

NASAA Insight

The Voice of State & Provincial Securities Regulators



Fall 2014

William Beatty Elected NASAA President

Washington Securities Director William (Bill) Beatty recently began a one-year term as president of the North American Securities Administrators Association (NASAA).

"Throughout my term I hope to bring a new way of looking at our issues to find effective and efficient resolutions for investors, regulators and industry alike," Beatty said.

"I strongly believe in NASAA's mission to protect retail investors and foster capital formation," Beatty said. "Balancing our obligations to these communities is sometimes challenging, but providing assistance to these communities is hugely satisfying."

Beatty said he intends to expand NASAA's ongoing initiatives focused on protection of senior investors, especially those with diminished capacity, and technology, with an emphasis on upcoming launch of electronic state filing of Form D.



NASAA President and Washington Securities Director Bill Beatty at NASAA's 2014 Annual Conference on September 16 in Indianapolis.

He also will continue NASAA's dialog with the Securities and Exchange Commission to preserve the regulatory oversight authority of state securities regulators regarding Regulation A offerings.

"No one can go it alone," Beatty said. "We may have our differences, at times, but the state-federal-SRO partnership is critical to effective investor protection."

Beatty said he intends to enhance NASAA's work with Canadian and Mexican securities regulators.

"A number of the issues we are dealing with know no borders," he said.

Noting NASAA's ongoing collaborative work with industry in the areas of diminished capacity and fee disclosure, Beatty said "We probably have a lot more in common than you might think. We would be hard-pressed to find anyone in the audience that is against investor protection," he told attendees at NASAA's annual conference in Indianapolis.

NASAA Launches Initiative Focusing on Seniors

With at least a third of its members' enforcement actions involving senior investors, the North American Securities Administrators Association (NASAA) announced the formation of a new Board-level committee to tackle a wide range of challenges confronting senior investors, regulators and securities industry professionals.

"NASAA and its members have been in the forefront in detecting the problem of senior investor abuse and responding to it aggressively with innovative regulatory solutions, targeted enforcement, investor education and publication of best practices for serving senior investors," said Andrea Seidt, Ohio Securities Commissioner and past NASAA president.

The new Committee on Senior Issues and Diminished Capacity is chaired by Montana Deputy Securities Commissioner Lynne Egan. Wisconsin Securities Administrator Patricia Struck serves as vice chair. The committee includes representatives from the NASAA Board of Directors and each NASAA section (Broker-Dealer, Corporation Finance, Enforcement, Investment

Adviser and Investor Education) as well as Canadian securities regulators.

"Advancing the interests of senior investors is a tremendously important initiative for NASAA that transcends the work of each of our sections," Seidt said.

"We are exploring this vital area from a variety of disciplines given the scope of the issues involved," Egan said. "The committee will examine concerns raised by broker-dealer and investment adviser firms, as well as senior advocacy groups and will recommend appropriate regulatory and industry responses to ensure proper compliance and supervisory procedures are in place to prevent the financial exploitation of seniors."

The committee is the latest in a series of initiatives from NASAA members to protect senior investors since the launch of the Senior Investor Resource Center in 2003 and the adoption of a model rule on the use of senior-specific certifications and professional designations in 2008.

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President's Message: Bill Beatty



I want to thank all who joined us in Indianapolis last month at NASAA's 97th Annual Conference.

A special thanks go to our gracious hosts — Indiana Secretary of State Connie Lawson and Indiana Securities Commissioner Carol Mihalik — as well as

NASAA members and all conference attendees who appreciated Hoosier hospitality firsthand.

Last month I celebrated 28 years as a state regulator. For about 24 of those years, beginning with a call from Diane Young-Spitzer of Massachusetts inviting me to join her Investment Company Committee, I have been involved with NASAA. I remain involved for a variety reasons.

In the spirit of David Letterman, here is my list of Top Three Professional Reasons Why I Agreed to Become NASAA President.

- NASAA participation is intellectually stimulating. Working with other regulators and industry on difficult issues challenges us to think creatively.
- I strongly believe in NASAA's mission to protect retail investors and foster capital formation. Balancing our obligations to these communities is sometimes challenging, but providing assistance to these communities is hugely satisfying.
- State regulation is important. Without us, who will assist small businesses, examine investment advisers, or enforce compliance with the securities laws?

My two-plus decades of NASAA participation have been the highlight of my career. It is both humbling and a privilege to begin my year as NASAA President. I am grateful for your support and pledge to do my utmost to justify your faith in me.

I would be remiss if I did not say a word about an important person who recently left the association to move onto the next chapter of his life— a chapter that will most certainly include more time with family - NASAA's former Executive Director Russ Iuculano.

Russ worked hard as the leader of NASAA's Corporate Office for more than eight years. We wish Russ nothing but great success in his future personal and professional pursuits.

I would also like to thank NASAA's General Counsel, Joseph Brady, for accepting the Board's request to serve as NASAA's Acting Executive Director in light of Russ's departure. Like many of you, I've had the pleasure of working one on one with Joey in his legal counselor capacity and know the association is in most capable hands while in his care.

I also want to thank all of the corporate office directors – Bob Webster, Mike Canning, and Mark McLaughlin – and the staff for helping the Board and Joey keep NASAA sailing in the right direction.

One of the things I've learned in my career as a regulator and my involvement with NASAA is that there is never a shortage of strong regulators willing to help guide our association.

I am very pleased to work this year with NASAA's new Board of Directors and Section Chairs.

Our new board consists of:

- Judy Shaw, Maine, President-Elect
- Andrea Seidt, Ohio, Past President
- Mike Rothman, Minnesota, Treasurer
- Katie Daniels, Ontario, Secretary
- Joe Borg, Alabama, Director
- Melanie Lubin, Maryland, Director
- Jerry Rome, Colorado, Director
- Daphne Smith, Tennessee, Director

NASAA's new Section Chairs include:

- Heath Abshire, Arkansas, Corporation Finance
- Lynne Egan, Montana, Investor Education
- Bryan Lantagne, Massachusetts, Broker Dealer
- Owen Lefkon, Delaware, Enforcement
- Patty Struck, Wisconsin, Investment Adviser

Finally, I want to thank Andrea Seidt, NASAA's immediate past president. The NASAA president is not in this alone.

I've had the incredible good fortune and privilege to work with Andrea for the past year and, I'm glad I can count on continuing to work with her and our new president-elect Judy Shaw of Maine in the year ahead.

States See Increase in Prison Sentences for Securities Law Violators

Aggressive Enforcement by State Securities Regulators Brings Criminals to Justice

The amount of time securities law violators were sentenced behind bars in 2013 as a result of enforcement actions by state securities regulators rose sharply from the year before, NASAA reports.

According to NASAA's annual enforcement survey, the prison sentences of criminal defendants in cases stemming from enforcement actions by state securities regulators increased 33 percent, or an additional 455 years over the same period the year before.

In 2013, state securities regulators conducted 4,882 investigations, which led to 2,184 enforcement actions. These actions resulted in 1,816 years of jail time for criminal defendants, said William Beatty, NASAA president and director of the Washington Securities Division.

The average sentence for criminal defendants in cases stemming from state securities enforcement actions increased by more than 53 percent to 5.5 years. In addition, criminal defendants were ordered to serve 679 years of probation, up 96 percent from the previous reporting period.

"State securities regulators continue to serve as a strong line of defense to protect the public against investor fraud," Beatty said. "The increase in jail time reflects the increasing complexity and heinousness of the crimes state securities regulators investigate and the criminals they help bring to justice."

State enforcement actions also resulted in \$616 million returned to investors and \$72 million in fines or penalties, NASAA's statistics show.

Beatty noted that one of the key investor protection roles served by state securities regulators is to weed out bad actors before they have a chance to conduct business with unsuspecting investors. In 2013, for example, the licenses of 3,438 broker-dealers, investment advisers and their representatives were either withdrawn, denied, revoked, suspended or conditioned by state securities regulators.

"Screening bad actors on the front end as a preventative measure is an often overlooked but vitally important way state securities regulators protect investors before their money can be lost," Beatty said.

NASAA statistics show that in 2013 the majority of investment fraud cases reported by state securities regulators continued to involve unregistered individuals or firms. States reported 810 actions (44 percent) involving unregistered firms or individuals; 576 actions (31 percent) involving registered broker-dealer firms and agents; 350 actions (19 percent) involving registered investment adviser firms or their representatives; and 54 actions (6 percent) involving insurance firms or agents.

NASAA Working Toward Improved Fee Disclosure

Working Group Follows Release of NASAA Report on Broker-Dealer Fee Practices

NASAA has convened a working group consisting of state securities regulators, industry members and representatives of Financial Industry Regulatory Authority (FINRA), the Securities Industry and Financial Markets Association (SIFMA) and the Financial Services Institute (FSI) to develop improved broker-dealer fee disclosure.

"We look forward to working collaboratively with the industry and FINRA to achieve more meaningful disclosure of broker-dealer fees," said Andrea Seidt, former NASAA President and Ohio Securities Commissioner. "Investors have a right to know how much they are paying for these services. Our goal is to develop a model fee disclosure that is simple to read, easily accessible, and can be used effectively by investors to understand and compare fees."

The working group will examine a variety of options, including but not limited to a model fee disclosure form, accessibility and transparency guidelines, uniformity in terminology and nomenclature of fees and recommendations on how to notify customers of fee changes.

NASAA Survey Explores IA Cybersecurity Risks

A NASAA pilot survey conducted this summer found 4.1 percent of responding state-registered investment adviser firms indicating they had experienced a cybersecurity incident and even fewer, 1.1 percent, indicating they had experienced theft, loss, unauthorized exposure, or unauthorized use of or access to confidential information.

"While the relatively low rate in cybersecurity incidents identified in the pilot survey is encouraging, state securities regulators are aware of the increase in cyber-attacks in the financial services industry, and the importance and associated difficulties of securely maintaining private data," said William Beatty, NASAA President and Washington Securities Director.

The survey also found that 62 percent of firms have undergone a cybersecurity risk assessment and 77 percent have policies and procedures related to technology or cybersecurity.

State-registered investment advisers account for more than half of the registered investment advisers conducting business in the United States.

NASAA Tackles Senior Issues Head On

One-in-Three State Enforcement Actions Involve Senior Investors

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"Protecting senior investors from financial exploitation long has been a primary focus of state and provincial securities regulators," Seidt said. "Regrettably, senior investor fraud and abuse is an ever-growing problem due to the amount of wealth seniors have accumulated throughout their careers and the steadily rising numbers of retirees."

One-third (34 percent) of enforcement actions taken by state securities regulators since 2008 have involved senior victims among states that track victims by age, according to NASAA enforcement statistics. Of the 10,526 enforcement actions initiated by states that track victims by age between 2008 and 2013, 3,548 involved victims age 62 and older. Seidt said this amount is conservative as it does not include cases from states that do not report the age of victims and many senior victims simply do not come forward.

In addition to Egan and Struck, other members of NASAA's Committee on Senior Issues and Diminished Capacity include:

NASAA Board Members:

- Judith Shaw, Maine Securities Administrator;
- Joseph Borg, Alabama Securities Commission Director;
- Melanie Senter Lubin, Maryland Securities Commissioner;
- Daphne Smith, Assistant Tennessee Securities Commissioner;
- Gerald Rome, Colorado Securities Commissioner; and
- Mike Rothman, Minnesota Commission of Commerce;

NASAA Section representatives:

- Diana Foley, Nevada Securities Administrator;
- Andrew Hartnett, Missouri Commissioner of Securities;
- Carolyn Mendelson, Counsel, Pennsylvania Department of Banking and Securities;
- Diane Young-Spitzer, Deputy Director and General Counsel, Massachusetts Securities Division;
- Deborah Gillis, Counsel, New Brunswick Financial and Consumer Services Commission Securities Division;
- Theodore Miles, Associate Securities Commissioner, District of Columbia Department of Insurance, Securities and Banking; and
- Dennis Britson, Director, Regulated Industries Unit, Iowa Securities Bureau.

NASAA Appoints Advisory Council to Work with Regulators on Senior Issues and Diminished Capacity

The North American Securities Administrators Association (NASAA) formed an advisory council to help inform the work of the association's recently established Board-level Committee on Senior Issues and Diminished Capacity.

"We look forward to working with an advisory council of experts from government, business, senior advocacy organizations, academia and medical and legal practitioners, as we move forward in this ever increasingly important area of investor protection and service," said William Beatty, NASAA President and Washington Securities Director.

Members of the Advisory Council include:

- Georgia Anetzberger, Gerontological Society of America;
- Marin Gibson, Securities Industry and Financial Markets Association;
- Nancy Heffner, Financial Services Institute;
- Skip Humphrey, former director of the Consumer Financial Protection Bureau Office of Older Americans and former Minnesota Attorney General;
- David Laibson, Harvard University;
- Ron Long, Wells Fargo Advisors;
- Brett Kandt, National Association of Prosecutor Coordinators;
- Naomi Karpp, Consumer Financial Protection Bureau Office of Older Americans;
- Daniel C. Marson, Alzheimer's Disease Center at the University of Alabama-Birmingham;
- Mark Peterson, American Institute of Certified Public Accountants;
- Kathleen Quinn, National Adult Protective Services Association;
- Charles Sabatino, American Bar Association Commission on Law & Aging;
- Lori Schock, U.S. Securities and Exchange Commission;
- Jean Setzfand, AARP;
- Neil Simon, Investment Adviser Association;
- Brooke Stringer, National Association of Insurance Commissioners; and
- Geraldine Walsh, FINRA Foundation

Annual Conference: Photo Gallery



Ron Long, Wells Fargo Advisors; Jean Setzfand, AARP; Patricia Struck, Wisconsin Securities Administrator, and Charles Sabatino, ABA Commission on Law & Aging (left to right) discuss the challenge of protecting investors with diminished capacity in a panel moderated by Illinois Securities Director Tanya Solov.



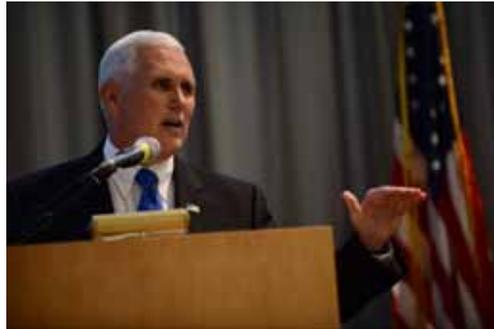
Indiana Secretary of State Connie Lawson gives a warm Hoosier welcome to NASAA members and guests.



Indiana Securities Commissioner and Conference Chair Carol Mihalik opens the 2014 annual conference in Indianapolis.



New York Investor Protection Bureau Chief Chad Johnson (left) discusses high-frequency trading with Notre Dame Finance Professor Robert Battalio.



Indiana Governor Mike Pence addresses NASAA and offers insights into his efforts to continue to lead Indiana on a pathway to success through fiscal responsibility, economic development and educational opportunity.



Entrepreneurs and financing experts discuss the benefits of intrastate crowdfunding in a conversation led by Indiana Securities Commissioner Carol Mihalik. Speakers included, from left: Jason Wiens, The Kauffman Foundation; Mike Langellier, TechPoint; Chris Baggott; Tyner Pond Farm and Tusk LLC; Henry Schwartz, MobCraft Beer, Inc.; and Kevin Hitchen, Local Stake.



Indiana Pacers Head Coach Frank Vogel opens the conference with motivating remarks and NBA insights.



Expert political analyst Norman Ornstein of the American Enterprise Institute of Public Policy Research discusses the upcoming congressional and state elections.

A Presidential Conversation:

The following is adapted from a Presidential Conversation between new NASAA President Bill Beatty and outgoing President Andrea Seidt at NASAA's Annual Conference, September 16, 2014.

SEIDT: There is no doubt that senior investors will be a huge initiative for NASAA this year. I understand that you will also focus the association's continued attention on technology. What can you share with us about those initiatives?

BEATTY: Coming from Washington State it shouldn't be a surprise that an area of interest revolves around technology.

I am very excited about the upcoming rollout of our Electronic Form D (EFD) system. This project has been a long time coming and we expect it to create an efficient, streamlined system that will satisfy state Form D filing requirements. Issuers and their service providers will benefit from this uniform and effective regulatory tool. The vendor developing the system is here demonstrating some of the tool's early functionality and hearing important feedback.



SEIDT: I want to thank you, Bill, for all of your and Washington's work to get the EFD system developed. I know that NEMO is another area that you are looking at. What should we expect there?

BEATTY: I expect to see continued growth in the use of NASAA's Electronic Examination Modules, or NEMO for short. This software tool was developed by NASAA and used by 35 member jurisdictions. We hope to add additional jurisdictions to the program this year. NEMO allows examiners to perform BD and IA exams in a secure, digital environment and allows statistical reporting in a timely manner. This is a significant enhancement toward improving the efficiency and

effectiveness of state securities examiners as they conduct examinations and I want to give a shout out to Mike Huggs of Mississippi for his tireless efforts supporting this project.

I also want to commend the ongoing work of NASAA's Internet Fraud Investigations project group under the direction of Jake van der Laan of New Brunswick. Our upcoming enforcement report shows continued growth in Internet and Social Media fraud. Jake's group has been working overtime to identify frauds and provide detection tools and investigative resources to NASAA members and I expect to see more in the year ahead.

SEIDT: People should know what a leadership role Bill and his home state of Washington has had in each

of those areas. Washington is the first and I believe only state thus far to legislatively address firm reporting and account handling practices when faced with an investor with diminished capacity. It's great to hear you mention the strong work of our member in New Brunswick. Many people south of the Canadian border may think of NASAA only as a state-based group, but our membership is far greater than that. How do you

see NASAA as an international investor protection organization?

BEATTY: Being so close to one of our more active members in British Columbia, I have great respect and admiration for our Canadian members. They bring so many resources to NASAA's table, but more important is their fresh approach to both regulation and investor assistance. For example, it's no secret that our Canadian members are powerful in the field of investor outreach and education. They are also active participants in IOSCO, the International Organization of Securities Commissions. A number of the issues we are dealing with know no borders. Take bitcoin for example, or crowdfunding, which is gaining ground in Canada. Over

Bill Beatty & Andrea Seidt

the next year I hope to strengthen the international nature of NASAA by building stronger connections with our members in Canada and Mexico.

SEIDT: How do you view the relationship between NASAA, the SEC and FINRA? Are there any goals you would like to achieve during your Presidency that will allow NASAA to build upon those relations?

BEATTY: Look, no one can go it alone. We may have our differences, at times, but the state-federal-SRO partnership is critical to effective investor protection. I think everyone knows where NASAA stands on preemption. That said, I look forward to continuing the dialogue with SEC Chair White in the weeks ahead. I plan on emphasizing our position that the SEC should remove its preemptive language from its Regulation A rule proposal. Collaboration between regulators is important because we must leverage our resources to protect investors.

SEIDT: I could not agree more, Bill. We have worked very hard to strengthen relationships with our federal peers. You were an important part of the discussions that I had with Rick Ketchum last year. What can you tell us about our work with FINRA?

BEATTY: I think our efforts to improve communication between our two organizations has been effective over the past few years thanks in large part of the efforts of Patty Struck and Keith Woodwell who lead our FINRA liaison effort. NASAA recently endorsed FINRA's efforts to improve the expungement process in order to prevent the removal of important information from the Central Registration Depository. We look forward to working with FINRA on further efforts to improve the expungement process. I look forward to meeting with Rick Ketchum to discuss how we can continue to strengthen our relationship.

SEIDT: If you only had one message for our industry

members in the audience to take back to their colleagues, what would that be?

BEATTY: We probably have a lot more in common that you might think. Sure, our primary mandate is investor protection. I think we would be hard-pressed to find anyone in the audience that is against investor protection. Equally important to NASAA members is promoting and assisting capital formation, particularly by small businesses. We regularly meet with small businesses to help them succeed in our jurisdictions. Industry, regulators and investors benefit from capital markets that are efficient, fair and transparent.

SEIDT: Can you tell us what you've been doing in Washington to help small businesses navigate the state regulatory process?



BEATTY: In Washington, we have worked with many companies seeking to raise capital. Our staff routinely makes presentations to entrepreneurs, small business development centers, and other local groups on what businesses need to know if they are contemplating raising capital. This level of service helps to ensure small businesses

access the capital needed to start or grow their businesses in a manner consistent with both state and federal regulations. With our assistance, many companies, including wineries, breweries, retailers, and even a company that turns manure into electricity, have accessed capital from local investors. These companies receive a level of service from our staff that cannot be duplicated by the SEC. NASAA members understand, that in many respects, equity crowdfunding is simply another type of small direct public offering that we have promoted for years. A growing number of jurisdictions have adopted crowdfunding provisions in their rules or statutes recognizing that equity crowdfunding, done responsibly, with appropriate disclosure and safeguards, may be another valuable tool that small companies can use to raise capital.

NASAA: Because Every Investor Deserves Protection

About Us

The North American Securities Administrators Association (NASAA) is a voluntary association of securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada and Mexico.

Organized in 1919, NASAA is the oldest international organization devoted to investor protection.

As the preeminent organization of securities regulators, NASAA is committed to protecting investors from fraud and abuse, educating investors, supporting capital formation and helping ensure the integrity and efficiency of financial markets.



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NASAA Recognizes Accomplishments of Members *Seidt, Lantagne Honored With NASAA's Highest Award*



Bryan Lantagne, (center) and Andrea Seidt, receive NASAA's highest honor from NASAA President Bill Beatty.

Outstanding Services Awards were presented to current administrators **David Massey**, North Carolina; and **Tanya Solov**, Illinois; and former NASAA member representatives **Asdrubal Aponte**, Puerto Rico; **Douglas Brown**, Manitoba; **Rick Hancox**, New Brunswick; **Fred Joseph**, Colorado; and **Chris Naylor**, of Indiana.

Distinguished Service Awards were presented to **Faith Anderson**, Washington; **Sheila Cahill**, formerly of Nebraska; **Susan Largman**, New Jersey; and **Leslie Van Buskirk**, Wisconsin.

During ceremonies at NASAA's annual conference in Indianapolis in September, NASAA honored 13 individuals for their outstanding contributions toward advancing the association's goals.

NASAA's highest award, the Blue Sky Cube, was presented to Ohio Securities Commissioner and outgoing NASAA President **Andrea Seidt** and Massachusetts Securities Division Director **Bryan Lantagne**.

Seidt was recognized for her leadership in advancing NASAA's reputation as an authoritative voice for responsible capital formation that protects both businesses and investors from fraud, liability and loss.

Lantagne was honored for his tenacious and tireless work throughout his career to protect investors and to hold brokerage and advisory firms accountable for their actions.