NASAA

NASAA Insight

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Inside this issue:

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NASAA Approves Sweeping Senior Designation Model Rule

Continuing its leadership to protect seniors from investment fraud, the membership of the North American Securities Administrators Association recently approved a new model rule prohibiting the misleading use of senior and retiree designations, a problem first spotlighted by state securities regulators and now the subject of federal legislation.

"We detected a growing problem for senior investors and have responded to it aggressively with a regulatory solution. I urge all NASAA members to adopt this model rule within their jurisdictions as soon as possible," said Karen Tyler, North Dakota Securities Commissioner and President of NASAA.

The model rule prohibits the misleading use of senior and retiree designations while also providing a means by which a securities administrator may recognize the use of certain designations conferred by an accredited organization.

Tyler said NASAA's *Model Rule on the Use of Senior-Specific Certifications and Professional Designations* represents the culmination of an effort NASAA and its members launched in 2003 to focus national attention on unscrupulous behavior targeting senior investors. The proposed rule, developed by the NASAA Task Force on Senior Designations, was released for public comment in November 2007.

"Through a process informed by member and public comment, the Task Force produced a model rule that will provide state securities regulators with an effective weapon in the fight against senior investment fraud," Tyler said.

Securities and Exchange Commission Chairman Christopher Cox said: "The SEC worked closely with state securities regulators in developing this model rule to protect seniors. Fraud against seniors robs dreams, destroys lives, and erodes the very trust on which our markets depend. This national approach to senior designations at the state level will make it easier for honest firms to help their aging customers, while making it harder for fraudsters to rob our parents and grandparents of their financial security."

The model rule addresses the growing use of financial designations or certifications that ostensibly convey expertise in advising seniors and retirees. "Investors often have insufficient information when trying to determine whether so-called 'senior designations' represent meaningful educational achievement by the salesperson, or are merely marketing tools," said Task Force Chair

(Continued on Page 7)

NASAA Outlines Views on Financial Regulatory Restructuring

The Treasury Department's recently released *Blueprint for Regulatory Reform* "is designed to boost Wall Street's competitiveness, not Main Street investor protection," NASAA President and North Dakota Securities Commissioner Karen Tyler said.

"In our response to Treasury's request for comments on regulatory restructuring last year, NASAA's position was, and continues to be unambiguous: the existing regulatory system, as it pertains to the securities markets, needs no fundamental restructuring," Tyler said.

"While clearly there are areas of the overall structure that should be altered or enhanced, our nation's investors do not need a new regulatory structure to provide the protection they all deserve," Tyler said. "What they need is a willingness on the part of regulators to carry out their investor protection mandate."

Tyler said NASAA supports a strong and effective financial services regulatory structure.

"Such a structure requires preserving the authority of state securities regulators who protect more than 100 million retail investors," she said.

(See Pages 4-5 for details)

NASAA President Karen Tyler: "Investor protection must remain the centerpiece of the securities regulatory system."

For More Information:
Visit the NASAA website at www.nasaa.org and read NASAA's Issue Focus: Financial Regulatory Restructuring.

President's Message: Karen Tyler

Strong Structures Require Effective Blueprints

Ask any architect – a safe and sound structure requires an effective blueprint and a solid foundation. Unfortunately for Main Street investors, the Treasury Department's recently released Blueprint for a Modernized Financial Regulatory Structure provides neither.

Given the ongoing financial market turmoil, launched by the industry's unchecked ability to manufacture and offload risk, it is important to reexamine, and perhaps change, some aspects of current financial services regulation to try to prevent similar problems in the future. Though financial innovation has outpaced, or perhaps outmaneuvered, financial regulation, a macro-level solution must not compromise investor protection for Main Street America, which state securities regulators have provided for nearly 100 years.

State securities regulators are recognized as "local cops on the securities beat." We serve and protect investors within our jurisdictions. We respond rapidly to investor complaints about industry misconduct, and to requests for information about securities firms or their representatives. We work with criminal authorities to prosecute companies and individuals who commit crimes against investors. We bring civil actions for injunctions, restitution and penalties against companies and individuals who commit securities fraud. And, in addition to investigating cases and bringing enforcement actions, we work with national regulators on market-wide solutions when they are needed.

Because our local offices are often the first to receive complaints from investors, we serve as an early warning system. As a result, state securities regulators were the first to identify and warn the public of microcap stock fraud, the risks of day-trading, Wall Street research analyst conflicts of interest, and illegal mutual fund trading practices.

Today, the role of state securities regulators has become increasingly important as growing numbers of Americans rely on our capital markets to build financial security, including a primarily self-funded retirement and the ability to cover ever-escalating education and healthcare costs.

The Treasury's blueprint was drafted in the wake of a trilogy of reports that claimed our capital markets had been forced into a compromised competitive position by overburdensome regulation. However, published alongside record earnings and bonuses on Wall Street, the reports essentially fell flat.

While Wall Street has been turned on its head by a self-inflicted, collective miscalculation of risk, the proponents of deregulation have not been deterred.

The architects of the Treasury's blueprint have responded to Wall Street's calls for increased competitiveness with international markets, not the needs of Main Street investors for heightened protection, which is provided largely by state securities regulators.

The Treasury is calling for a regulatory structure that would eliminate many of the essential functions that state securities regulators play in protecting Main Street investors from fraud.

Under this approach, states would for all practical purposes lose the authority to license investment firms and professionals, register certain securities offerings, or take action against the newly federalized financial services firms or their agents for fraud committed against a state's own citizens..

For example, had the blueprint's restrictions on state securities regulators already been in place, millions of senior investors would not receive the protection offered by a new model rule approved by state securities regulators prohibiting the misleading use of senior and retiree certifications and professional designations.

State securities regulators deliver investor protection; and investor protection must remain the centerpiece of the U.S. financial services regulatory system.

Executive Director's Message: Russ Iuculano

This has been an extraordinarily active Spring for NASAA members and staff.

As you know, Treasury Secretary Henry Paulson released a far-reaching "blueprint" to overhaul the nation's financial regulatory structure on March 31. The plan's pervasive deregulatory elements – especially those that would supplant state regulation in favor of a new federal "Conduct of Business Regulatory Agency" ("CBRA"), must be objected to in the strongest terms.

In the aftermath of the Treasury Blueprint's call for the elimination of many of the investor protection functions NASAA members perform, our campaign to help educate policymakers and other external audiences about who we are and what we do took a significant step forward with NASAA's decision to move forward with a coordinated state initiative to investigate sales practices related to auction rate securities (ARS).

The spotlight on NASAA's ARS Task Force comes on the heels of a burst of media activity that drew attention to the response of state securities regulators to abuses associated with equity indexed annuities, free lunch seminars, and misleading designations.

In closing, it is with mixed emotions that I announce the departure of NASAA Associate General Counsel Joey Brady, who has joined the Bingham McCutchen law firm in its Washington office. Joey has provided invaluable counsel on investment adviser issues and outstanding service as the staff liaison to the CRD/IARD Committee. I'm sure that you will join me in wishing Joey success, happiness and prosperity in his new venture.

State Securities Regulators Coordinate Ongoing Auction-Rate Securities Investigations

Several NASAA members have launched investigations related to auction-rate securities (ARS) and are coordinating their efforts to help investors who cannot access funds that their brokers placed in these complex investment products.

"Given the number and nature of the complaints and the damaging impact this latest manifestation of the credit crisis is having on Main Street investors, state securities regulators have structured a coordinated approach to moving forward with our investigations. If violations are uncovered, then state securities regulators will seek appropriate remedies, including a much stronger commitment from Wall Street to provide their retail clients with an acceptable solution," said Karen Tyler, NASAA President and North Dakota Securities Commissioner.

Tyler said state securities regulators have been responding to auction-rate securities-related complaints and have had investigations underway since late February, 2008. The investigations are being conducted by individual jurisdictions through an ARS Task Force chaired by Bryan Lantagne, Director of the Massachusetts Securities Division.

Tyler said that NASAA, as a membership organization, does not have any investigative or enforcement authority. Task force members include state securities regulators from Florida, Georgia, Illinois, Massachusetts, Missouri, New Hampshire, New Jersey, Texas and Washington.

The state investigations center on sales practices and supervisory issues related to auction-rate securities. "Our focus is to determine what conduct took place at the point of sale – what was potentially misrepresented and omitted – and our goal is securing for investors access to their cash as requested," Tyler said. "If the product was represented to be a cash equivalent going in, it must be treated as a cash equivalent coming out."

Auction rate securities are often promoted as being similar to cash deposits or money market accounts. However, because of tight credit markets stemming from the sub-prime mortgage crisis, many auctions where auction rate securities are traded have failed. As a result, many investors are finding that they are unable to access their money.

Complaints received by state securities regulators have the same common theme. "Investors are telling state securities regulators that they did not know that their money was being held in auction-rate securities, and were not advised about the liquidity risks," Lantagne said. "States have heard complaints from a wide range of investors – young families saving for a first home, small business owners, retirees, and people with parents in nursing homes – whose lives have been detrimentally impacted because the money they thought was liquid is now tied up in this frozen market. Based on these investor complaints, this appears to be a pervasive problem."

NASAA FORUM

Arbitration is Broken: How Can It Be Fixed?

Tuesday, June 24, 2008
InterContinental Barclay Hotel
111 East 48th Street
New York

Amid investors' concerns with the lack of fairness in the current mandatory arbitration system, NASAA will host a public forum to both examine the current securities arbitration system and offer constructive steps to restore choice, fairness and balance to the securities arbitration process.

An expert panel will address the manner in which arbitrations are conducted; whether the selection, qualification, and composition of arbitration panels is fair; and whether the arbitration process should be an option, not a requirement, for investors.

The forum also will discuss the Arbitration Fairness Act of 2007 and important new research from the Securities Industry Conference on Arbitration, which demonstrated that investors view securities arbitration as biased and unfair.

The free forum begins with a noon luncheon, followed by a panel discussion from 12:30 p.m. to 2:30 p.m. To reserve your seat at this event, please contact Lonnie Martin at 202-737-0900.

NASAA Applauds Proposed Amendment to Require Disclosure of Allegations Against Brokers in Arbitrations and Civil Lawsuits

A rule amendment recently proposed by the Financial Industry Regulatory Authority (FINRA) would enhance investor protection by improving disclosure of investor allegations of sales practice violations by brokers in securities arbitration claims and civil lawsuits.

"We applaud the joint efforts of the states and FINRA, working with the securities industry, to produce this important proposal, which will help protect investors from unscrupulous brokers," said Karen Tyler, NASAA President and North Dakota Securities Commissioner.

"If adopted, this proposed rule would represent a significant step forward in investor protection because it provides better information about brokers to investors, regulators, and the securities industry," Tyler said.

Under the proposed amendment, registered brokerage firms would be required to report to the Central Registration Depository (CRD) on Forms U4 and U5 allegations of sales practice violations against an individual broker made in arbitration claims or civil lawsuits in which the broker is not named as either a respondent or defendant.

The proposal seeks to change a current FINRA rule that requires firms to report such allegations only if the broker is specifically named as a respondent in arbitration claims or civil lawsuits.

"Under the current reporting system, important information about individual brokers is not being made available to regulators or prospective broker-dealer employers, and most importantly, to the investing public," Tyler said.

IN FOCUS: Financial Services Regulatory Restructuring

A Closer Look: How the Treasury Blueprint's "CBRA" Would Take the States Out of Securities Regulation and Federalize All Supervisory Authority

The Treasury Blueprint would create a vast new federal bureaucracy, taking away most supervisory, enforcement and rule making authority from the states and federalizing those authorities in a new Conduct Business Regulatory Agency (CBRA).

Treasury proposes the CBRA as the single agency responsible for business conduct regulation across all types of financial firms. This would include the regulation of all aspects of consumer protection such as disclosures, business practices, chartering and licensing, investigations, and enforcement. Treasury would grant CBRA exclusive responsibility for implementing uniform national business conduct standards in these areas.

According to Treasury's reasoning, because the SROs and the federal agencies currently undertake most business conduct regulation in the securities marketplace, consolidation of all business conduct regulation activity in CBRA is a common sense exercise in reducing complexity and duplicative regulation.

CBRA: Rationale & Effect

It appears that NSMIA's limitation on state securities regulators are insufficient for Treasury's optimal model. A broader grant of federal preemption is difficult to imagine.

However, Treasury also asserts that, in terms of state responsibilities, the National Securities Markets Improvement Act of 1996 (NSMIA) has already greatly limited the role of the states in securities regulation and has reduced both complexity and duplicative regulation between federal and state securities regulators. It appears, however, that NSMIA's limitations on state securities regulators are insufficient for Treasury's optimal model.

To address the purported deficiencies of the current business conduct regulatory structure, Treasury recommends that existing business conduct laws and regulatory authority for all types of retail financial products and services be consolidated under one structure. To that end, Treasury recommends that Federal Financial Services Providers (FFSPs) be provided "field preemption" over state securities laws.

Treasury envisions CBRA's responsibilities in the optimal structure as very broad, with authority to develop and enforce business conduct regulations for all retail financial services and products.

A broader grant of federal preemption is difficult to imagine. Treasury believes that the significance and effectiveness of the current SRO model demands its preservation, with an eye to movement to "other areas." So the Blueprint contemplates simultaneously disbanding the regulatory agencies that have served the investing public for nearly 100 years, it contemplates expanding the role of the SRO's with all the attendant complexities in rulemaking and oversight procedures that would necessarily follow.

CBRA: The Impact on the Regulatory Role of the States

The Treasury Blueprint severely limits the essential role state securities regulators have played for decades in protecting Main Street investors from fraud.

Treasury recommends CBRA be responsible for setting national standards for business conduct laws across all types of financial services providers. The national standards established by CBRA would apply to all financial services firms, whether federally or state-chartered. In addition, CBRA's standards would be provided field preemption as to state business conduct laws directly relating to the provision of financial services.

In the optimal structure, states should still retain authority to enact laws and take enforcement actions against state-chartered financial service providers as long as the state laws do not conflict with federal laws. In practice, the grant of field preemption to the FFSPs and the CBRA would act to render this authority moot.

States could be given a formalized role in CBRA's rulemaking through a State Advisory Board to allow for input into the rulemaking process. Treasury recommends that states' role in enforcement be limited to authority under state laws that apply to state-chartered financial service providers.

Again, the field preemption provided to CBRA leaves doubt as to whether any laws would actually remain to be enforced. States may be given the authority to monitor compliance and enforce CBRA's regulations, but only as to state-chartered financial services providers. Here also, the Blueprint leaves some doubt as to whether any "state-chartered financial services providers" would remain for purposes of state securities regulation.

Finally, states could be granted some limited authority to address business conduct issues as to federally chartered financial institutions. Rather than direct authority, Treasury contemplates states bringing issues to CBRA's attention and, upon approval by CBRA, may be given the authority to proceed with investigations and enforcement actions.

Treasury also proposes an alternative it appears to deem preferable; that state officials hand off all information to CBRA or the SRO so that they can use such information to investigate and/or take enforcement action as they deem necessary.

What Others Are Saying:

Senator Christopher Dodd
Chairman, Senate Banking Committee
"This is a wild pitch. It is not even close to the strike zone . . . It does not make sense to give a bigger shovel to the very people who helped dig us into this hole. . . It would create weaker standards to protect investors and consumers."

Senator Jack Reed
Chair, Senate Subcommittee on Securities, Insurance, and Investment
"At a time when it is hard for some of our biggest financial firms to clearly list what is on their balance sheets, the Administration's regulatory proposal needs more than a thorough vetting."

Rep. Barney Frank
Chairman, House Committee on Financial Services
"I have disagreements with some [of the Blueprint's] specifics—e.g. the plan goes too far in diminishing the role of the states . . . "

Harvey J. Goldschmid
Former SEC Commissioner
"Some advocates want broad principles that will not be enforced. . . You take that approach and the problems of subprime and securitization will look like minor bumps compared to the mess we will have in the future."

Richard C. Breeden
Former SEC Chairman
"I don't see what's in it for the public in this plan. What's in it for the taxpayers and the customers of these firms?"

Lawrence Summers
Treasury Secretary under President Clinton
"It's probably a bad idea to spend too much time debating the organization of the fire department while the fire is still burning and no independent investigation if the cause of the fire has yet been completed."

James Cox
Professor, Duke University School of Law
"I don't see the SEC regulatory culture being the one that emerges out of this [blueprint]."

Ed Mierzwinski
U.S. Public Interest Research Group
"Secretary Paulson's blueprint is a home run for Wall Street and a strikeout for Main Street."

Barbara Roper
Consumer Federation of America
". . . Kernels of good ideas surrounded by a lot of bad ideas."

How the Treasury Blueprint Proposes to Eliminate the Current Authority of State Securities Administrators to Protect Main Street Investors

CURRENTLY: Uniform, state licensing of broker-dealers, investment advisers, agents, and investment adviser representatives to prevent those with certain disciplinary histories from doing business in your state.
PROPOSED: NO STATE LICENSING AUTHORITY.

CURRENTLY: Registration of certain securities offerings into the state.
PROPOSED: NO STATE REGISTRATION AUTHORITY.

CURRENTLY: Investigations, often prompted by local customer complaints, as deemed necessary for the protection of investors by the Administrator.
PROPOSED: INVESTIGATIVE AUTHORITY MAY BE LIMITED TO ASSISTING CBRA.

CURRENTLY: Enforcement authority to enforce existing state securities laws to stop illegal activity, provide restitution to investors, prosecute white-collar criminals, fine, penalize, and impose legally binding conduct remedies.
PROPOSED: MAY BE LIMITED TO ENFORCEMENT OF FEDERAL LAW UNDER DIRECTION AND APPROVAL FROM CBRA OR MERELY INVESTIGATORY ASSISTANCE.

CURRENTLY: Examination and inspection authority over broker-dealers and investment advisers to ensure compliance with securities laws and maintenance of accurate records of client accounts.
PROPOSED: NO STATE EXAMINATION AUTHORITY.

CURRENTLY: Review of non-exempt offerings.
PROPOSED: NO REVIEW – ALL OFFERINGS WILL BE EXEMPT FROM STATE LAW.

CURRENTLY: Rulemaking and statutory revisions.
PROPOSED: NO RULEMAKING AUTHORITY – POTENTIAL ROLE FOR INPUT INTO CBRA REGULATIONS.

CURRENTLY: Investor education programs and outreach to senior citizen centers, elementary and high schools, military bases and workplaces.
FUTURE ROLE UNKNOWN: THE 184,510 CONSUMERS WHO HAVE BEEN REACHED THROUGH 1,138 PRESENTATIONS BY STATE SECURITIES REGULATORS SINCE NOVEMBER 2006 WOULD LIKELY BE LEFT WITHOUT THESE GRASSROOTS PROGRAMS.

NASAA 2008 Public Policy Conference: Keynotes

U.S. Sen. Reed Delivers Opening Address at NASAA Public Policy Conference

This article is adapted from a speech by Sen. Jack Reed (D-RI) at the NASAA Public Policy Conference, May 1, 2008 in Washington, DC.

We are at a critical moment. In the past eight years, we have confronted many financial scandals starting with implosions of Enron and WorldCom, market timing and late trading in mutual funds, stock options backdating, and now the trials and tribulations brought on by conflicts in the subprime mortgage lending. As a result, we need to step back, and seriously consider and identify what went wrong and what fixes are necessary to prevent repeat episodes and restore investor confidence in our markets and our economy.

When you look across these financial scandals, a number of common themes emerge:

> A lack of transparency and disclosures in complex financial products, such as subprime loans, structured finance, off-balance sheet transactions and credit derivatives.

> A lack of accountability as the financial companies were not held responsible through market discipline or by regulators and, overall, the market was somewhat blind to what was occurring.

> A lack of governance and oversight by those responsible for overseeing these companies, including their management of the risks these companies were engaging in, and the financial reports and information they provided to the investing public.

> A lack of effective analysis by credit rating agencies.

In the area of mortgage securities, an incentive structure driven by fees and a process geared towards fueling the demand for poorly underwritten loans in which each part of the chain delinked as soon as they collected fees. Every participant in the process shares responsibility for this current crisis including the mortgage brokers, the lenders, the appraisers, and the securitizers who then packaged these loans and sold them to investors, even putting them into the safest of funds– such as money markets and retirement products.

> And lastly, a lax regulatory environment created in part by financial regulators desires to emulate their overseas counterparts' "principles-based" approaches. This has been fueled by an overreliance by financial regulators on communicating expectations with speeches and press releases rather than regulatory guidance, rules and examinations. And even some efforts by federal regulators to block state regulators from trying to put the breaks on from heading in the wrong direction.

The events of the past year no doubt signal a clear and critical need to modernize the country's financial services regulations. But underlying that effort there needs to be a sober review on how we got here.

This examination should not only require the review of the authority of individual financial regulators, but also review the way they undertake their responsibilities when they implement their regulations. The first priority should be to get the regulators to explain what happened in each of their agencies and what they think went wrong.

There should be serious reflection among all the regulators about what they have done in the last several months and years and how they can improve dramatically their regulation and supervision. This is not about pointing fingers but about understanding what went wrong so we can understand how to fix it.

This is a very challenging situation. There is a huge uncertainty in the marketplace and it is hard to find a regulatory agency that performed exceptionally well. As a result, we don't have the luxury of sitting around and waiting until things settle down. We have to get to work.

Yesterday, Secretary Paulson unveiled a series of recommendations to restructure the regulatory framework of the U.S. financial services industry. To the extent that some of the recommendations from the blueprint deal with eliminating duplicative regulation and streamline, it makes sense to consider these proposals. However, we need to make sure that those mergers do not come at the expense of investor protections as the missions of each of these agencies are different. We need to ensure that we bring out the best aspects of each agency rather than engage in a race to the bottom in terms of regulation.

> ***"Events of the past year have shown that market discipline cannot be a substitute for good, sound regulation and rules."***

My experience is that creating new institutions out of old institutions is often a costly process.

Events of the past year have shown that market discipline cannot be a substitute for good, sound regulation and rules. Market discipline is most effective in limiting systemic risk if every participant had confidence in their counterparts and also if there is appropriate and adequate disclosure and transparency.

In the end, financial regulators are the ultimate gatekeepers. A regulatory structure that limits risk in one area but is unable to contain it in others ultimately leaves all investors exposed to volatility in the financial system.

Fundamentally, this is about protecting the savings and well-being of all Americans whether for retirement, college, or home, and providing access to capital for businesses and governments to make investments in our future, so that our economy can continue to be the most healthy and vibrant in the world.

And it is also about creating a climate of confidence that makes the American financial markets the envy of the world. If we lose that confidence, we will lose the greatest competitive advantage we have.

SEC Chairman Cox: "We're Proud to be Your Partners"

The following article is adapted from a speech delivered by SEC Chairman Christopher Cox at the NASAA 2008 Public Policy Conference.

The partnership that everyone in this room is working so hard to build among the states and the federal government is stronger than it has ever been before. Our cooperative and complementary state-federal relationship has a proven record of serving investors well, and we're building on it and making it stronger every day. Much of that success is due to the exceptional leadership at NASAA in recent years — including in particular Patty Struck, Joe Borg, and Karen Tyler.

Our current high level of collaboration is reflected in NASAA's leadership role in our joint national initiative, which includes the SEC and FINRA to protect seniors from investment fraud and sales of unsuitable securities. This year, as we prepare for our Senior Summit, we are hard at work examining the various practices used by financial services firms in dealing with senior investors, so that we can provide information about these practices publicly.

The SEC and NASAA have also worked closely together on your model rule for senior designations. The Senior Designations Task Force, chaired by Melanie Lubin, who is of course Securities Commissioner for the State of Maryland, has performed a tremendous service by developing a rule that every state can adopt to curb the misuse of senior-specific certifications and professional designations by those who would prey on retired and elderly investors. The model rule that the NASAA membership has already approved, and which you've announced today, will offer important protections to senior investors.

I am strongly supportive of this approach, and I will do everything I can to help you promote it — because the more states that adopt the model rule, the more effective these protections will be. A uniform approach to the issue of senior designations at the state level will make it easier for both customers and firms to detect the improper use of senior-specific designations.

Yet another area that's important to seniors where NASAA and the SEC have been working closely together is the very difficult set of legal issues surrounding equity indexed annuities. As NASAA has noted, the sale of equity-indexed annuities has risen dramatically over the last decade. These products can be extremely complex. They often contain a number of features that make them unsuitable for older investors, including long accumulation periods and high surrender charges.

The SEC, state securities regulators, and the SROs are receiving an increasing number of complaints about equity-indexed annuities, because they are often pitched with deceptive marketing tactics. As we found in our recent joint sweeps of free lunch seminars, equity-indexed annuities are often marketed to senior citizens through investment seminars nationwide.

For far too long, the status of equity-indexed annuities as securities has been shrouded in uncertainty. The SEC first solicited public comment on the appropriate treatment of equity-indexed annuities under federal securities law in 1997. But together with NASAA, we're working to provide much-needed guidance and clarification on this issue this year.

Where equity-indexed annuities are promoted and sold primarily as investments rather than insurance products, investor protection requires that the enforcement tools of the SEC and state securities regulators be brought to bear. Securities regulators at both the state and federal level are best situated to address the abuses at the point of sale. And the strong suitability standards that come with federal and state securities regulation will help to ensure that equity-indexed annuities are sold only to investors for whom they are appropriate — and only after the investor has received complete, understandable, and accurate information regarding all material aspects of the investment.

The SEC's Office of the General Counsel, working with our Divisions of Investment Management and Trading and Markets, is preparing to share with NASAA an approach to the legal questions surrounding equity-indexed annuities that will deal with the thorny issue of retroactivity, while providing clear guidance on separating the insurance component from the investment component to inform a determination of whether a particular product is primarily insurance or primarily an investment.

Still another area in which we are working very closely with NASAA is our examination of the various regulatory schemes affecting both broker-dealers and investment advisers.

But there's nowhere that our joint collaboration with our state regulatory partners is more important than in our daily battle to combat fraud. We could not do our jobs at the SEC without you. We're proud to be your partners.

Model Rule

(continued from Page 1)

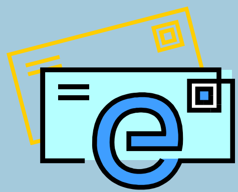
and Maryland Securities Commissioner Melanie Lubin.

The use of a senior designation by salespersons, whether registered or not, confers an impression that the salesperson has special qualifications or specialized education in addressing the needs of senior citizens or retirees, particular areas of finance, financial planning, estate planning, or investing. "The requirements to obtain designations and certifications vary greatly, as can the processes for monitoring compliance with a code of conduct or ethics, if any, adopted by the organization that awards the designation or certification," Lubin said.

"The use of senior designations that misleadingly imply expertise in the financial needs of seniors often results in unsuitable investments being sold to unsuspecting seniors by apparent 'experts' who are little more than salespersons with little or no expertise in the specific needs of individual senior clients or understanding of the product being sold," Tyler said.

Tyler said NASAA appreciates the efforts of Sen. Herb Kohl (D-WI), chair of the Senate Special Committee on Aging, to protect senior investors and strongly supports the "Senior Investor Protection Act of 2008," introduced by Sen. Kohl. The legislation would provide grants to states to enhance the protection of seniors from being misled by false designations.

Shortly after the model rule's approval, New Hampshire, California, Washington, Virginia, and Missouri began the process to adopt the model in their jurisdictions. Tyler said additional states are poised to begin the adoption process in the months ahead.



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Save the Date:

NASAA Annual Conference
9.15-17.08
Las Vegas, Nevada

Organized in 1919, the North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. NASAA is a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.
NASAA members license firms and their agents, investigate violations of state and provincial law, file enforcement actions when appropriate, and educate the public about investment fraud.

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NASAA Commends NBC for Exposing EIA Sales Practices

NASAA recently commended Dateline NBC for its April 13 program, "Tricks of the Trade," which exposed questionable sales practices that some insurance agents use to sell equity indexed annuities that may be unsuitable investments for seniors.

"Dateline's producers and correspondent Chris Hansen are to be applauded for shining much needed light on abusive sales tactics deployed by sellers of equity indexed annuities, and for raising awareness among seniors of the risks associated with these complex, high-fee, high-commission products," said NASAA President and North Dakota Securities Commissioner Karen Tyler.

Tyler said equity indexed annuities lend themselves to abusive sales practices. According to NASAA's most recent enforcement survey, 34 percent of all cases of senior exploitation reported to state securities regulators involved variable or equity indexed annuities.

Tyler said NASAA also continues to urge the U.S. Securities and Exchange Commission to this year classify equity indexed annuities as securities subject to regulation under federal securities law.

Law Enforcement Outreach Program Launched by NASAA

A new outreach program, developed by NASAA, is available to provide law enforcement with resources to help investigate public complaints about investment fraud.

Designed for use by law enforcement officers and district attorneys, the Law Enforcement Outreach Program features resources pertaining to financial instruments ("securities") that are commonly used in schemes to defraud investors. The program offers training for law enforcement who field complaints or questions from investors who believe they have been defrauded.

"We recognize the importance of training law enforcement officers and prosecutors how to approach securities fraud, a crime that is often difficult to detect or understand," said Karen Tyler, NASAA President and North Dakota Securities Commissioner. "This program is designed to assist law enforcement professionals in identifying securities fraud and addressing investor complaints. Through this outreach effort, we hope to enhance the strong working relationship between local law enforcement and state securities regulators," Tyler said.