one observer. Spitzer, of course, gained notoriety by cracking down on market-timing, late-trading and revenue-sharing practices, among other matters.

One factor going forward will be if Spitzer uses his clout as governor to ensure that Cuomo takes an aggressive stand on policing the fund industry.

"Eliot Spitzer is a very dominating personality," Westle says. "One would expect that once he leaves the attorney general's office and goes to the governor's mansion he would expect his cases to be continued."

Spitzer could use his highly visible position as governor to push for continued investigations and crackdowns on financial firms.

"The governor can always use a bully's pulpit," adds Duane Thompson, director of government relations with the Financial Planning Association. "But then again, it's hard for me to imagine anyone setting as big a mark as Spitzer did. The new attorney general will really have big shoes to fill."

Meanwhile, Frank, potentially the new head of the House Financial Services Committee, appears to be advocating a moderate approach to regulating financial services, says Niels Holch, executive director with the Coalition of Mutual Fund Investors.

While Frank has promoted proposed restrictions regarding elections of corporate board members, he has also said he believes that competitive forces among investors and customers can play a big role in regulating firms.

"I just take it as a good sign that he would take a market based-approach," Holch says.

He adds that Dodd will have a tricky balancing act if he becomes head of the Senate Banking Committee. That is especially true since Hartford, Conn., is a major city for insurance company headquarters.

"You can assume that because of the large financial services presence in Connecticut, he will be sensitive to those constituents' needs," Holch maintains. "Otherwise, I think he's an unknown entity."

Another wild card, of course, is whether George Bush, a Republican, will be willing to work with Democrats in approving legislation.

Westle maintains that two factors could motivate the president to do so. One is that the war in Iraq has become a long, drawn-out ordeal with no easy solution in sight. Working on domestic issues such as financial regulations, however, may be an easier area for Bush to generate results, he says. In addition, Bush is entering the last two years of his presidency, which could motivate him to work with the Democrats on regulatory matters.

"The last two years of a presidency always seem to be about the legacy," he says. "So Bush may want to work on things in a bipartisan manner to get things done."

The Democratic Party may also be willing to work in a bipartisan manner simply to avoid looking like a naysayer, he says.

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