



2007 ▲

NASAA YEAR IN REVIEW ▲

# North American Securities Administrators Association



**... because every investor deserves protection**

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**NASAA represents and serves its members through advocacy, education, subject matter expertise, communication and coordination.**

State and provincial securities regulators have been protecting investors from fraud and abusive sales practices for close to a century, beginning in the United States with the passage of the first “blue sky” law, in Kansas, in 1911 and in Canada, in 1912, when Manitoba became the first province to approve securities legislation.

Organized in 1919, the North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. NASAA is a voluntary association with a membership consisting of securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

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.

NASAA represents and serves its members through advocacy, education, subject matter expertise, communication and

coordination. NASAA values investor protection, education, respect for diverse views, building consensus, being proactive, and active participation by all members of the organization. NASAA has a long history of advocating for federal and state legislation, rulemaking, and coordinated enforcement actions that advance the goal of protecting investors.



About  
NASAA

Members of the North American Securities Administrators Association will continue to face many complex and demanding issues. But our mission remains quite singular – protect the individual investor, for they too are facing increasing complexity in an ever-evolving world of financial products, services and providers.

Indeed, individual investors face many obstacles in their attempts to achieve financial security. Longer life expectancies, but at a price. Higher health care and education costs, and the ongoing uncertainty that is our Social Security system. They may be pitched and sold unsuitable products by unscrupulous sales people, or conned by financial predators. They are often over-served by the credit card industry. They may be stretched between funding an education for children, retirement for themselves and care for aging parents.

They also may be victimized, in the category of unintended consequences, by the ever evolving

frontier of financial engineering, as exotic alternative products and strategies, through the effects of contagion and uncertainty, drive market volatility and negatively impact traditional investments that are still the mainstay of the individual investor's portfolio.

The protection of Main Street investors must remain the centerpiece of our securities regulatory system.

Investors want to make good decisions about their money. When they seek professional assistance, they should have more available to them than a computerized voice at the other end of the telephone, a do-it-yourself-website, or a salesperson pushing a high-fee, high-commission product. Investing should not be an assembly-line, one size fits most, process. The millions of individual investors throughout North America deserve better.

Given the number and often the convergence of obstacles challenging the retail investor, the work of investment firms and professionals on behalf of small investors has perhaps never been as important as it is today.

And, given these obstacles and challenges, state and provincial securities regulators must continually seek to strengthen and preserve the regulatory system these investors count on for protection. "Compromised regulatory structure" must not be added to the list of obstacles standing between an investor and their future financial security.

NASAA is committed to working with our allies, including the SEC, FINRA, other state regulators, Congress, state and provincial lawmakers, an extensive network of consumer advocacy organizations, and industry professionals, to ensure that all investors prosper in a regulatory environment that fosters innovation while delivering the strongest investor protections.

# Leadership Letter



Strong regulation helps maintain investor confidence. And strong investor confidence is a necessary ingredient for a vibrant, and competitive, capital market. We look forward to an open and engaging dialogue in

the coming year to ensure that all investors – including seniors, those working toward retirement, and those just starting out – are treated fairly

As we move forward together, we encourage NASAA members to build on the momentum of the past year. Our mission of investor protection cannot be fulfilled without the ongoing dedication of the men and women throughout the NASAA family.

**“The protection of Main Street investors must remain the centerpiece of our securities regulatory system.”**



**Joseph P. Borg**  
Alabama Securities  
Commission Director  
NASAA President 2006-2007

**Karen Tyler**  
North Dakota  
Securities Commissioner  
NASAA President 2007-2008

**Fred Joseph**  
Colorado Securities  
Commissioner  
NASAA President-elect 2007-2008

The North American Securities Administrators Association and its members in 2007 waged an active campaign to counter an assault on financial services regulation, launched from Wall Street and Washington. This assault, under the guise of enhancing the competitiveness of U.S. capital markets, seeks a significant overhaul of a regulatory system that protects more than 100 million Main Street American investors.

"There is no need to weaken the investor protection laws, but that hasn't stopped the companies that are behind these Commissions," said Ed Mierzewski, Consumer Program Director for the U.S. Public Interest Research Group. "Their goal is to roll back the investor protection laws and I would encourage NASAA to speak out with a loud voice."

NASAA did just that. First, in January, NASAA used a news conference announcing its 2007 Legislative Agenda to highlight concerns about rolling back investor protections in the name of increased capital market competitiveness.

"We all agree that investor confidence is the cornerstone of the success of our capital markets. A key component of investor confidence is a regulatory framework



**President Joseph Borg outlines NASAA's Pro-Investor Legislative Agenda at the National Press Club in Washington, DC.**

that provides strong investor protection," NASAA President and Alabama Securities Commission Director Joseph P. Borg said at the National Press Club news conference. "NASAA supports a strong and effective regulatory structure for capital markets, which requires the preservation of the authority of state securities regulators, the first line of defense on the securities beat. It also requires a strong Securities and Exchange Commission to properly implement laws, and it requires a strong SRO for efficient compliance. It takes all three of us working in equal partnership to maintain investor confidence in the world's deepest and most transparent markets."

In March, NASAA sponsored a symposium in Washington, DC bringing together leading securities industry experts to challenge suggestions that U.S. capital

markets are losing their competitiveness due to increased regulation and the cost of complying with those regulations.

The symposium, held at the National Press Club, was moderated by University of Mississippi Law professor Mercer Bullard, and featured James D. Cox, Professor, Duke University School of Law; Tanya Solov, Illinois Director of Securities; Willis Riccio, Partner, Adler, Pollock & Sheehan; Nancy Smith, Vice President, Investment Services, AARP Financial; and former Enron employee Charles Prestwood, who after working for 30 years as a natural gas pipeline operator saw the value of his retirement portfolio virtually disappear after the company's December 2001 bankruptcy. "When you go from rags to riches

## SPECIAL REPORT:

# Protecting Investors and the Integrity of Financial Markets

**“We all agree that investor confidence is the cornerstone of the success of our capital markets. A key component of investor confidence is a regulatory framework that provides strong investor protection.”**

► Joseph P. Borg, NASAA President

back to rags again, something happened, something was wrong,” Prestwood said.

Opening the discussion, Bullard noted the irony of Wall Street’s fears of losing its competitiveness at a time when many large investment banking firms are posting record profits. “Judging from these earnings, it would appear that competition is alive and well on Wall Street,” he said.

Professor Cox said there is much misinformation about the status of Wall Street’s competitiveness in the

global economy. “This is not to say we should ignore capital market competitiveness. We need to get regulation right. We need to evaluate it and see where we can strengthen it, but very few of the reports are focusing on the right areas,” he said.

Smith, of AARP Financial, cautioned against weakening the investor protections brought about by the Sarbanes-Oxley Act. “If we roll back the protections we adopted in the wake of Enron – if we lighten up on enforcement and weaken internal controls requirements – there is every reason to believe we will have to learn, yet again, that strong investor protections are worth paying for and are a lot less of a burden on our markets’ competitiveness than another epidemic of corporate fraud,” she said.

From a regulator’s perspective, Solov reminded the audience that Enron, WorldCom and other corporate scandals are “not ancient history.” She added, “Now is not the time to roll back regulation or quash enforcement actions.” In May,

NASAA’s Public Policy Conference again focused attention on the calls for rolling back investor protections. Conference Chair and Delaware Securities Commissioner Jim Ropp designed the conference to provide participants with a deeper understanding of the dynamic and interdependent relationship between investor protection, economic prosperity, and the integrity of our nation’s financial sector. “Along the way,” he told conference attendees, “I hope you gain insights into why we, the state and provincial securities regulators of North America, do what we do. Simply put: it’s because we believe that every investor deserves protection.”

As part of the conference, NASAA sponsored a Public Policy Forum examining investor protection through effective enforcement and regulation. The forum provided insights from state securities regulators, leaders of the securities industry, consumer organizations, the labor movement and securities attorneys. Forum moderator and Arizona Securities Commission Director Matt Neubert provided a framework for the forum by



**Delaware Securities Commissioner Jim Ropp opens NASAA’s Public Policy Conference.**

**“Now is not the time to roll back regulation or quash enforcement actions.”**

► Tanya Solov, Illinois, Director of Securities





highlighting the multiple studies and reports suggesting that U.S. capital markets are becoming uncompetitive globally due to over regulation and over aggressive enforcement by state and federal securities regulators. Yet, at the same time, others say U.S. markets are the strongest in the world because investor confidence is maintained through strict regulation.

"These and other issues are at the forefront of one of the most significant crossroads in our history," Neubert said. "Are we too soon forgetting the major scandals of the last five years that demanded such sweeping regulatory changes like Sarbanes-Oxley? Are we in a rush to deregulate in the name of competitiveness while overlooking the impact this may have on shareholders and investors? Yet how can we ease regulatory burdens without entering into a race to the bottom in regulatory protections?"

Massachusetts Division of Securities Director Bryan Lantagne said U.S. capital markets have been and will continue to be strong, especially in times of stress or under volatile conditions, because they are largely fair and transparent. "This inherent strength exists primarily because the U.S. capital markets and their players are policed — not because they are lightly regulated," he said. "The estimated \$6 billion in

Sarbanes-Oxley Act compliance costs pale in comparison to industry compensation levels. Last year, Wall Street bonuses reached a record \$23.9 billion. If this kind of money can be spent to reward industry participants, some monies surely can be spent to protect the very people whose retirement and pension funds are making Wall Street so much money."

NASAA members believe that state securities regulators fill a vital role in protecting Main Street America through our regulatory and enforcement activities. "The benefits of our investor protection activities more than outweigh the costs of compliance," Lantagne said.

In a keynote speech following the forum, former Securities and Exchange Commissioner Harvey Goldschmid decried what he labeled "nonsense" in the business backlash against the strong investor protections enacted following Enron and other recent corporate scandals.

"The evidence suggests that no part of the sky is falling. Competitive concerns provide no basis for the radical weakening of our securities regulatory system that has been proposed," Goldschmid said. "The premium, and I underscore this, the premium for foreign firms cross listing on U.S. markets is extraordi-



**"How can we ease regulatory burdens without entering into a race to the bottom in regulatory protections?"**

► Matt Neubert, Arizona, Director of Securities

narily high. That premium is being paid because of the quality — the investment confidence that comes with the quality — of the U.S. regulatory scheme. Could it be that our aggressive and effective regulatory and enforcement system for securities actually creates the premium for cross listing? And more importantly, provides the investor confidence that makes our securities markets the envy of the world."



**"Gatekeepers and regulators are necessary to keep the market efficient. Any attempt to limit or circumscribe the state's police authority will do more long-term harm to the U.S. capital markets than perceived competitive threats from any foreign exchange."**

► Bryan Lantagne, Director, Massachusetts Division of Securities



Goldschmid concluded: "In short, our system is working. We're keeping our standards high, making appropriate corrections, and meeting legitimate needs."

In September, incoming NASAA President and North Dakota Securities Commissioner Karen Tyler focused her inaugural address on NASAA's need to continue to aggressively counter attempts to weaken the securities regulatory structure and the protections afforded individual investors.

"It wasn't that long ago - 2002, 2003 - that 'restoring investor confidence' was on the mind of every regulator, industry executive, consumer advocate, and elected official," Tyler said. "Everyone spoke of the need to restore investor confidence, claimed it as a policy priority, and declared that the future viability of our capital markets depended on it."

Tyler noted that since the Sarbanes Oxley Act was passed into law on July 30, 2002 equity markets had substantially recovered and the national policy focus on restoring investor confidence has subsided. Within this environment, industry-sponsored committees were assembled and studies were conducted seeking to compromise the regulatory reform and investor protections that had just been put in place.



**NASAA 2007-2008 President Karen Tyler and 2006-2007 President Joseph Borg (center) with former SEC Commissioner Harvey Goldschmid.**

"Only with a skewed agenda and a finely-focused scope can robust investor protection be held responsible for what the competitiveness reports have assessed to be vulnerable and waning U.S. exchanges within a growing, increasingly competitive, truly global capital market," Tyler said.

As the year drew to a close, NASAA voiced strong support for the current regulatory structure for the securities industry and cautioned against a significant overhaul in an effort to enhance the competitiveness of U.S. capital markets.

"We encourage the Treasury not to lose sight of the regulator's primary function: to protect investors and

capital," NASAA President Tyler wrote in a comment letter to the U.S. Department of the Treasury regarding its Review of the Regulatory Structure Associated with Financial Institutions. "We believe that 'regulatory reform' should seek to ease needless burdens on market participants. It should aim to speed and improve understanding of and reaction to product and market innovations. Ultimately, we believe that any 'reform' should, as a matter of first principle, seek to maintain the critical balance required to protect investors and capital alike. Thus far, our adherence to this basic mission has forged the success of our markets," Tyler wrote.



**"We encourage the Treasury not to lose sight of the regulator's primary function: to protect investors and capital."**

► Karen Tyler, NASAA President



**"The evidence suggests that no part of the sky is falling."**

► Harvey Goldschmid, Former SEC Commissioner



**NASAA President Joseph Borg holds a handful of invitations to "free lunch" seminars targeting seniors during his remarks at the second annual Seniors Summit in Washington, DC.**

**N**ASAA and its members devoted considerable attention in 2007 toward ongoing efforts to raise awareness of the dangers of senior investor fraud and to develop aggressive and innovative approaches to mitigate its potentially devastating impact on a growing, but vulnerable, population.

In September, 2007, NASAA joined the SEC and the Financial Industry Regulatory Authority (FINRA) in releasing a joint report following a year-long examination of "free lunch" investment seminars. The report, released during the second Seniors Summit at SEC headquarters in Washington, DC, outlined for the first time the widespread use of abusive sales tactics at these seminars.

### EXAMINATION OF "FREE LUNCH" SEMINARS

The examinations, conducted by the SEC, FINRA and NASAA members in California, Arizona, Texas, Florida, Alabama, North Carolina and South Carolina, scrutinized 110 securities firms and branch offices that sponsor sales seminars and offer a free lunch to entice attendees.

The report's key findings include:

- 100% of the "seminars" were instead sales presentations. While many sales seminars were advertised as "educational," "workshops," and "nothing will be sold," they were intended to result in the attendees' opening new accounts and, ultimately, in the sales of investment products, if not at the seminar itself, then in follow-up contacts with the attendees.
- 59% reflected weak supervisory practices by firms. While some exams found effective supervisory practices, many examinations found indications that firms had poorly supervised these sales seminars, including failure to review seminar presentations or materials as required.
- 50% featured exaggerated or misleading advertising claims. Examples included "Immediately add \$100,000 to your net worth," "How to receive a 13.3% return," and "How \$100K can pay 1 Million Dollars to Your Heirs."
- 23% involved possibly unsuitable recommendations. In 25 of the 110 examinations, indications of unsuitable recommendations were found; for example, a risky investment recommended to an investor with a "conservative" investment objective, or illiquid investments recommended to investors with short-term cash needs.
- 13% appeared to be fraudulent and have been referred to the most appropriate regulator for possible enforcement or disciplinary action.

Examiners found indications of possible fraudulent practices in 14 examinations that involved apparent serious misrepresentations of risk and return, possible liquidation of accounts without the customer's knowledge or consent, and possible sales of fictitious investments.

NASAA President Joseph Borg said, "Our examinations prove the point — there's no such thing as a free lunch. Seniors seeking investor education

## REGULATORY FOCUS:

# Senior Investor Protection



**NASAA 2007-2008 President Karen Tyler (right), joins SEC Commissioner Paul Atkins (far left) and investor education officials from FINRA and the SEC to outline innovative ways to warn seniors of the dangers of investment fraud during the Seniors Summit.**





and advice at a seminar should not be subject to misrepresentations, high-pressure sales tactics and outright fraud. The entire community of state securities regulators will continue our active pursuit of criminals who cheat seniors out of their hard-earned retirement savings."

## SENIOR DESIGNATION MODEL RULE

In January, 2007, NASAA's Board of Directors appointed a NASAA task force to study what approach, if any, NASAA members should consider in addressing 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.

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.

## Implied Expertise

Certain segments of the financial services industry have aggressively used senior designations that misleadingly imply expertise in the financial needs of seniors. Such aggressive use 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 individual, specific needs of the senior client or understanding of the product being sold.

In the course of their study, the members of the task force considered a number of potential methodologies, including the regulatory initiatives undertaken by the securities regulators in Massachusetts, Nebraska, and Washington. As a result of task force deliberations, and insights gained through membership and public comments, a proposed model rule was developed.

**Certain segments of the financial services industry have aggressively used designations and certifications that misleadingly imply expertise in the financial needs of seniors.**

## A Sound Approach

The proposed rule prohibits the misleading use of senior and retiree designations while also providing a means by which an administrator may recognize the use of certain designations conferred by an accredited organization. The model rule represents the culmination of a five-year effort by NASAA and its members to focus national attention on unscrupulous behavior targeting senior investors. This effort has gained considerable momentum in recent months and has attracted the interest of the national news media, the Securities and Exchange Commission, and, importantly, the U.S. Senate Special Committee on Aging, which is in the process of developing significant legislation relating to the use of senior designations by financial services providers.



From right, North Carolina Deputy Securities Administrator David Massey, FINRA executive Robert Errico, SEC Director of Office of Compliance Inspections and Examinations Lori Richards and SEC Commissioner Kathleen Casey discuss enforcement priorities at the Seniors Summit.



NASAA President Joseph Borg, FINRA CEO Mary Schapiro, and SEC Chairman Christopher Cox open the Seniors Summit.



**N**ASAA's fundamental mission, in fact, our common passion, is to protect consumers from investment fraud and abuse. For NASAA and its members, 2007 was a year of heightened activity and significant accomplishment on a number of fronts, including legislative, regulatory, legal, media and investor education.

## GOVERNMENTAL AFFAIRS

NASAA and its membership developed strong relationships with lawmakers on both sides of the aisle during the first session of the 110th Congress because of our mutual goal of putting the interests of investors first. The fight against investment fraud knows no party labels and NASAA welcomes the opportunity to work with all members of Congress to find common ground in our efforts to advance investor protection. We look forward to building upon those relationships during the second session of the 110th Congress.

NASAA, through its membership, the Federal Legislation Committee, and Corporate Office staff, actively

promotes the interests of state and provincial securities regulators before legislatures. NASAA provides a united voice to call for ensuring that state and provincial securities regulators maintain authority essential to keep capital markets safe for all investors. NASAA members testify before federal, state and provincial legislatures on a variety of initiatives and are the voice of reasonable and responsible regulation to protect investors in our securities markets.

During 2007, the NASAA staff has worked with its members to defend against several high-profile concerted campaigns by the financial services industry to convince Congress to weaken state securities enforcement authority.

While we continue to tackle these issues, it is important not to lose sight of some significant victories dealing with variable annuities that have been won in 2007 at the state legislative level. For example, in Hawaii, a two-year effort by certain segments of the life insurance industry to repeal the state securities commissioner's oversight over variable annuity sales practices was defeated. In May, the Legislature passed a bill enacting the NAIC model suitability rule, with an amendment supported by both the securities and insurance commissioners that expressly preserves the



**NASAA President Joseph Borg, U.S. Senator Robert Casey, and NASAA Executive Director Russ Iuculano at NASAA's Public Policy Forum in Washington, DC.**

securities commissioner's authority. Also in 2007, hotly contested legislation in Oregon to include variable annuities under the definition of "security," was signed into law on June 14. NASAA submitted written testimony supporting the legislation and the views of the Oregon Department of Consumer & Business Services that the bill would provide stronger enforcement tools to regulate variable annuity sales. Also supporting the legislation were the Oregon Chapter of AARP, and FINRA.

## TESTIMONY

NASAA was invited to appear before Congress five times in 2007 and submitted two additional written testimonies in a very productive year on Capitol Hill.

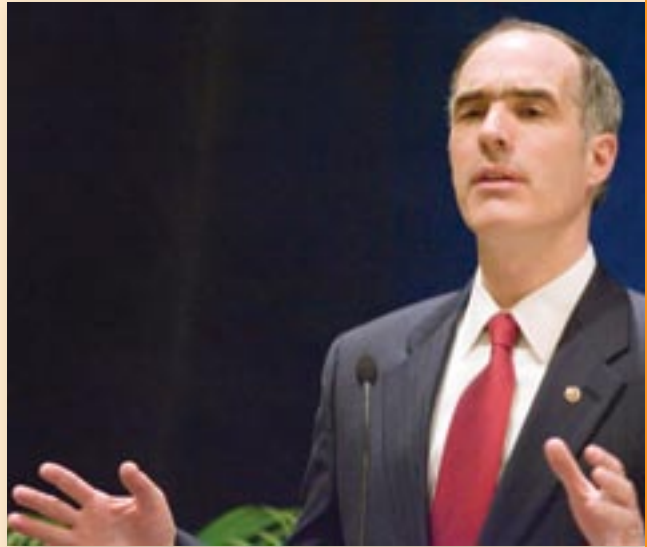
## NASAA OVERVIEW:

# A Year of Accomplishment

# U.S. Senator Casey

## ADDRESSES NASAA PUBLIC POLICY CONFERENCE

U.S. Senator Robert Casey Jr. strongly supported the role of state securities regulators in a speech opening the 2007 NASAA Public Policy Conference on May 8. The freshman Senator from Pennsylvania serves on the Senate's Banking, Housing, and Urban Affairs Committee, as well as the committee's Securities, Insurance and Investment Subcommittee. He also serves Senate's Special Committee on Aging, among other assignments. As a former two-term Pennsylvania Auditor General and Pennsylvania State Treasurer, Senator Casey said he appreciates the value of state government and respects the role state securities regulators served in protecting investors.



**U.S. Senator Robert Casey (D-PA) voices his strong support for the investor protection role of state securities regulators in an address to open NASAA's Public Policy Forum.**

"Federal regulators, as you know, do a lot of work on investor protection, but they don't live in the communities you live in, they don't live in the states you live in, and they don't have the first-hand experience that you have as state regulators, and they don't have a better feel for what's going on in neighborhoods and communities," he said. "That's why I think it is critically important for anyone in this town talking about regulation, talking about securities and investor protection, to focus on, listen to, and act upon the advice you give us, and the advocacy you bring to bear on these questions."

Casey said he would oppose any efforts to weaken the "innovative regulation and enforcement" authority of state securities regulators. "Moves to limit the role of securities commissioners in Pennsylvania or in any other state, do not help investors," he said. "And I for one, as a member of the United States Senate am going to oppose those efforts to take power away from you. . . . The innovation and path that you've charted at the state level is what Washington should be listening to. In fact, many of our states are leading the way when it comes to innovation and investor protection. And the worst thing that Washington could do is stifle that innovation and turn a blind eye to what you're doing every day of the week."

Casey urged his federal colleagues to recognize and appreciate the role of state securities regulators. "We've got to be very flexible in Washington and creative when we're listening to you, whether its investor protection or any other kind of regulation, you can be sure we're listening to what you've told us," he said.

**NASAA provides a united voice to call for ensuring that state and provincial securities regulators maintain authority essential to keep capital markets safe for all investors.**



**NASAA President Karen Tyler testifies before the Senate Banking Committee.**

### **Investor Protection**

**December 13, 2007**

**U.S. Senate Committee on Banking, Housing, and Urban Affairs**

***"Shopping Smart and Avoiding Scams: Financial Literacy During the Holiday Season"***

In testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs, NASAA on December 13, 2007 outlined the significance of investor education in providing consumers with an important weapon in the fight against investment fraud. "Investment fraud does not take a holiday," said Karen Tyler, NASAA President and North Dakota Securities Commissioner. Tyler told the committee that state securities regulators are concerned that this predatory conduct, combined with a convergence of financial challenges - higher energy prices, a volatile stock market, lower housing values, and general

economic unrest - may lead individuals to make hasty, ill-informed decisions in the pursuit of higher returns on their investments. In her testimony, President Tyler also provided four key defensive actions for investors to use to protect themselves and their money from scamsters and announced a new episode in NASAA's podcast series, The Alert Investors, offering a series of resolutions to help investors protect themselves from fraud.

### **Arbitration**

**December 12, 2007**

**U.S. Senate Subcommittee on the Constitution**

***"S. 1782, The Arbitration Fairness Act of 2007"***

In testimony before a Senate Judiciary subcommittee, NASAA voiced strong support for S. 1782, the Arbitration Fairness Act of 2007 introduced by Sen. Russ Feingold (D-WI), saying that the legislation is "a positive step in the right direction" toward improving the fairness of the system of securities arbitration. Currently, almost every broker-dealer includes in their customer agreements, a pre-dispute arbitration provision that forces public investors to submit all disputes that they may have with the firm and/or its associates to mandatory arbitration. "As long as securities arbitration remains mandatory, investors will continue to face a system that is not fair and

transparent to all. For this reason, NASAA supports the passage of S.1782, the Arbitration Fairness Act of 2007," Illinois Securities Director Tanya Solov testified on behalf of NASAA.

### **Regulatory Preemption**

**September 12, 2007**

**U.S. Senate Committee on the Judiciary**

***"Regulatory Preemption: Are Federal Agencies Usurping Congressional and State Authority?"***

In written testimony submitted on September 12, 2007 to the U.S. Senate Committee on the Judiciary, NASAA said a trend toward preemption of state regulatory authority over the past 15 years has exposed the public to a heightened risk of abuse at the hands of unscrupulous bankers, brokers, advisers, and insurance agents. NASAA's testimony was submitted in conjunction with a hearing entitled "Regulatory Preemption: Are Federal Agencies Usurping Congressional and State Authority?" The hearing focused on regulatory preemption and two recent regulatory actions are of particular concern to NASAA: Rule 7.4006 promulgated by the Office of the Comptroller (OCC), 12 C.F.R. § 7.4006, and the opinion letter issued by the Office of Thrift Supervision (OTS) on October 25, 2004. Both actions sought to weaken state securities enforcement authority.

**In written testimony submitted on September 12, 2007 to the U.S. Senate Committee on the Judiciary, NASAA said a trend toward preemption of state regulatory authority over the past 15 years has exposed the public to a heightened risk of abuse at the hands of unscrupulous bankers, brokers, advisers, and insurance agents.**



“Where Congress has left room for the application of state law to financial institutions, federal regulatory agencies should not be permitted to “preempt” Congress’s judgment. The public needs the protections that state law offers. From NASAA’s standpoint, this approach is especially important in the area of securities regulation,” the testimony said. “In keeping with the modern regulatory approach known as functional regulation, state securities regulators assert their jurisdiction based principally upon the nature of the financial activity involved, not the nature of the entity engaged in that activity.”

### Senior Investor Protection

September 5, 2007

#### U.S. Senate Special Committee on Aging

##### *“Advising Seniors About Their Money: Who Is Qualified – and Who Is Not?”*

On September 5, 2007, NASAA outlined the dangers facing senior investors in testimony before the U.S. Senate Special Committee on Aging. NASAA told the panel that senior investors are being targeted through “free lunch” investment seminars by predators holding professional-sounding designations that can be nothing more than empty marketing tools. “State securities regulators share your outrage at the practices used to swindle seniors out of the

hard-earned money they need for a secure retirement,” NASAA President and Alabama Securities Commission Director Joseph P. Borg told committee chairman Senator Herb Kohl (D-WI), during a hearing entitled, “Advising Seniors About Their Money: Who Is Qualified – and Who Is Not?”

“The financial victimization of seniors is simply intolerable, and the entire community of state securities regulators will continue to play an active role in protecting seniors through enforcement, education, and regulation,” Borg said. Since NASAA first identified the risk seniors face at free meal investment seminars in 2003, state securities regulators have been actively investigating and bringing cases to stop the spread of abusive sales practices that often emanate from these events. Borg also called upon Congress to explore proposals to assist law enforcement and prosecutors to ensure that those who take advantage of our nation’s elderly will be held accountable. “Fraudulent investment sales to seniors will remain a problem of epidemic proportions as long as the benefits to the perpetrators outweigh the costs,” Borg said. “Enhanced penalties for senior abuse – ranging from fines to jail terms – should help to raise those costs, deter law violations and punish appropriately those who exploit senior investors.”

### Private Equity and Hedge Fund IPOs

July 11, 2007

#### U.S. House of Representatives Subcommittee on Domestic Policy

##### *“After Blackstone: Should Small Investors be Exposed to Risks of Hedge Funds?”*

In July 11, 2007 testimony, NASAA told a Congressional panel that allowing public offerings of private equity and hedge fund management firms without appropriate regulatory protections puts retail investors at risk. “Due to a lack of transparency, the level of individual and systemic risk attached to these investments remains unknown to the individual investor. Their fee structures and lack of full disclosure obscure real returns. The structure of these new instruments places investors in a vulnerable position, subject to the whims of controlling persons and literally without recourse. In light of the complexity and uncertainty surrounding these instruments, allowing them to be offered to the public without appropriate regulatory protections poses serious risks to investors,” NASAA President Joseph Borg testified in a hearing examining possible risks presented to retail investors by the recent Blackstone Group L.P. and similar initial public offerings of the management entities of hedge funds and private equity funds.



**NASAA President Joseph Borg makes a point in testimony before the U.S. Special Committee on Aging.**



**U.S. Senator Herb Kohl (D-WI), chairman of the Senate Special Committee on Aging, opens a hearing on senior investor protection.**

“New investments with highly complex structures, opaque investment strategies, and dubious profitability have arrived on Main Street,” he noted. “Precisely because of this trend, the investor protections afforded by statutes like the Investment Company Act (ICA) are more important than ever.” Borg emphasized that NASAA does not object to access to alternative investments by retail investors so long as they are accompanied by all appropriate and necessary investor protections, rights, and remedies. “This can only be accomplished by ensuring such investments are offered pursuant to the appropriate Act,” he said.

### Regulatory Consolidation

May 17, 2007

#### U.S. Senate Subcommittee on Securities, Insurance and Investment

##### *“Consolidation of NASD and the Regulatory Functions of the NYSE: Working Towards Improved Regulation”*

In testimony before a subcommittee of the U.S. Senate Banking Committee, NASAA stressed that improved investor protection, rather than regulatory streamlining, should be the primary objective of the then pending merger of the NASD and the New York Stock Exchange-Regulation into the new Financial Industry Regulatory Authority (FINRA). “Today, 100 million Main Street Americans buy and sell securities

locally through their state-licensed brokers. But, as a whole, the financial services industry itself has become increasingly more global in scope. A merger of certain self-regulatory functions makes sense,” NASAA President Joseph Borg said in testimony before the U.S. Senate Banking Committee’s Subcommittee on Securities, Insurance and Investment.

“We hear a great deal about regulatory efficiency, including the three capital markets reports, but we must remember that efficiency at the expense of effective regulation is not in our national interest,” Borg said. “While ‘streamlining’ current rules and regulatory structures may create some savings and efficiencies, the needs of investors must come first. With one less regulator dealing with the public, state securities regulators urge the new SRO to demonstrate that any rule changes they propose will protect investors from fraudulent and manipulative acts and practices.” Borg also noted that the merger eliminates one arbitration forum for the resolution of disputes between public customers and the securities industry, “which raises the stakes for getting it right,” Borg emphasized, noting that NASAA has been at the forefront of trying to make certain the securities arbitration system is fair and transparent to all.

### Investor Education

April 30, 2007

#### U.S. Senate Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia

##### *“The Federal Government’s Role in Empowering Americans to Make Informed Financial Decisions”*

In written testimony submitted to a Senate subcommittee on April 30, 2007, NASAA outlined the innovative and successful investor education efforts of state securities regulators and welcomed the opportunity to work more closely with the federal Financial Literacy Education Commission in its ongoing efforts to improve the level of financial literacy. “State securities regulators have traditionally been a highly effective resource in the pursuit of greater financial literacy,” NASAA wrote. “They represent a nationwide network of highly trained, unbiased, non-commercial experts in financial services, products and fraud avoidance. They are on the front lines of financial education initiatives in every state, translating Wall Street to Main Street for small investors throughout the country. “

NASAA applauded the efforts of the Financial Literacy Education Commission and agreed with the GAO’s report (Financial Literacy and Education Commission: Further

NASAA President Joseph Borg with Richard Ketchum, then CEO of NYSE Regulation, Inc., chat before a Senate Subcommittee hearing on the merger of NASD and NYSE Regulation.



Progress Needed to Ensure an Effective National Strategy, December 2006) that the “inherent difficulty of coordinating the efforts of 20 federal agencies, small number of staff devoted to operating the Commission and the limited funding” do provide constraints to their effectiveness. NASAA noted that there has been slow but deliberate progress in integrating the commission’s national strategy for financial literacy.

## LEGAL & REGULATORY AFFAIRS

Advancing the interests of state and provincial securities regulation through effective regulation is a fundamental aspect of NASAA’s mission. A significant amount of NASAA’s work focuses on representing the interests of state and provincial securities regulators and working in a coordinated and cooperative manner with the U.S. Securities and Exchange Commission, industry self-regulatory organizations such as the FINRA, and international regulatory bodies, including the International Organization of Securities Commissions (IOSCO) and the Council of Securities Regulators for the Americas (COSRA).

The state-federal-industry regulatory relationship has a proven record of serving investors well. With more than 100 million investors relying on our securities markets to meet their financial goals – and on securities regulators to keep those markets well-policed – state, federal and industry securities regulators must continue to work together to ensure that this complementary regulatory relationship remains as seamless as possible.

NASAA also serves an important role in representing the membership’s position, as *amicus curiae*, in significant cases brought by private plaintiffs, as well as government regulators, involving the interpretation of the securities laws and the rights of investors.

## NASAA COMMENT LETTERS

### U.S. Treasury Department Review Financial Industry Regulatory Structure

NASAA voiced strong support for the current regulatory structure for the securities industry and cautioned against a significant overhaul in an effort to enhance the competitiveness of U.S. capital markets. “The millions of investors in this country – for the most part hardworking, middle class citizens, not Wall Street CEO’s – deserve a much better justification for a regulatory overhaul

if their financial futures are to be placed at risk,” NASAA President and North Dakota Securities Commissioner Karen Tyler wrote in a comment letter to the U.S. Department of the Treasury regarding its Review of the Regulatory Structure Associated with Financial Institutions. “We look forward to working with the Department of Treasury to ensure that investor and consumer protections are not sacrificed in the name of regulatory reform.” NASAA favors prudent changes where necessary to preserve or enhance the health of our markets.

### Holding Period for Affiliates and Non-Affiliates

On September 24, 2007, NASAA filed comments with the SEC regarding proposals to shorten the holding period for affiliates and non-affiliates for resales of restricted securities. In its comment letter, NASAA said the proposed revisions would have an important impact on state securities regulation. “State securities laws as well as federal securities laws depend upon the basic principle that all securities must be registered unless specifically exempted from registration,” NASAA wrote. NASAA believes the proposed changes will have long-term negative effects — both on



# SEC Commissioner Kathleen Casey

## ADDRESSES NASAA ANNUAL CONFERENCE

“NASAA is an important partner to the Commission, and we greatly value our strong and close working relationship; and just to show you how much we value the relationship, half of the Commission is here at the conference. As you know, the SEC, NASAA, and the member organizations that make up NASAA all share the same basic objectives: we seek to protect investors while assuring that our markets work effectively and efficiently — these objectives go hand-in-hand. This is a vital mission, and to serve our mission we must rely upon careful market oversight, and vigorous enforcement.”



capital formation (for smaller companies particularly), as well as negatively impacting companies' existing public shareholders.

### **Smaller Reporting Company Relief and Simplification**

NASAA has a long history of supporting regulation that benefits small business capital formation where investor protection is not negatively impacted. In a September 17, 2007 comment letter to the SEC, NASAA supported the adoption of amendments to the SEC's Smaller Reporting Company Relief and Simplification release, which modernized and improved the agency's capital-raising, reporting and disclosure requirements for smaller companies. The release contained amendments addressing certain small business capital formation recommendations made by the Commission's Advisory Committee on Smaller Public Companies. Jack E. Herstein, Assistant Director of the Nebraska Bureau of Securities served as an official observer representing NASAA's interests on the commission.

### **Electronic Filing and Simplification of Form D**

In a September 12, 2007 comment letter to the SEC, NASAA strongly supported the proposed modernization and simplification of the form and process used to give notice of offerings under Regulation D and section 4(6). NASAA believes electronic filing of Form D will be beneficial to issuers, especially small businesses, regulators, investors, researchers, and the public in general. Currently, Form D is used to make notice filings with almost all the states and territories when issuers file with the SEC. Using a federal form to satisfy state filing requirements has promoted uniformity in federal and state securities regulation. Our nation's capital markets have benefited from this uniform approach to regulation and NASAA strongly urges the Commission to continue it. Reflect the importance of maintaining the use of Form D as an effective regulatory tool in state as well as federal law, NASAA urged the SEC to work with the states to ensure that "one-stop" electronic filing is both efficient and legally effective with the states. NASAA is very supportive of the efforts to require electronic filing and streamline the filing process and stands ready to work with the SEC so that we can address the technological issues to create an efficient system that will satisfy state filing and fee requirements.

### **Regulation of Investment Services Providers**

In a joint April 24, 2007 comment letter to SEC Chairman Christopher Cox, NASAA joined the Consumer Federation of America, the Financial Planning Association, Investment Adviser Association, National Association of Personal Financial Advisers, and Fund Democracy to urge the SEC to develop "a more rational, pro-investor policy for regulation of investment services providers" following a U.S. Court of Appeals for the District of Columbia Circuit overturned the Commission's fee-based brokerage account rule. Specifically, the letter asked the SEC to 1) provide guidance to brokers on their obligations and information to investors about the implications of the court decision while a more permanent policy is being developed; and 2) to reaffirm pro-investor aspects of the rule that were not overturned by the court ruling. The letter urged the SEC to continue the position adopted in the vacated rule that discretionary management and financial planning services are not solely incidental to brokerage services. It further asked the SEC to interpret the existing exemption such that non-discretionary advice bearing the core characteristics of investment advisory services is not deemed to be solely incidental to brokerage services.



**SEC Chairman Christopher Cox (right) and NASAA President Joseph Borg in an exchange before their testimony to the U.S. Senate Special Committee on Aging.**



### Strengthening Regulation R

In an April 13, 2007 comment letter, NASAA urged the SEC to strengthen Regulation R, jointly proposed by the SEC and the Federal Reserve Board. Regulation R would define exceptions for banks, savings and associations, and savings banks with regard to the term “broker” under Section 3(a)(4) of the Securities Exchange Act of 1934, as amended by the Gramm-Leach-Bliley Act. NASAA believes that investors purchasing securities through banks, savings and loans, credit unions, and thrift institutions are entitled to receive the same protections afforded to them as when they purchase securities through broker-dealers. If banks are allowed to conduct activities normally associated with broker-dealers, and bank employees allowed to be compensated by fees different than the one-time nominal fees mandated by Congress, problems involving sales practice abuses should be expected. These problems are likely to go undetected and unresolved under the typical ‘safety and soundness’ analysis employed by most bank regulators. Consequently, while supporting limited portions of Regulation R, NASAA believes that the regulation requires strengthening if investor protection is not to suffer.

### Financial Thresholds for Hedge Fund Investors

Citing the concern of state securities regulators over the “explosion” of hedge fund offerings, NASAA in an April 2, 2007 comment letter to the SEC strongly supported raising the financial thresholds for investors in hedge funds. Hedge funds are known for employing high risk investment strategies and for not disclosing these strategies to prospective investors. Since hedge fund investments are sold generally in private offerings investors in these funds do not receive prospectuses or enjoy the other protections afforded by the securities registration process. For these reasons, individuals who invest in hedge funds should be capable of both evaluating the merits and risks of these investments and withstanding losses. The current financial thresholds for many investors who invest in hedge funds and other similar funds as “accredited investors” are neither adequate to ensure these individuals are capable of evaluating the merits or risks of these investments nor sufficient to ensure they can withstand the loss of their investment.

Since 1982 the SEC has required individuals (“accredited investors”) investing in hedge funds to have either a minimum net worth of \$1 million (including the value of their home) or an income of \$200,000

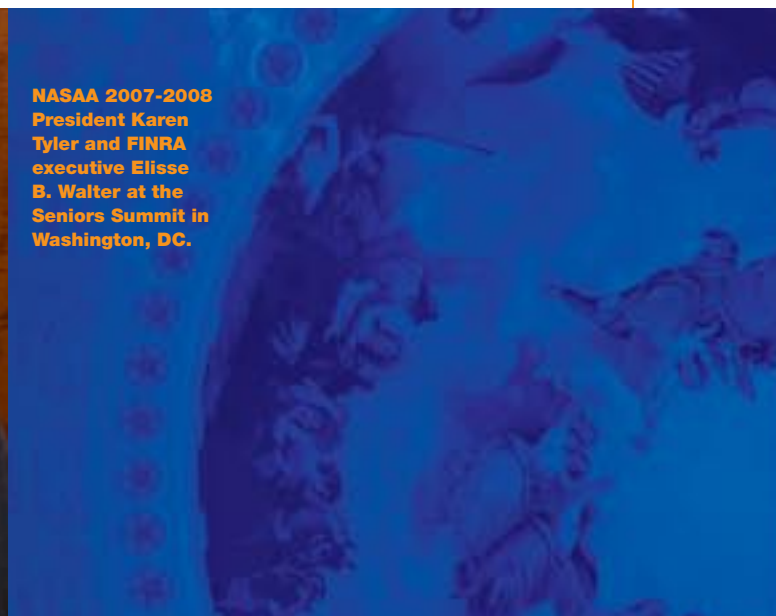
individually or \$300,000 with a spouse. NASAA has repeatedly encouraged the Commission to increase these requirements to keep pace with inflation and a sustained growth in wealth and income. In 2007, the SEC engaged in rule-making to change the “accredited investor” definition by requiring hedge fund investors to meet this original standard, and, in addition, to have a minimum of \$2.5 million in certain types of investments, excluding their primary residence. NASAA also supported adjusting the required amount of investments every five years for inflation. NASAA strongly believes that the accredited investor standard should be expanded to all related applications, such as rule 506 offerings, rather than limited to investments just in hedge funds.

### NASAA LEGAL BRIEFS

NASAA members have had a very active year in the courts in 2007. During the course of 2007, NASAA filed nine amicus briefs in courts throughout the United States. Major legal victories included *California v. Edward D. Jones & Co.*; *Life Partners, Inc. v. Morrison*; and *Capital Research & Management Co. v. Brown*. NASAA submitted amicus briefs in each case. NASAA also submitted an amicus brief in



**NASAA 2007-2008  
President Karen  
Tyler and FINRA  
executive Elisse  
B. Walter at the  
Seniors Summit in  
Washington, DC.**



support of the Financial Planning Association's position in its case against the SEC challenging the agency's fee-based brokerage exemption rule.

### **Life Partners, Inc. v. Morrison**

In *Life Partners, Inc. v. Morrison*, No. 06-1370, 2007 WL 1240301 (4th Cir. Apr. 30, 2007), a declaratory judgment action brought by a viatical settlement company challenging the Virginia Viatical Settlement Act, which protects viators from fraud and abuse, the court held that the Act is immune from attack under the Commerce Clause because it "relates to the business of insurance" within the meaning of the McCarran-Ferguson Act.

NASAA and its members had a stake in the outcome of this case for several reasons. First, the Court's disposition of the issues significantly affects the ability of state insurance regulators to protect the interests of viators, a particularly vulnerable segment of the population. NASAA also had a more general interest in this case – helping to prevent the erosion of state regulatory authority. NASAA also sought to help clarify the jurisdictional distinctions between securities regulation and insurance regulation – a distinction

that the Plaintiff, Life Partners, tried to blur in this case. Viatical transactions typically involve two essential components: the sale of policies by viators, which are insurance transactions subject to regulation by state insurance regulators, and the offer and sale of interests in those policies to the investing public, which are securities transactions subject to regulation by state and federal securities regulators.

### **Capital Research & Management Co. v. Brown California v. Edward D. Jones & Co.**

*Capital Research & Management Co. v. Brown*, No. B189249, 2007 WL 195785 (Cal. Ct. App. Jan. 26, 2007) (also known as the "American Funds" case), and *California v. Edward D. Jones & Co.* centered around enforcement actions brought by the California Attorney General against two mutual fund distributors for failing adequately to disclose shelf-space agreements. The court held that NSMIA did not preempt the actions because they fell under the savings clause expressly preserving the states' right to bring actions for fraud and deceit, 15 U.S.C. § 77r(c).

These cases had enormous significance for NASAA and its members. The most immediate objective of this appeal was to preserve the right of

the California Attorney General to enjoin fraudulent marketing practices and to impose sanctions for the misconduct that had already occurred. NASAA advocated that the state's Attorney General should be allowed to address them, as should all state securities regulators. The cases had important implications for state securities regulators and for investors on a broader level. The lower court did not confine its ruling to the specific facts of this case, but instead suggested that NSMIA preempts all "state regulation of offering documents." Given the breadth of the term "offering document," this interpretation of NSMIA could be read to shield a wide variety of marketing materials from any state jurisdiction, including state antifraud authority. "Such a dramatic restriction on the states' historic role in policing securities fraud cannot be reconciled with Congress's language and intent," NASAA's Capital Research brief said. NASAA argued that unless reversed, the lower court's interpretation would stifle the efforts of state regulators to protect the public from fraud and abuse.

### **Tellabs, Inc. v. Makor Issues & Rights, Ltd.**

In March, NASAA submitted a brief to the U.S. Supreme Court in *Tellabs, Inc. v. Makor Issues & Rights, Ltd.*,







No. 06-484 (U.S. S.Ct. Mar. 9, 2007), a class action lawsuit alleging fraud under federal securities law. NASAA argued that when a court determines if a complaint establishes a “strong inference of scienter” under the Private Securities Litigation Reform Act, it should not be required to weigh competing inferences arising from the complaint, because such a test unfairly burdens plaintiffs and violates Rule 12(b)(6) of the Fed. R. Civ. P. as well as the Seventh Amendment right to trial by jury. In June, the Supreme Court issued a decision that strikes a middle ground: courts must balance inferences, but the inference of scienter need not be stronger than exculpatory inferences for the case to survive a motion to dismiss.

**Stoneridge Investment Partners, LLC v. Scientific-Atlanta, Inc. & Motorola, Inc.**

In June, NASAA filed an amicus brief in the United States Supreme Court in support of an appeal by Stoneridge Investment Partners in its case against Scientific-Atlanta, Inc. and Motorola Inc. Specifically, NASAA supported Stoneridge’s ultimately unsuccessful appeal in support of an investor’s right to sue those who have participated in securities fraud through deceptive

conduct, not just through misrepresentations and omissions, under Section 10(b) of the Securities Exchange Act of 1934. NASAA and its members had an interest in the outcome of this appeal because of its profound impact on the ability of investors to seek redress in cases where unscrupulous companies and individuals have actively participated with issuers in schemes to defraud the securities markets. NASAA believes that with its decision, the Supreme Court missed an important opportunity to make clear that all of the principal actors in a fraudulent scheme -- not just those who disseminate falsehoods -- must answer to their victims. Far from burdening our markets, a decision for the plaintiffs in Stoneridge would have done much to protect the integrity of our markets to the benefit of investors and legitimate businesses alike.

**COMMUNICATIONS & INVESTOR EDUCATION**

NASAA promotes the work of its members through a proactive communications program. The communications staff also provides support for legislative and grass roots media activities and raises media awareness of major trends in fraud and coordinated state enforcement actions. NASAA also

demonstrates the importance of state securities regulation by encouraging news articles about the major actions of its member jurisdictions.

NASAA enjoyed a near unprecedented level of media coverage during the past year, much of it related to the proactive and ongoing efforts of NASAA members to raise awareness of senior investment fraud. NASAA proved to be a valuable resource for insightful commentary and illustrative statistics for several leading news organizations. NASAA and its members received front-page coverage in *The New York Times* and *The Washington Post* and major coverage in *USA Today*, *The Financial Times*, CNBC, MarketPlace Radio, CBS Radio, AP, Reuters and Dow Jones.

NASAA also advanced its public policy objectives through a news conference at the National Press Club in Washington, D.C. in January, 2007 to unveil its pro-investor legislative agenda for the 110th Congress. The event attracted a standing-room only crowd, including reporters from *The Washington Post*, *Business Week*, *Reuters*, *Bloomberg*, *Investment News*, *IA Week*, and other publications, as well as representatives from the variable annuity and mutual fund industries.

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### The Alert Investor

Continuing its tradition of providing information that every investor can use, NASAA recently launched an investor awareness podcast series, The Alert Investor.

The ongoing series of podcasts address timely topics for investors of all ages in succinct, two-to-three minute episodes. Listeners can hear the podcasts on their personal computers or MP3 players. The Alert Investor is available on the NASAA website ([www.nasaa.org](http://www.nasaa.org)) and through iTunes.

“Through these podcasts we are arming investors with the knowledge they need to combat investment fraud and plan for their financial future. NASAA is committed to investor education and these podcasts are an example of how state securities regulators are taking

advantage of technology to honor that commitment,” said Joseph P. Borg, NASAA President and Director of the Alabama Securities Commission.

Launched in April, 2007, *The Alert Investor* podcasts have been downloaded nearly 10,000 times by listeners.

### FSI: Fraud Scene Investigator

#### ***New Online Investor Education Program Teaches Students to Fight White-Collar Crime***



In August, NASAA and the Newspaper Association of America (NAA) Foundation launched FSI: Fraud Scene Investigator, an innovative online initiative to help teach students how to fight investment fraud firsthand.

“FSI: Fraud Scene Investigator,” is an interactive investor education program that teaches and empowers students how to detect and stop investment fraud, using a resource they’re most familiar with—the

Internet. The program, is available free to educators for use in classrooms and at home through the NASAA website.

“Fraud prevention is often an overlooked piece of many financial education courses. NASAA’s FSI: Fraud Scene Investigator program fills this need by integrating easily as a companion to other financial literacy programs, or functioning as a stand alone resource on investing and fraud prevention,” said Joseph P. Borg, then NASAA President. “Special thanks go to NASAA’s Investor Education Section, Youth Outreach Project Group and the West Virginia State Auditor’s Office for making this project possible.”

NASAA’s grassroots member investor education network is working with educators to integrate the FSI program into schools across the nation. In cooperation with NASAA, the NAA Foundation will assist in making the FSI program available to teacher’s throughout the United States through its Newspaper in Education (NIE) network of newspaper websites and resources.

“The NAA Foundation believes in developing engaged students through support of programs like FSI: Fraud Scene Investigator, which enhance understanding not only of investment fraud but the importance of utilizing the channels of verifiable



information available to them through online news sources," said Jim Abbott, Vice-President of the Newspaper Association of America Foundation.

### **NASAA Recognizes Investor Education Outreach Programs**

Most state and provincial securities regulators have established investor education departments or divisions within their agencies. The result is an effective network of dedicated professionals delivering financial education at the grassroots level. Over the past 12 months, NASAA members have reached nearly 180,500 consumers through 1,100 investor education presentations. NASAA's Investor Education Section recognized the Pennsylvania Securities Commission and the Hawaii Office of the Securities Commissioner for outstanding investor education outreach efforts during 2007. In a ceremony at the 2007 Investor Education Training Seminar in Atlanta in November, Pennsylvania was recognized for conducting the most investor education presentations. Hawaii was recognized for reaching the most consumers.

**Educating and training our members is a vital part of NASAA's mission. NASAA's emphasis on training helps promote uniformity by ensuring that state examiners, investigators and prosecutors are aware of current problem areas so that they can more effectively regulate the securities industry and serve investors.**

## **CONFERENCES & TRAINING**

NASAA's two major conferences – the Public Policy Conference and the Annual Conference – attracted nearly 650 regulators, industry representatives, policymakers, media representatives and others to Washington, D. C. in May and Seattle, Washington, in October. Highlights of the Public Policy Conference included a Public Policy Forum examining investor protection through effective enforcement and regulation and a keynote luncheon speech by former SEC Commissioner Harvey Goldschmid. NASAA's Annual Conference featured panel discussions on identity fraud, fiduciary duty, and enforcement issues. SEC Commissioner Kathleen L. Casey delivered the keynote address and New York Times columnist Timothy Egan was the featured luncheon speaker.

Educating and training our members is a vital part of NASAA's mission. NASAA's emphasis on training helps promote uniformity by ensuring that state examiners, investigators and prosecutors are aware of current problem areas so that they can more effectively regulate the securities industry and serve investors. In 2007, NASAA hosted 11 training seminars, including the Winter Enforcement Conference, which combined attracted 1,030 participants from NASAA member jurisdictions. In addition to the NAIC/NASAA Joint Training Seminar, NASAA training included seminars devoted to broker-dealer, investment adviser, franchise, corporation finance, investor education, litigation, attorney/investigator, CRD/IARD, and joint regulatory issues.



**Washington Securities Director Michael Stevenson watches as Washington Governor Chris Gregoire welcomes attendees to NASAA's Annual Conference in Seattle.**





## BROKER-DEALER SECTION

### OVERVIEW

NASAA's Broker-Dealer Section focuses on issues involving broker-dealers and agents. These issues include qualification and licensing requirements, record keeping and compliance requirements, continuing education, and practices involving investors. The Section provides official comments on rule proposals; participates in discussions with industry, SROs, and federal regulators regarding trends and concerns in the brokerage industry; and provides guidance to states on broker-dealer issues. Recent issues include suitability determinations, required disclosures, account fees, variable annuity sales, arbitration, finders, sales practices and supervision issues. The point-of-sale contact broker-dealers have with investors makes the work of this Section critical in achieving NASAA's mission of investor protection. The Section oversaw the activities of six Project Groups, including: Arbitration, Continuing Education, Exams Advisory, Market and Regulatory Policy and Review, Broker-Dealer Operations, and Variable Annuities, and works closely with the CRD/IARD Steering Committee.

### KEY ISSUES

#### Arbitration

Every year thousands of investors file complaints against their brokers. If these disputes aren't settled, investors are left with only one avenue to pursue their claims – arbitration – and for all practical purposes only one arbitration forum. This forum cannot be balanced as long as industry arbitrators are mandatory in customer arbitrations. NASAA believes that the securities arbitration system, which is administered by an affiliate of FINRA, should be truly voluntary, that more meaningful and accurate statistics concerning arbitration outcomes should be compiled and disseminated. As long as securities arbitration remains mandatory, investors will continue to face a system that is not fair and transparent to all. FINRA should require its member firms to offer their customers a meaningful choice between binding arbitration and civil litigation. If arbitration really is fair, inexpensive, and quick, as its adherents claim, then these benefits will prompt investors to choose arbitration. If, on the other hand, arbitration does not offer these advantages, then this mode of dispute resolution should not be forced upon the investing public.

### Variable and Equity-Indexed Annuities

For several years, securities regulators at all levels have been witnessing a heavy volume of complaints from investors about variable and equity-indexed annuities, complex investments that lend themselves to abuse in connection with suitability, liquidity, surrender charges, other fees, tax consequences, add-on features, and market risks. Variable annuities are securities and it is appropriate for state securities regulators to regulate the offer and sale of variable annuities, in keeping with our dual system of state and federal securities regulation. In 2007, NASAA continued to actively encourage changes in state laws that would allow state insurance regulators to maintain oversight of insurance companies that sell variable annuities while authorizing state securities regulators to investigate complaints about variable annuities and to take action against the companies and individuals who sell them. NASAA also believes the legal uncertainty surrounding equity-indexed annuities should be removed by classifying these investment products as securities. Moreover, sellers of equity-indexed annuities should be required to strictly adhere to suitability guidelines as is the case with the sale of variable annuities.

# 2007 NASAA Section Review



Maryland Securities Commissioner Melanie Lubin, NASAA's CRD/IARD Steering Committee Chair, and Massachusetts Securities Director Bryan Lantagne, Chair of NASAA's Arbitration Project Group, in conversation at NASAA's Spring Membership Meeting in Washington, D.C.



### **Broker Dealer Section 2006-2007**

Matthew Neubert, *Arizona, Chair*  
Tanya Solov, *Illinois, Vice Chair*  
Wayne Klein, *Utah*  
Ralph Lambiase, *Connecticut*  
Bryan Lantagne, *Massachusetts*  
Douglas Brown, *Manitoba*

### **PROJECT GROUPS**

#### **Arbitration**

Bryan Lantagne,  
*Massachusetts, Chair*

#### **Continuing Education**

Don Saxon, *Florida, Chair*

#### **Exams Advisory**

Sheila Cahill, *Nebraska, Chair*

### **Market/Regulatory Policy & Review**

John Moore, *Arkansas, Chair*

### **Broker-Dealer Operations**

William Reilly, *Florida, Chair*

### **Variable Annuities**

John Cronin, *Vermont, Chair*

### **Broker-Dealer Section 2007-2008**

Matthew Neubert, *Arizona, Chair*  
Preston DuFauchard, *California*  
Bryan Lantagne, *Massachusetts*  
Tanya Solov, *Illinois*  
Douglas Brown, *Manitoba*

### **PROJECT GROUPS**

#### **Arbitration**

Bryan Lantagne, *Massachusetts, Chair*

#### **Continuing Education**

Don Saxon, *Florida, Chair*

#### **Exams Advisory**

Sheila Cahill, *Nebraska, Chair*

### **Market/Regulatory Policy & Review**

Vacant, *Chair*

### **Operations**

William Reilly, *Florida, Chair*

## CORPORATION FINANCE SECTION

### OVERVIEW

*NASAA members have long helped facilitate capital formation at the state and local level. NASAA members assist entrepreneurs with their business plans, help them obtain resources to grow their enterprises and create local jobs. The Corporation Finance Section also develops and monitors policies for the registration of securities under state law. The Section oversaw the activities of eight Project Groups, including: Coordinated Interpretations, Corporate Accountability, Corporation Finance Policy, Direct Participation Programs Policy, Franchise and Business Opportunities, Small Business Capital Formation, Small Business/Limited Offerings, and Tenancies-in-Common.*

### KEY ISSUES

#### Franchise Rules

After a 12-year regulatory review, the Federal Trade Commission in January 2007 adopted a final amended Franchise Rule, marking the first time the FTC has amended its Franchise Rule since 1978, when it was originally promulgated. Among other things, the 2007 Franchise Rule adopts new requirements for

franchisors preparing franchise disclosure documents, also called “offering circulars.” Since December 30, 1993, the FTC has allowed franchisors to prepare and distribute disclosure documents under one of two disclosure formats: the FTC’s Original Franchise Rule; or the Uniform Franchise Offering Circular (“UFOC”) Guidelines, adopted on April 23, 1993 by NASAA. After NASAA adopted the UFOC Guidelines, 15 franchise registration states required franchisors to follow that disclosure format to comply with state franchise laws. As a practical matter, most franchisors have chosen to prepare their disclosure documents under the UFOC Guidelines, even in states where that format is not specifically required. In light of the similarities between the 2007 Franchise Rule and the UFOC Guidelines, and the FTC’s lengthy and comprehensive regulatory review that preceded its adoption of the 2007 Franchise Rule, NASAA adopted the disclosure requirements under the 2007 Franchise Rule as a successor to the UFOC Guidelines, with minimal additional requirements. Franchisors may continue to file and use in the 15 registration states franchise disclosure documents prepared under the UFOC Guidelines until July 1, 2008.

### Investor Suitability Standards for DPPs

NASAA Guidelines treat investor suitability as an issue of paramount importance. Suitability determinations require the sellers of securities to know the income, net worth, and other relevant factors about their customers. In 2007, the NASAA membership strengthened the suitability standards for investors in Direct Participation Programs (DPPs) by adopting revision to update the investor net worth and investor income amounts in various NASAA DPP Guidelines. The DPP suitability guidelines require a specific net worth amount, calculated exclusive of home, home furnishings and automobiles. NASAA increased the minimum combined \$45,000 income and net worth requirement to a minimum of \$70,000 and the net worth figure from \$150,000 to a minimum of \$250,000.

### Small Business Issues

Recognizing the important role small businesses serve in the economy, NASAA directs considerable attention to issues that impact this vital economic engine through two project groups – Small Business/Limited Offerings and Small Business Capital Formation. Much of the work of the Small Business Capital Formation Project Group in



**Peter Cassidy**  
(right), chair of  
the **Direct  
Participation  
Programs Policy  
Project Group**,  
and **Michael  
Stevenson**,  
chair of the  
**Corporation  
Finance Section**.



2007 focused on developing an Entrepreneur Education Program Regarding Capital Formation for use by NASAA member jurisdictions.

### Statements of Policy

In an effort by NASAA to keep its library of statements of policy, guidelines, and other model rules current, the Corporation Finance Policy Project Group was charged with the task of reviewing NASAA's corporation finance-related SOPs, including those that are used in the CR-Equity program, which provides a uniform procedure designed to coordinate the blue-sky registration process among states in which the issuer seeks to sell its equity securities. The majority of NASAA's CR-Equity policies were adopted in 1997 and several were amended in 1999. In 2007, NASAA's Board of Directors sought public comments on the following 11 NASAA CR-Equity statements of policy regarding: Corporate Securities Definitions; Preferred Stock; Loans and Other Material Transactions; Unequal Voting Rights; Specificity in Use of Proceeds; Promoters Equity Investment; Promotional Shares; Options and Warrants; Unsound Financial Condition; Underwriting Expenses, Underwriter's Warrants, Selling Expenses and Selling Security Holders; and Impoundment of Proceeds.

### Corporation Finance Section 2006-2007

Michael Stevenson,  
*Washington, Chair*  
Jack Herstein, *Nebraska,*  
*Vice Chair*  
Timothy Cox, *Maryland*  
Matt Kitz, *Missouri*  
Randall Schumann, *Wisconsin*  
Susan Powell, *New Brunswick*

### PROJECT GROUPS

#### Coordinated Interpretations

Rick Fleming, *Kansas, Chair*

#### Corporate Accountability

Tim Le Bas, *California, Chair*

#### Corporation Finance Policy

William Beatty, *Washington, Chair*

#### Direct Participation

#### Programs Policy

Peter Cassidy,  
*Massachusetts, Chair*

#### Franchise and Business

#### Opportunities

Dale Cantone, *Maryland, Chair*

#### Small Business

#### Capital Formation

Gabriel Eckstein, *California, Chair*

#### Small Business/

#### Limited Offerings

David Weaver, *Texas, Chair*

#### Tenancies-in-Common

Denise Voigt Crawford, *Texas, Chair*

### Corporation Finance Section 2007-2008

Mark Connolly,  
*New Hampshire, Chair*  
Randall Schumann, *Wisconsin,*  
*Vice-Chair*  
Peter Cassidy, *Massachusetts*  
Bruce Kohl, *New Mexico*  
Susan Powell, *New Brunswick*

### PROJECT GROUPS

#### Coordinated Interpretations

Rick Fleming, *Kansas, Chair*

#### Corporate Accountability

Robert Lam, *Pennsylvania, Chair*

#### Corporation Finance Policy

William Beatty, *Washington, Chair*

#### Direct Participation

#### Programs Policy

Susan Baker Toth, *Arizona, Chair*

#### Franchise and

#### Business Opportunities

Dale Cantone, *Maryland, Chair*

#### Small Business/

#### Limited Offerings

David Weaver, *Texas, Chair*

#### Tenancies-In-Common

Denise Voigt Crawford,  
*Texas, Chair*

2007-2008  
Corporation  
Finance  
Section Chair  
and New  
Hampshire  
Director of  
Securities  
Regulation,  
Mark Connolly.



## ENFORCEMENT SECTION

### OVERVIEW

*NASAA members have a significant history of bringing enforcement actions, including criminal prosecutions. NASAA assists its Members in coordinating enforcement efforts regarding multi-state frauds by facilitating the sharing of information and leveraging the resources of the states more efficiently. NASAA's Enforcement Section acts as a point of contact for other federal agencies and the self-regulatory organizations, such as the SEC, the FBI, the Postal Inspectors, the NASD, and the NYSE; and helps identify new fraud trends. In 2007, the Section oversaw the activities of seven Project Groups, including: Attorney/Investigator Training, Enforcement Technology, Enforcement Trends, Litigation Forum, Special Project Development & Coordination, Viaticals and Life Settlements, and Enforcement Zones.*

### KEY ISSUES

#### Regulation D 506 Offerings

NASAA members have been concerned that there is no effective federal regulatory oversight of

Regulation D Rule 506 offerings and that some of these offerings are being used as instruments for securities fraud by micro-cap issuers and penny-stock broker-dealers. Rule 506 of Regulation D offerings are provided the special status of private placements and are exempt from federal and state securities registration laws. As a result of this special status, there is no regulatory review of the 506 offerings at either the federal or state level. Thus, for example, NSMIA has preempted the states from prohibiting Regulation D offerings even where the promoters or broker-dealers have a criminal or disciplinary history. Some courts have even held that offerings made under the guise of Rule 506 are immune from scrutiny under state law, regardless of whether they actually comply with the requirements of the rule. As a result, state securities regulators have seen a transition of practically all Reg D offerings to Rule 506. In 2007, NASAA urged the SEC to implement ineligibility provisions applicable to issuers making sales through bad actors. If the SEC does not implement such provisions, Congress should act to protect investors from recidivist violators who are currently free to participate in Rule 506 offerings.

### Enforcement Trends

Throughout 2007 NASAA took proactive steps to alert the public to emerging trends in investment fraud. As part of this effort, NASAA's Enforcement Section oversaw the development of NASAA's annual list of top investor traps. The 2007 list included, in alphabetical order: affinity fraud, foreign exchange trading, Internet fraud, investment seminars, oil and gas scams, prime bank schemes, private securities offerings, real estate investment contracts, unlicensed individuals and unregistered products, and unsuitable sales.

### Foreign Currency Trading

In May, 2007, NASAA joined with the Commodity Futures Trading Commission (CFTC) in a coordinated alert to warn of the dangers facing retail investors who are lured into foreign currency (forex) trading frauds. The regulators cautioned investors that off-exchange forex trading by retail investors is at best extremely risky, and at worst, plagued by outright fraud. "While the CFTC, NASAA and other state and federal regulators are working hard to stop and prevent forex scams from occurring, the first line of defense is an educated consumer and caution in the face of unknown investments, said CFTC Commis-

**NASAA members have a significant history of bringing enforcement actions, including criminal prosecutions.**

sioner Michael V. Dunn, Chair of the CFTC's Forex Outreach and Education Task Force. State securities regulators and the CFTC, the federal agency with the primary responsibility for overseeing the commodities markets, have worked together on a number of forex fraud cases in recent years.

### **Enforcement Section 2006-2007**

David Massey, *North Carolina, Chair*  
Chris Biggs, *Kansas, Vice Chair*  
Lucy Cardwell, *Maryland*  
Mark Connolly, *New Hampshire*  
Steve Irwin, *Pennsylvania*  
Marc Arseneault, *Alberta*

### **PROJECT GROUPS**

#### **Attorney/Investigator Training**

Peter Jamison, *Delaware, Chair*

#### **Enforcement Technology**

Colin McCann, *Ontario, Chair*

#### **Enforcement Trends**

Michael Byrne, *Pennsylvania, Chair*

#### **Litigation Forum**

Chris Biggs, *Kansas, Chair*

#### **Special Project Development & Coordination**

Zachary Ortenzio,  
*Pennsylvania, Chair*

#### **Viaticals and Life Settlements**

Jim Openshaw, *California, Chair*

#### **Enforcement Zones**

Katharine Weiskittel, *Maryland, Chair*

### **Enforcement Section 2007-2008**

Jim Ropp, *Delaware, Chair*  
Steve Irwin, *Pennsylvania, Vice Chair*  
Kevin Anselm, *Oregon*  
Matt Kitzi, *Missouri*  
Robert Terry, *Georgia*  
Marc Arseneault, *Alberta*

### **PROJECT GROUPS**

#### **Attorney/Investigator Training**

Peter Jamison, *Delaware, Chair*

#### **Enforcement Technology**

Colin McCann, *Ontario, Chair*

### **Enforcement Trends**

Michael Byrne, *Pennsylvania, Chair*

### **Litigation Forum**

Mary Beth Williams, *Virginia, Chair*

### **Special Project Development & Coordination**

Zachary Ortenzio,  
*Pennsylvania, Chair*

### **Enforcement Zones**

Katherine Weiskittel,  
*Maryland, Chair*



**Enforcement Section Chair David Massey updates NASAA members on enforcement issues at the Annual Membership Meeting in Seattle.**





## INVESTMENT ADVISER SECTION

### OVERVIEW

NASAA's Investment Adviser Section develops policies and monitors the state registration and regulation of firms and professionals in the investment advisory business. Such involvement includes development of the Investment Adviser Registration Depository (IARD). The section also develops uniform policies for ethical business practices and model rules to enforce the investment advisory provisions of state law. The Section oversaw the activities of four Project Groups, including: Operations, Regulatory Policy and Review, Training, and Zones. The Section also works closely with the CRD/IARD Steering Committee.

### KEY ISSUES

#### Investment Adviser Regulation

On March 30, 2007, the U.S. Court of Appeals for the District of Columbia Circuit struck down the Securities and Exchange Commission's fee-based brokerage exemption rule. In its ruling, in *The Financial Planning Association v. The United States Securities and Exchange Commission*, the court said the SEC



**Investment Adviser Section Chair Franklin Widmann briefs members at the Annual Membership Meeting in Seattle.**

"exceeded its authority" by exempting fee-based brokerage accounts from the Investment Advisers Act, which requires detailed disclosures of conflicts of interest, disciplinary history, and also requires advisers to act in the best interest of their clients. NASAA filed an amicus brief in support of the FPA's ultimately successful position. The Court's decision marked a positive step toward removing investor and industry confusion stemming from the SEC's rule, which exempted broker-dealers that provide investment advice to clients with fee-based accounts from regulation under the 1940 Investment Advisers

Act. The SEC's rule had sparked confusion about differences between broker-dealers and investment advisers.

#### Investment Adviser Operations

In October, 2007, NASAA's Investment Adviser Operations Project Group released the findings of its coordinated examinations of investment advisers. In all, 418 examinations were conducted from January through May, 2007 in 43 NASAA member jurisdictions – the largest response ever for an IA coordinated examination.

The examinations revealed 2,135 deficiencies in 13 compliance areas. The Project Group reported a 12 and 19 percent increase respectively in advisers with Registration and Books and Records deficiencies. The Project Group also updated its recommended best practices that investment advisers should consider to improve their compliance practices.

### CRD/IARD

The CRD/IARD Steering Committee and the CRD/IARD Forms and Process Project Group continued working to enhance both the CRD and IARD systems. In 2007, work was completed to enable firms to electronically submit Form ADV Part II through the IARD system. To assist firms in completing FORM ADV Part II, NASAA created an editable PDF version of the form, which can be completed, edited, and saved by an adviser and then uploaded to the IARD system. The Section's Forms and Process Project Group also prepared and forwarded to each state a model "Notice to State-Registered Investment Advisers" that can be used by states to inform their state investment adviser community of the new electronic filing capability available to them.

### Investment Adviser Section 2006-2007

Franklin Widmann,  
*New Jersey, Chair*  
Colleen Keefe, *Kentucky,*  
*Vice Chair*  
Linda Cena, *Michigan*  
Ron Thomas, *Virginia*  
Richard White, *Florida*  
Estella Tong, *Ontario*

### PROJECT GROUPS

#### Operations

Michael Huggs, *Mississippi, Chair*

#### Regulatory Policy and Review

Kenneth Hojnacki, *Wisconsin, Chair*

#### Training

Richard White, *Florida, Chair*

#### Investment Adviser Zones

Colleen Keefe, *Kentucky, Chair*

### Investment Adviser Section 2007-2008

Patty Struck, *Wisconsin, Chair*  
Colleen Keefe, *Kentucky, Vice Chair*  
Linda Cena, *Michigan*  
Ronald Thomas, *Virginia*  
Richard White, *Florida*  
Estella Tong, *Ontario*

### PROJECT GROUPS

#### Operations

Michael Huggs, *Mississippi, Chair*

#### Regulatory Policy and Review

Ken Hojnacki, *Wisconsin, Chair*

### Investment Adviser Training

Rick White, *Florida, Chair*

### Investment Adviser Zones

Colleen Keefe, *Kentucky, Chair*



**2007-2008 Investment Adviser Section  
Chair and Wisconsin Securities  
Administrator Patricia Struck.**

The CRD/IARD Steering Committee and the CRD/IARD Forms and Process Project Group continued working to enhance both the CRD and IARD systems.

## INVESTOR EDUCATION SECTION

### OVERVIEW

*Recognizing that education is a key weapon in the fight against investment fraud, the NASAA Investor Education Section was created in 1997 by the NASAA Board of Directors to help support the financial education efforts of our members. The Section, along with a network of professionals from across the NASAA membership, is responsible for developing, coordinating, delivering, and supporting financial education initiatives that can be utilized by state securities regulators in their ongoing endeavor to improve the level of financial literacy in their jurisdictions. In 2006-2007, the Section oversaw the activities of five Project Groups, including: Affinity and Ethnic-Based Outreach, Coordination, Online Resources Awareness, Senior Outreach and Youth Outreach. (Chair: Justin Southern, West Virginia). A new Project Group, The Sandwich Generation, was launched in October 2007.*

### KEY ISSUES

#### Affinity and Ethnic-Based Outreach

In 2007, the Section's Affinity and Ethnic-based Outreach Project Group developed materials to assist

**Texas Securities Commissioner Denise Voigt Crawford (right) listens as NASAA Investor Education Section Chair and Tennessee Assistant Commissioner for Securities Daphne Smith updates members on investor education issues.**



NASAA members in promoting outreach programs to various affinity and ethnic groups. The materials showcase successful programs from several NASAA member jurisdictions. The Project Group also made significant progress in increasing outreach to military personnel both through articles targeted to base newspapers and through support of NASAA member programs to develop investor awareness programs devoted to military personnel.

#### Senior Outreach

Investor education is a key component in NASAA's ongoing commitment to protect senior investors in North America from financial exploitation. NASAA's Senior Outreach Project Group is dedicated to providing resources to help older investors better educate and protect

themselves against investment fraud. Through the efforts of the Project Group, state securities regulators were represented at the 2007 National Council on Aging/American Society on Aging Joint Conference. Project Group members and other NASAA members from Tennessee and Kentucky, along with NASAA staff, educated attendees during the 2007 Senior Olympics in Louisville, Ky.

#### Online Resources Awareness

With millions of investors using the Internet to buy and sell investments, NASAA members remain concerned that they have proper resources and tools to protect themselves from online investment fraud. In 2007, NASAA's Online Resources Awareness Project Group prepared

**Investor education is a key component in NASAA's ongoing commitment to protect senior investors in North America from financial exploitation.**

**Colorado Securities Commissioner Fred Joseph shares investor protection tips with employees at Fannie Mae's Washington, D.C. headquarters as part of NASAA's ongoing investor education outreach program.**





**Tennessee Investor Education Coordinator Patsy Holt (left) and Associate General Counsel Barbara Doak share information with seniors as part of NASAA's outreach efforts at the 2007 Senior Olympic Games.**

enhancements for the Investing Online Resource Center (IORC). The updated website ([www.investingonline.org](http://www.investingonline.org)) will be relaunched in 2008 with new information about investing safely online.

### Youth Outreach

Reaching out to young citizens is an important component of the ongoing financial education effort undertaken by NASAA members. In 1007, the Youth Outreach Project Group successfully launched the FSI: Fraud Scene Investigator online program (see page 20).

### Investor Education Coordination

NASAA's Investor Education Coordination Project Group serves as a clearinghouse for information on investor education initiatives within NASAA jurisdictions in order to

enhance the delivery of investor education materials to the public. In 2007, the Project Group compiled a compendium of investor education initiatives within NASAA member jurisdictions and updated an investor alert on oil and gas scams for use by NASAA members. The group also completed the development of a "Securities 101" tool kit to help NASAA members increase awareness of securities products and scams within the law enforcement community.

### Investor Education Section 2006-2007

Daphne Smith, *Tennessee, Chair*  
 Anna Drummond, *Vermont, Vice Chair*  
 Wayne Strumpfer, *California*  
 Karen Terhune, *Ohio*  
 Diane Young-Spitzer, *Massachusetts*  
 Anthony Wong, *British Columbia*

### PROJECT GROUPS

#### Affinity and Ethnic-Based Outreach

Dan Lord, *Alabama, Chair*

#### Coordination

Karen Terhune, *Ohio, Chair*

### Online Resources Awareness

Bill Wilkerson, *Mississippi*;  
 Diane Young-Spitzer, *Massachusetts, Chairs*

### Senior Outreach

Christina Kotsalos, *Pennsylvania, Chair*

### Youth Outreach

Justin Southern, *West Virginia, Chair*

### Investor Education Section 2007-2008

Wayne Strumpfer, *California, Chair*  
 Daphne Smith, *Tennessee, Vice-Chair*  
 Tung Chan, *Hawaii*  
 Anna Drummond, *Vermont*  
 Tony Miles, *District of Columbia*  
 Anthony Wong, *British Columbia*

### PROJECT GROUPS

#### Affinity and Military Outreach

Dan Lord, *Alabama, Chair*

#### Coordination

Karen Terhune, *Ohio, Chair*

#### Senior Outreach

Christina Kotsalos, *Pennsylvania, Chair*

#### Youth Outreach

Justin Southern, *West Virginia, Chair*

#### Sandwich Generation

Diane Young-Spitzer, *Massachusetts, Chair*



## BOARD OF DIRECTORS

NASAA's Board of Directors is responsible for the association's planning and policy development. NASAA's president and directors are elected annually from the ranks of the membership.

### 2006-2007

Joseph P. Borg, *Alabama, President*  
 Karen Tyler, *North Dakota, President-elect*  
 Patricia D. Struck, *Wisconsin, Past-President*  
 Fred J. Joseph, *Colorado, Treasurer*  
 James O. Nelson II, *Secretary, Mississippi*  
 Glenda Campbell, *Alberta*  
 Denise Voigt Crawford, *Texas*  
 Michael Johnson, *Arkansas*  
 James B. Ropp, *Delaware*  
 Don Saxon, *Florida (Ombudsman)*

### 2007-2008

Karen Tyler, *North Dakota, President*  
 Fred J. Joseph, *Colorado, President-elect*  
 Joseph P. Borg, *Alabama, Past President*  
 David Massey, *North Carolina, Treasurer*  
 Glenda Campbell, *Alberta, Secretary*  
 Denise Voigt Crawford, *Texas*  
 Chris Biggs, *Kansas*  
 Melanie Senter Lubin, *Maryland*  
 Michael Stevenson, *Washington*  
 Don Saxon, *Florida (Ombudsman)*

## Board Committees 2006-2007

### Awards

Fred Joseph, *Colorado, Chair*

### Communications

Daphne Smith, *Tennessee, Chair*

### CRD/IARD Steering

Melanie Senter Lubin, *Maryland, Chair*

### CRD/IARD Forms and Process

Pamela Epting, *Florida, Chair*

### External Affairs

Patricia Struck, *Wisconsin, Chair*

### Federal Legislation

James Ropp, *Delaware, Chair*

### Finance and Audit

Patricia McKenna, *Maryland, Chair*

### Finders

Tanya Solov, *Illinois, Chair*

### International

Franklin Widmann, *New Jersey, Chair*

### Legal Services

Robert McDonald, *Maryland, Chair*

### Standards, Certification and Training

Irving Faught, *Oklahoma*

### State/Federal Relations

James Nelson, *Mississippi, Chair*

### Technology Planning and Coordination

Don Saxon, *Chair*

### Uniform Securities Act

Craig Goettsch, *Iowa, Chair*

## Board Committees 2007-2008

### Awards

Craig Goettsch, *Iowa, Chair*

### Communications

Daphne Smith, *Tennessee, Chair*

### Corporate Governance

Craig Goettsch, *Iowa, Chair*

### CRD/IARD Steering

Melanie Senter Lubin, *Maryland, Chair*

### CRD/IARD Forms and Process

Pamela Epting, *Florida, Chair*

### External Affairs

Patricia Struck, *Wisconsin, Chair*

### Federal Legislation

James Ropp, *Delaware, Chair*

### Finance and Audit

Patricia McKenna, *Maryland, Chair*

### Finders

Tanya Solov, *Illinois, Chair*

### International

Joseph Borg, *Alabama, Chair*

### Legal Services

Robert McDonald, *Maryland, Chair*

### NEMO User Acceptance Team

William Reilly, *Florida (FL), Co-Chair*;  
 Michael Huggs, *Mississippi, Co-Chair*

### Reg. D Electronic

### Filing Committee

Michael Stevenson, *Washington, Co-Chair*; Mark Connolly, *New Hampshire, Co-Chair*

### Standards, Certification and Training

Matt Kitz, *Missouri, Chair*

### State/Federal Relations

Denise Voigt-Crawford, *Texas, Chair*

### Technology Planning & Coordination

Don Saxon, *Florida, Chair*

### Uniform Securities Act

Craig Goettsch, *Iowa, Chair*

# NASAA Lists



## 2007 NASAA AWARDS

### BLUE SKY CUBE

**Joseph P. Borg**, *Alabama*

### OUTSTANDING SERVICE AWARD

**Larry D. Burton**, *Tennessee*

**James O. Nelson II**, *Mississippi*

**Adrienne Salvail-Lopez**,  
*British Columbia*

**Craig A. Goettsch**, *Iowa*

**Scott P. Borchert**, *Minnesota*

**Steve Maxey**, *Virginia*

### DISTINGUISHED SERVICE AWARD

**Bryan J. Lantagne**, *Massachusetts*

**Justin Southern**, *West Virginia*

**Ken Hojnacki**, *Wisconsin*

**Dennis E. Wieczorek**

### ENFORCEMENT AWARD

**Mark Connolly**, *New Hampshire*

### INVESTOR EDUCATION OUTREACH

**Hawaii Office of the  
Securities Commissioner  
Pennsylvania Securities  
Commission**

### APPRECIATION AWARD

**Chester Thompson**, *West Virginia*

**O. Wayne Davis**, *Ohio*

## NASAA CORPORATE OFFICE STAFF

The daily operations of the association are managed by an executive director and a professional staff located in Washington, D.C. NASAA departments include legal, finance, government affairs, communications, investor education, and membership services. The NASAA Corporate Office staff is listed below.

### EXECUTIVE & ADMINISTRATIVE OFFICE

**Russ Iuculano**  
*Executive Director*

**John H. Lynch**  
*Deputy Executive Director /  
Controller*

**Gina Haidle**  
*Membership Services and Finance  
Manager*

**Josephine Oundo**  
*Receptionist*

### LEGAL

**Rex A. Staples**  
*General Counsel*

**Steve Hall**  
*Deputy General Counsel*

**Joseph Brady**  
*Associate General Counsel*

**Lesley Walker**  
*Associate Counsel*

**Jennifer Wylie**  
*Paralegal Assistant*

### GOVERNMENT AFFAIRS

**Deborah Fischione House**  
*Director of Policy*

**Larry LeClair**  
*State Legislative Affairs Manager*

**Scott Janish**  
*Government Affairs Assistant*

### COMMUNICATIONS & INVESTOR EDUCATION

**Bob Webster**  
*Director of Communications*

**Melinda Semadeni**  
*Investor Education Manager*

**Natalie Rinn**  
*Communications Assistant*

### CONFERENCES & EVENTS

**Lonnie Martin**  
*Meetings and Membership Manager*

**Mary Franklin**  
*Meetings and Membership  
Services Assistant*

### TRAINING & TECHNOLOGY

**Jason Wolf**  
*Training/Technology Manager*







North  
American  
Securities  
Administrators  
Association

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Washington, DC 20002

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