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SEC's Aguilar: Custody Rules Won't Burden Brokers.

New regulations for brokers who control their clients' cash will go a long way toward preventing another client rip-off like the Bernard Madoff Ponzi scheme, according to a Securities and Exchange Commissioner who championed the rules.

"I don't think there can be any guarantee there won't be a future Madoff, but that's no excuse for not trying to prevent it," SEC Commissioner Luis Aguilar said in an interview Wednesday. "Registered broker-dealers should be required to account for money and securities entrusted to them by their customers. Our new custody rules substantially enhance such protection."

Under rules approved by the SEC, 3-2, last week, brokers who have custody of client funds must now file a quarterly Form Custody that details the amount and location of the assets. In addition, brokers must file a broader annual compliance report verifying that they meet financial responsibility requirements.

Mr. Madoff for decades operated a multibillion-dollar Ponzi scheme. For almost all of that time, he was registered as a broker-dealer. In his last year and a half in business, he also registered as an investment adviser. He admitted to his fraud in 2008 and is in prison.

The SEC approved new investment-adviser custody rules in 2009, including a requirement that advisers who hold their clients' funds undergo annual surprise examinations by an independent public accounting firm.

The broker-dealer rules approved by the SEC last week were proposed about two years ago. Mr. Aguilar made a point of bringing them to the attention of SEC Chairwoman Mary Jo White.

"In one of my first meetings with Chair White, I highlighted the importance of the broker-dealer custody rule and noted that the proposed rule had lingered far too long," Mr. Aguilar said. "She understood the importance of having that rule in place and was willing to go forward on a 3-2 vote."

SEC Commissioners Daniel Gallagher and Troy Paredes, who recently left the SEC, dissented. They said the rules gave the SEC too much latitude in obtaining audit documents that are required with the compliance report.

The new rules will affect about 300 of the 4,700 broker-dealers who are registered with the Financial Industry Regulatory Authority Inc., the broker regulator that reports to the SEC.

"It's a very significant regulation," said Holly Smith, a partner at Sutherland Asbill & Brennan LLP. "For some broker-dealers, it could be a significant cost. It depends on what their current policies, procedures, books and records are."

Mr. Aguilar said the new rules will not burden broker-dealers.

"Any well-run operation should be able to implement the rules without difficulty," he said. "Investors need to have confidence that the assets they hand over to broker-dealers will be protected. Without such confidence, investors are likely to stay out of the markets, which isn't good for the economy."

Although Ms. White quickly put the broker-custody rule on to her "to do" list, the fact that the regulations languished for two years before her arrival is cause for concern, according to Mr. Aguilar.

He has similar qualms about investor protection proposals that were released last month in conjunction with a rule that lifted the ban on public advertising for non-registered securities. The advertising can begin on Sept. 23. It's unclear when or if the SEC will approve the additional safeguards, which Mr. Aguilar said are imperative.

"The commission must be ready, willing and able to act expeditiously when it sees a need to protect investors," he said. "I hope the proposed improvements move forward quickly. Nonetheless, there's always the fear that a proposed rule will die on the vine if left untended."