NASAA

NASAA Insight

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In This Issue:

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NASAA Elects North Dakota's Karen Tyler 2007-2008 President

North Dakota Securities Commissioner Karen Tyler today was elected to a one-year term as President of the North American Securities Administrators Association (NASAA). She succeeds Alabama Securities Commission Director Joseph P Borg. Colorado Securities Commissioner Fred Joseph will serve as NASAA's President-elect.

In an address at NASAA's 90th annual conference in Seattle, Tyler said she will continue NASAA's longstanding advocacy of the important investor protection role served by state and provincial securities regulators.

"Strong regulation helps maintain investor confidence. And strong investor confidence is a necessary ingredient for a vibrant and competitive capital market," she said.

Tyler reminded members of the financial services industry of the important role they play in the lives of investors. "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," she said.

Tyler also called for regulators to work collaboratively to eliminate investor confusion over the duties and responsibilities of financial industry professionals. "This confusion over "who provides what" needs to be eliminated," she said.

For the past year, Tyler has served as NASAA's president-elect. Previously, she served as a member of NASAA's Board of Directors and as chair of NASAA's Investor Education Section and the NASAA committee on 529 Plans. Tyler was appointed by Governor John Hoeven in July 2001, and oversees the enforcement, registration, capital formation, and investor education divisions of the North Dakota Securities Department.

NASAA President and North Dakota Securities Commissioner Karen Tyler

NASAA Spotlights Strong State Senior Initiatives at Summit

NASAA's leadership highlighted the long-standing role of state securities regulators in leading the fight against senior investment fraud during the second annual Seniors Summit, hosted by the Securities and Exchange Commission in Washington, D.C. in September.

Then NASAA President Joseph Borg also discussed the proliferation of disingenuous senior designations and outlined NASAA's efforts to develop a model rule that would make it a violation of the law to use a designation to mislead investors.

"Only the lowest of the low intentionally seek to deprive retirees of the savings they have worked so hard for so many years to accumulate," Borg said. "NASAA members will continue our ongoing and active pursuit of criminals who cheat seniors out of their hard-earned retirement savings."

The summit also featured four panels with SEC Commissioners serving as co-panelists with North Dakota Securities Commissioner Karen Tyler, Wisconsin Securities Administrator Patricia Struck, North Carolina Deputy Securities Administrator David Massey, and Massachusetts Securities Director Bryan Lantagne. Each NASAA panelist strongly advocated the role of state securities regulators.

NASAA President Joe Borg and SEC Chairman Christopher Cox at the 2007 Seniors Summit

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> *"As we move forward together, I encourage NASAA members to build on the momentum of the past year."*
>
> **— Karen Tyler**

President's Message: Karen Tyler

It is a privilege to serve as NASAA President. My colleagues have bestowed upon me their trust and confidence. I am grateful and honored to serve, and will do my utmost to effectively carry out the charge, representing our members across North America throughout my term.

For the past year, I have had the very good fortune of serving as president-elect under the guidance of Joe Borg. Joe has worked tirelessly for the citizens of Alabama and for this organization over the last 13 years, twice serving as NASAA's President. He is a champion of state securities regulation, and the critical and irreplaceable protections state regulators provide to our investor constituents.

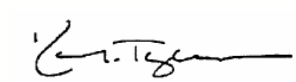
We will face many complex and demanding issues in the year ahead. But our mission, of course, remains quite singular – protect the individual investor. They too, are facing increasing complexity in an ever-evolving world of financial products, services and providers.

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 investors prosper in a regulatory environment that fosters innovation while delivering the strongest investor protections.

North Dakota is one of the more rural American states, with farms and ranches covering more than 90 percent of our land. One North Dakota rancher, Theodore Roosevelt, our 26th President, once advised: "Let the watchwords of all our people be the old familiar watchwords of honesty, decency, fair-dealing and commonsense."

Those words will serve as a guide for my Presidential term. I look forward to working with all of you in the coming year and to an open and engaging dialog to ensure that all investors – including seniors, those working toward retirement, and those just starting out – are treated fairly.

As we move forward together, I 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.



Executive Director's Message: Russ Iuculano

Since the last issue of *Insight*, NASAA's participation this September in the Senate Special Committee on Aging hearing on senior investment fraud and the SEC Seniors Summit brought an unprecedented level of positive publicity highlighting the role of state securities regulators. In September alone, over 400 news articles mentioned NASAA, mostly as a result of its leadership role in detecting the problem of senior designations and responding to it aggressively with a regulatory solution. On November 9, NASAA released for public comment a proposed model rule concerning the use of senior-specific certifications and professional designations. In the coming months, more Congressional and media interest can be anticipated, and I am optimistic that progress toward adoption of the model rule will continue and that it will prove to be an invaluable weapon to fight abusive sales practices.

Ironically, NASAA's efforts to develop nationwide solutions to senior investment fraud come at a time when the proponents of eliminating or reducing state securities regulatory authority have redoubled their efforts. On October 11, the Treasury Department asked for public comment as it prepares "a blueprint for an improved U.S. financial regulatory structure." Treasury asked for comments on topics including functional regulation, overlapping state and federal regulation, ways to improve market discipline and consumer protection, the strengths and weaknesses of having multiple regulators, recommendations as to how the current regulatory structure can be improved, as well as the optimal role for the states in securities regulation. It is anticipated that Treasury's blueprint will be released early next year.

Less than a month after Treasury announced its notice of regulatory review, the Financial Services Roundtable released its *Blueprint for U.S. Financial Competitiveness*, calling for a range of sweeping legislative and regulatory reforms. The Roundtable endorses charter choice for financial firms and calls on Congress to provide for the optional chartering and regulation of national securities firms and individual brokers by a single national authority, such as the SEC, FINRA, or some new agency. NASAA will respond to the Treasury notice and counter aggressively the Roundtable's recommendations if/when they receive Congressional consideration.

NASAA Executive Director Russ Iuculano addresses the membership at the Annual Conference as NASAA President Karen Tyler and Past President Joe Borg listen.

NASAA Tells Senate Panel That Seniors Face Abusive Sales Practices at 'Free Meal' Investment Seminars

In testimony before the U.S. Senate Special Committee on Aging, NASAA reported 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," then NASAA President Joseph Borg told Senator Herb Kohl (D-WI), chairman of the Committee on Aging 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.

"Our members are seeing a variety of violations associated with many of these events, ranging from outright lies and the conversion of investor funds to more sophisticated forms of abuse," Borg said.

"From steakhouses in Sun City, Arizona, to country clubs in Fredericksburg, Virginia, the retirement savings of seniors, as well as those nearing retirement, are being targeted by well-trained salesmen who, in too many cases, put their own personal interests ahead of those of their clients."

Borg said that state securities regulators also see another disturbing trend in the area of senior abuse. "Increasingly, licensed securities professionals, insurance agents, and unregistered individuals are using impressive-sounding but sometimes highly misleading titles and professional designations," he said. "Many of these designations imply that whoever bears the title has a special expertise in addressing the financial needs of seniors."

"The financial victimization of seniors is simply intolerable."
— Joseph Borg

While some of these designations reflect bona fide credentials in the field of advising seniors, many do not, Borg noted. "These titles can serve as an easy way for an unscrupulous sales agent or adviser to gain a senior's trust, which is the first step in a successful fraud," Borg said. "Often these designations are used in conjunction with 'free lunch' seminars and are highlighted in mass mailings, business cards, and other promotional materials."

Then NASAA President Joseph Borg testifies before Senate Special Committee on Aging.

Borg told the committee that it is "exceedingly difficult" for prospective investors – particularly senior citizens – to determine whether a particular designation represents a meaningful credential by the agent or simply an empty marketing device. A survey earlier this year of the NASAA membership found that nearly half of the respondents had taken an enforcement action against individuals who had used a senior designation in a deceptive manner, and other members were investigating such allegations.

NASAA Announces New Board of Directors, Section Chairs for 2007-2008

North American Securities Administrators Association President Karen Tyler announced the organization's new Board of Directors and Section Chairs during the Annual Conference in Seattle in October.

In addition to President-elect and Colorado Securities Commissioner Fred Joseph, other Board members include: Chris Biggs, Kansas Securities Commissioner; Glenda Campbell, Vice Chair of the Alberta Securities Commission; Denise Voigt Crawford, Texas Securities Commissioner; Melanie Lubin, Maryland Securities Commissioner; David Massey, North Carolina Deputy Securities Administrator and Michael Stevenson, Washington Securities Division Director. Alabama Securities Director Joseph Borg will continue to serve on NASAA's Board as Past President. Don B. Saxon, Commissioner of Florida's Office of Financial Regulation, will serve as NASAA Ombudsman. Mr. Joseph will succeed Ms. Tyler as NASAA President in the fall of 2008.

NASAA also announced the leadership team for its five sections. Matt Neubert, Arizona's Director of Securities, will return as chair of the Broker Dealer Section. Mark Connolly, New Hampshire Deputy Secretary of State and Director of Securities Regulation, will chair the Corporation Finance Section. Delaware Securities Commissioner Jim Ropp will chair the Enforcement Section. Wisconsin Securities Administrator Patricia Struck will chair the Investment Adviser Section and Wayne Strumpfer, Assistant Commissioner with the California Department of Corporations, will chair the Investor Education Section.

NASAA Presidential Address

NASAA President and North Dakota Securities Commissioner

Karen Tyler

> ***"The work of investment firms and professionals on behalf of small investors has perhaps never been as important as it is today."***
>
> — Karen Tyler
> NASAA President

The following article is adapted from the October 2, 2007 Presidential Address delivered by North Dakota Securities Commissioner Karen Tyler at the 90th NASAA Annual Conference in Seattle, Washington.

Together we will face many complex and demanding issues in the year ahead. But our mission, of course, remains quite singular – protect the individual investor. They too, are facing increasing complexity in an ever-evolving world of financial products, services and providers. This afternoon, I would like to offer an overview and my perspective on significant issues confronting investors and regulators alike.

I recently read an article about the challenges Wall Street firms will face in serving a growing segment of our population categorized as the "mass affluent." The mass affluent are primarily baby boomers heading in the general direction of retirement who are in possession of somewhere between $500,000 and $2.5 million dollars of investible assets.

According to the author, the challenge for investment firms will be to find a way to serve this market segment, and still make money. The article emphasized that it would behoove the firms to figure out a way to meet this challenge, because the mass affluent investor, although now worth only $500,000 to $2.5 million, may actually grow into serious money someday.

So with Wall Street contemplating the desirability of serving the "mass affluent," where does this leave the average individual or "retail" investor? I think the definition of "retail" itself articulates the business challenge for firms – not many businesses are interested in doing anything in small quantities – and this business challenge can, through product and service constraints, translate into significant disadvantages for the small investor.

Let's consider some fundamentals that I think, for the most part, we can all agree upon. To the small or "retail" investor, the ability to invest at all, in any amount, may be a monumental achievement, a turning point in life, the link to a secure financial future for themselves and for their children.

Whether it is their first IRA contribution, or $50 dollars a month in dollar cost averaging for a child's education, they are setting the cornerstone of the foundation upon which they hope to build financial security. For some, this is no small undertaking. Or perhaps they face the daunting decision, upon entering retirement, of how to manage the money they have accumulated over the course of their working years…this is not really a decision about money, but about something that represents their life's work and a secure future.

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.

> ***"Our mission . . . remains quite singular — protect the individual investor."***
>
> —NASAA President
> Karen Tyler

Investing should not be an assembly-line, one size fits most, process. The millions of individual investors throughout North America deserve better.

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.

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"

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NASAA 2007 Annual Conference: Seattle, Washington

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must not be added to the list of obstacles standing between an investor and their future financial security.

Strong regulation helps maintain investor confidence. And strong investor confidence is a necessary ingredient for a vibrant, and competitive, capital market.

NASAA members do not view the protection of investors as a cyclical endeavor. We have a mandate to protect our investor constituents in good times and in bad, and we are steady in our charge.

Inevitably, in good times - when markets are behaving, portfolios are performing and scandals have retreated to the back page of the newspaper - inevitably there will emerge the next unfortunate campaign to weaken the securities regulatory structure and the protections afforded individual investors.

Now 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. 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. Sarbanes Oxley passed into law on July 30, 2002.

Since then, equity markets have recovered, with the S&P 500 up 77 percent from the end of July 2002 through the end of August of this year, and interest rates, until quite recently, gradually increased. As the focus on restoring investor confidence subsided, committees were assembled, studies conducted, and the capital markets trilogy surfaced, seeking to compromise the regulatory reform and investor protections that had just been put in place.

The Trilogy reports represent that the number of foreign company Initial Public Offerings conducted in U.S. markets is a compendious barometer for measuring the competitive position of our domestic market system. And this number, according to the experts, is in an alarming decline - at least it was during the timeframe selected for the study. Over-burdensome regulation and excessive litigation, the reports claim, are the primary culprits.

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.

As we have stated consistently in Congressional testimony, public forums and other venues, NASAA supports a strong and effective regulatory structure for our capital markets that deploys, collaboratively, the authority of state securities regulators, the SEC and self regulatory organizations. It takes all three components working in equal partnership to maintain, at all times, investor confidence in the world's deepest and most transparent markets.

A few weeks ago, the Senate Special Committee on Aging held a hearing to address senior specialist designations, free lunch seminars, annuity sales practices, and the clear link between these three issues, and abuse and misconduct targeting senior investors. This hearing was the latest step in an ongoing effort NASAA began more than four years ago to call national attention to the dangers facing senior investors.

During the hearing, Committee Chairman Herb Kohl of Wisconsin set forth a seemingly simple question to which there should be a clear answer: Who is qualified to give investment advice? There was, for a significant period of time post 1940, a clear answer to this question based in law, but the answer reaching investors today is based on advertising, driven by business model evolution, and is anything but clear. This confusion over "who provides what" needs to be eliminated.

We cannot expect broker-dealers to make a distinction by advertising that investors should see them for investment recommendations and accidental, unintended advice, solely incidental in nature. We cannot expect insurance agents to make a distinction by advertising that they are insurance agents, with limited licenses and limited products to offer.

The financial services industry today has morphed into advice-driven business models that promise comprehensive 360 degree, 24/7, 365 relationships with investors. But the financial services industry today continues to expose investors to vast differences in competency exam requirements, education requirements, product knowledge, regulatory structures and protections, and very importantly vast differences in the standard of care owed to the client.

Regulators must work collaboratively to eliminate regulatory arbitrage, and afford investors protection parity. This does not mean taking the path of least resistance to the lowest common denominator.

Rather, regulators must work collaboratively to elevate the standard of care obligation for anyone entrusted to make recommendations or give advice pertaining to the money of others. For all financial professionals, the interests of the client must come first at all times. Investors deserve no less.

NASAA Past President Joseph Borg, (left), President Karen Tyler, and President-elect Fred Joseph at the 90th NASAA Annual Conference in Seattle.

"For all investment professionals, the interests of the client must come first at all times. Investors deserve no less."

— NASAA President Karen Tyler

On The Web

Read the full text of President Tyler's remarks at:

www.nasaa.org/NASAA_Newsroom/Speeches/7243.cfm

NASAA Annual Conference: SEC Commissioner Kathleen Casey

This article is adapted from an October 1, 2007 speech by SEC Commissioner Kathleen L. Casey at the NASAA Annual Conference in Seattle.

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.

As I look at your agenda for this event, I see that you are focused on many of the same issues that have the attention of the Commission: issues such as staying ahead of microcap fraud and its many new iterations; the growing need for investor education and outreach; and the United States' competitiveness in the global marketplace.

Now, perhaps at a pace unparalleled in recent history, capital markets are changing. We're seeing a steady and accelerating emergence of new and increasingly complex products. And markets abroad are growing and strengthening exponentially. Like never before, everyday investors are joining institutional investors in seeking and gaining greater access to investment opportunities and markets abroad. This globalization of our markets, fueled by technological innovation, continues to diminish the relevance of geographical boundaries that have historically defined and dictated our approach to regulation. As regulators, if we are to maintain our effectiveness, we must be nimble in our regulatory approaches, vigilant in our enforcement efforts, and increasingly collaborative. Indeed, this dynamic marketplace challenges us all as regulators.

In the last year, three major studies have called into question U.S. competitiveness. Each concludes that America is losing ground to foreign markets. They suggest that these trends may be caused by foreign markets developing and evolving — no more than a natural growth and maturation in markets abroad. But they also question whether America's regulatory climate dissuades investment in our markets. For example, a report commissioned by Senator Charles Schumer and New York Mayor Michael Bloomberg concludes that our competitiveness concerns derive from needed reform in our immigration policies, legal system, and regulatory approach. And all of the reports urge various suggestions for reform.

In response to these reports, some argue that we must act now, or we will forever lose our competitive edge. Others warn that the concern is overblown, and that any reforms would be a 'rollback' of investor protections and could be catastrophic for investors' interests. I know that many in this room have added their voices to this debate; I encourage you to continue to do so because you bring important views to this national discussion.

For my part, I do not believe this is necessarily a binary choice that requires either rejecting or embracing the conclusions of these reports. On the one hand, the sky is not falling — America's capital markets remain rich, deep, vibrant and attractive; and while we may be losing global market share, there are likely many reasons for this trend, not all of our own making.

On the other hand, doing nothing to analyze and consider these very noteworthy trends would be perhaps the worst thing we could do, and would almost certainly further erode our ability to compete internationally. A runner may not win the race by running faster; but she will surely lose it by standing still.

So this is a debate we should be having, and that we should be taking seriously. And although the emergence of other significant foreign capital markets could be seen as a threat to the central role U.S. markets have historically played in global commerce, it can also be seen as an opportunity for growth and productive change. We can all benefit from competition, whether at home or abroad.

I believe we should always be asking ourselves whether and how we can do better, but this is especially so given the fast-changing and competitive markets we oversee. Do we have the proper emphasis on enforcement? Can state and federal regulators better coordinate to leverage resources and improve legal certainty so that market participants can manage risk? After all, law abiding corporate citizens require predictability.

Does our civil justice system effectively complement our regulatory enforcement efforts? And do our financial reporting rules effectively promote useful and informative disclosures without undue complexity and regulatory burdens? These are questions we should all be asking and trying to answer. And I'm glad that the Commission isn't standing still.

Each of the three competitiveness reports expresses concern that our separate state and federal regulatory systems create uncertainty and complexity which can turn businesses away from our markets. They call for greater communication, coordination and cooperation among regulators. Even if one does not agree with their conclusions, we must recognize that greater cooperation and coordination are critical to leveraging

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"I know that you will strive to keep our markets deep, vibrant and secure"

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resources. I know that Commissioner Atkins has worked closely with the states and NASAA during his tenure at the Commission, and that Joe (Borg) and his predecessors at NASAA have also valued the relationship between state and federal regulators. But we can always do better. I promise you, as a Commissioner at the SEC, I will strive to do so.

Whenever I meet with SEC officials in our regions, I always ask what they are doing with other regulators. It's great to hear about a seniors seminar hosted by the SEC and the state of Rhode Island, or an enforcement action in collaboration with Texas, or a coordinated boiler room examination.

With the full backing of the Commission, our staff meets regularly with states and the SROs to share information and coordinate activities. This is critical to maximizing resources, and helps to insure consistency and clarity for market participants. That effort, in turn, fosters investor protection, orderly markets, and the formation of capital.

One of the questions raised by the competitiveness reports is whether the uncertainty created by our class action system is chasing capital from our markets. The focus is upon the unpredictability of our system, a system involving fifty different state legal systems and a federal system, where the outcome of a case can sometimes be determined by which law firm files first, and where. The results of these disparate cases are often, not surprisingly, uneven. So it can be hard to discern clear standards of conduct, and the sanctions for violating those standards.

People rightly criticize the Commission when our enforcement efforts are unnecessarily prolonged; but one thing that I think our thoroughness attempts to foster is horizontal equity. While not always possible, I strive for consistent results in our enforcement activities. For if we are consistent, we are predictable. And if we are predictable, market actors can know how to do the right thing, and know what to expect if they fail.

These questions about our civil justice and enforcement efforts do not invite a simplistic response: one need not be either for our class action system or against it; that would invite a false choice. Indeed, these questions are being raised by non-partisan and bi-partisan groups. Instead, these questions call upon us to examine the importance of balance in our system. Early next year, the Commission will hold roundtables to explore these issues, and the public discourse that should follow will be important and valuable.

We've got a full plate right now at the Commission, and I hope that I've given you some insights into what we're doing, and where we're going. We're focused on our tripartite mission: protecting investors, facilitating capital formation, and ensuring fair, efficient, and orderly markets. In the ever-expanding global marketplace, serving this mission means being nimble, vigilant, and collaborating as regulators.

Your role — NASAA and all of the state and provincial authorities attending this terrific conference — is critical. I know that you will strive to keep our markets deep, vibrant and secure, so that America remains a competitive force. I urge you to continue to press your historically active enforcement programs, but also to be open to concerns about America's place in the global marketplace. We can do both. This is a fair debate; regulators should listen carefully and engage actively. I believe that if we do so, our markets and investors will be better for it.

Coordinated Examinations Uncover Investment Adviser Deficiencies

During the Annual Conference, NASAA released an updated series of recommended best practices that investment advisers should consider in order to improve their compliance practices and procedures.

"Our best practices were developed to help regulators and advisers better understand and meet compliance challenges," said NASAA President and North Dakota Securities Commissioner Karen Tyler. "Advisers can use this information to help strengthen compliance programs and minimize the potential for regulatory violations. Strong compliance programs are an integral ingredient in building and maintaining investor confidence."

Tyler said the best practices were developed after a nationwide series of coordinated examinations of investment advisers by 43 state and provincial securities examiners revealed a significant number of problem areas. Tyler said 418 examinations of investment advisers were conducted between January 1, 2007 and May 31, 2007. These exams revealed 2,135 deficiencies in 13 compliance areas.

The categories with the greatest number of deficiencies involved registration, unethical business practices, books and records, supervisory/compliance, and privacy.

Based on the results of the exams, NASAA recommends the following "Best Practices" as a guide to assist advisers in developing compliance procedures.

— Review and revise Form ADV and disclosure brochure annually to reflect current and accurate information.
— Review and update all contracts.
— Prepare and maintain all required records including financial records.
— Prepare and maintain client profiles that show suitability information.
— Prepare a written compliance and supervisory procedures manual relevant to the type of business.
— Prepare and distribute a privacy policy initially and annually.
— Keep accurate financials. File timely with the jurisdiction. Maintain surety bond if required.
— Calculate and document fees correctly in accordance with contracts and ADV.
— Review and revise all advertisements, including website and performance advertising, for accuracy.
— Implement appropriate custody safeguards, if applicable.
— Review solicitor agreements, disclosure, and delivery procedures.

(The complete report is available on the NASAA website at www.nasaa.org)

NASAA Legislative Brief

NASAA Urges Passage of Arbitration Fairness Act of 2007

NASAA recently urged Congress to approve the Arbitration Fairness Act of 2007, hailing the legislation as a "positive step in the right direction" toward improving the fairness of the process to resolve securities-related disputes between investors and Wall Street.

In a letter to bill sponsor Sen. Russ Feingold (D-WI) and Rep. Hank Johnson (D-GA), sponsor of the House counterpart, NASAA urged Congress to immediately act to remove the mandatory industry arbitrator and create measures to assure that public arbitrators have no prior affiliation or ties to industry.

"Almost every broker-dealer presently 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 associated persons to mandatory arbitration. NASAA believes this "take-it-or-leave-it" clause in brokerage contracts is inherently unfair to investors," the letter said.

NASAA also encouraged Congress to review the manner in which arbitrations are conducted to determine whether (1) there is sufficient disclosure of potential conflicts by panel members; (2) selection, qualification, and composition of the panels is fair to the parties; (3) arbitrators receive adequate training; (4) explanations of awards are sufficient; and (5) the system is fast and economical for investors. In addition, the letter suggests that the legislation be amended to clarify that the provision extends to securities arbitration.

NASAA believes that fairness and balance need to be restored to the existing securities arbitration system. "The consolidation of NASD and NYSE into the merged Financial Industry Regulatory Authority (FINRA) will eliminate one arbitration forum for the resolution of disputes between public customers and the securities industry, which raises the stakes for getting it right," the letter said. "In addition, the current makeup of the FINRA arbitration panel consists of a mandatory industry representative and two public arbitrators who may have prior affiliation to industry. This industry presence on the panel destroys any pretense that the forum is fair and impartial. Thus, we urge Congress to immediately act to remove the mandatory industry arbitrator and create measures to assure that public arbitrators have no prior affiliation or ties to industry."

NASAA Testimony Asserts Preemption of State Regulatory Authority Exposes Investors to Risk

In written testimony submitted 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 September 12 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 rule 7.4006, the OCC rule substantially amended the National Bank Act and insulated hundreds of state-chartered operating subsidiaries of national banks across the country from regulation under state banking laws. In its October 25, 2004, opinion letter, the OTS concluded that state licensing and registration requirements do not apply to independent contractor agents who market deposit and loan products on behalf of State Farm Bank, a federal savings association (State Farm).

"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."

NASAA Leaders Address NCSL Legislative Summit

In August, NASAA President Joseph Borg and President-elect Karen Tyler represented NASAA at the National Conference of State Legislatures' (NCSL) 2007 Legislative Summit.

In testimony before the NCSL's Financial Services Committee, Borg said NASAA is pleased that the NCSL's policy statement on State Sovereignty in Financial Services opposes federal preemption of state securities laws and regulations.

In a separate presentation, Borg outlined NASAA's concerns with stranger-originated or stranger-owned life insurance (STOLI), which allows investors to purchase life insurance policies as an investment.

Tyler discussed the key role state securities regulators serve in delivering investor education. Her presentation outlined NASAA's lifecycle approach to investor education, with programs addressing youth financial literacy, investors saving for retirement, and senior investors.

"State securities regulators have an on-going obligation to ensure that our constituents, no matter what their age, are equipped with the knowledge they need to make good financial decisions and to recognize and avoid financial fraud," Tyler said.

NASAA Raises Concerns of Increased Risk from Private Equity, Hedge Fund IPOs

In testimony before the a Congressional panel, NASAA said 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," then NASAA President Joseph Borg said. "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," Borg said.

Borg's remarks came during testimony before the U.S. House of Representatives Committee on Oversight and Government Reform Subcommittee on Domestic Policy during a hearing examining the possible risks presented to retail investors by the recent Blackstone Group L.P. and similar upcoming initial public offerings of the management entities of hedge funds and private equity funds.

"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 said that public offerings, such as the recent Blackstone IPO, circumvent the governance protections mandated by the ICA, even though it is no longer a private investment company. For example, under the ICA, a fund must have independent directors who represent the interests of public investors. "That is not the case with Blackstone," Borg said. "We must remember that the securities laws favor substance over form and disdain structures whose only purpose is to evade their reach. In reality, both pre- and post-IPO, Blackstone functions as an investment company that earns its income through investments. From an investor protection standpoint, we are puzzled by the exclusion Blackstone enjoys from the safeguards mandated under the ICA."

> ***"New instruments with highly complex structures, opaque investment strategies, and dubious profitability have arrived on Main Street."***
>
> ***— Joseph Borg***

"The public policy issue is how much risk, even when disclosed, should be transferred to the general public," Borg said. "In a perfect world, a careful financial adviser will say Blackstone type entities are too risky, too opaque, and too conflicted so we won't invest. However, the real world operates much differently."

Borg said NASAA does not object to access to alternative investments by retail investors if they are accompanied by all appropriate and necessary investor protections, rights, and remedies.

NASAA Launches New Investor Ed Program — *FSI: Fraud Scene Investigator*

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.

The FSI program also includes a Teachers Resource Guide for use in classrooms. Details are available on the NASAA website.

NASAA Recognizes Investor Education Outreach Programs

NASAA's Investor Education Section recently honored the Pennsylvania Securities Commission and the Hawaii Office of the Securities Commissioner for outstanding investor education outreach efforts.

During 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.

Since NASAA began tracking investor education outreach efforts by the membership in November 2006, more than 174,248 consumers have been reached through 1,064 presentations.

2007 Seniors Summit Spotlight

"Free Lunch" Investment Seminar Examinations Find Widespread Problems for Older Investors

On September 10, NASAA joined with the SEC, FINRA and AARP in the second annual Seniors Summit to spotlight national attention on senior investment fraud and the proactive steps regulators are taking to protect senior investors. Three NASAA Presidents — Joseph Borg, Karen Tyler and Patricia Struck — along with Enforcement Section Chair David Massey and Arbitration Project Group Chair Bryan Lantagne participated in a series of panels with SEC Commissioners, senior SEC staff, as well as FINRA and AARP leadership.

During the 2007 Seniors Summit held September10 at the Securities and Exchange Commission, NASAA joined the SEC and Financial Industry Regulatory Authority (FINRA) in releasing a joint report following a year-long examination of "free lunch" investment 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 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."***
>
> ***— Joseph Borg***

"The entire community of state securities regulators will continue our active pursuit of criminals who cheat seniors out of their hard-earned retirement savings," Borg said.

SEC Chairman Christopher Cox said the finding's "are a wake-up call for securities regulators, the financial services industry and especially older investors. Not only were virtually all of the 'free lunch' seminars sales jobs in disguise, but half made misleading or exaggerated claims, and more than a third had unsuitable recommendations or outright fraud."

Free lunch sales seminars are targeted at senior citizens and are commonly held at upscale hotels, restaurants, retirement communities and golf courses.

FINRA CEO Mary Schapiro said, "With almost 8 out of 10 seniors being targeted with these tactics, the findings underscore a true need for increased educational and enforcement efforts."

The examinations were conducted between April 2006 and June 2007 in areas of the country that have large populations of retirees: Florida, California, Texas, Arizona, North Carolina, Alabama and South Carolina.

The report's recommendations include:

— Financial services firms should review their supervisory practices and take steps to supervise sales seminars more closely, and redouble their efforts to ensure that the investment recommendations they make to seniors are suitable in light of the particular customer's investment objectives.

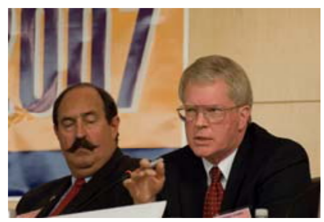
— Ongoing investor education efforts for seniors should provide education with respect to "free lunch" sales seminars. Specifically, senior investors should understand that these are sales seminars that result in the sales of financial products, and they may be sponsored by an undisclosed company with a financial interest in product sales.

NASAA: "There's no such thing as a free lunch."

Former NASAA President Joseph Borg shows the Summit audience a handful of invitations received by seniors in Arizona and Virginia offering "free lunch" seminars. "The invitations I'm holding in my hand are filled with the recurrent themes that typically appear in these enticing ads: a free gourmet meal, tips on how to earn great returns while eliminating market risk, and a warm welcome to spouses of the invitees. Many invitations use words such as 'guaranteed,' 'can't lose principal,' or 'no-risk investment'," Borg said.

Former NASAA President Joseph Borg (left), FINRA CEO Mary Schapiro, and SEC Chairman Christopher Cox open the Summit with a pledge to continue their aggressive and cooperative efforts to combat senior investment fraud.

Current NASAA President and North Dakota Securities Commissioner Karen Tyler (right) and FINRA CEO Mary Schapiro share a discussion before the Summit begins.



North Carolina Deputy Securities Administrator David Massey (right) outlines the details of the coordinated examination report as FINRA Executive Vice President Robert Errico listens.

Current NASAA President Karen Tyler shares a panel with SEC Commission Paul Atkins (far left) and others to discuss ways to enhance investor awareness among seniors.

Wisconsin Securities Administrator and past NASAA President Patricia Struck discusses cooperation among regulators and law enforcement to identify and stop investment scams against seniors.

Massachusetts Securities Director Bryan Lantagne (right), SEC Director of Market Regulation Erik Sirri and SEC Commissioner Annette Nazareth discuss the need for securities firms to improve their sales practices for older investors.

Following the panels, more than 100 seniors attended a "Lunch and Learn" seminar with a free lunch (no strings attached) and AARP training on the psychology behind investment fraud. Each participant also received NASAA investor education materials.

More information about the Seniors Summit, including remarks, news releases, the senior investor alert and the complete investigative report of "free lunch" examinations, is available on the NASAA website at www.nasaa.org

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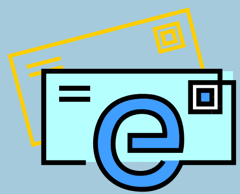

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Organized in 1919, the North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. NASAA is a voluntary association whose membership consists of 67 state, provincial, and territorial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

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Make Plans Now to Attend the 2008 NASAA Public Policy Conference in Washington, D.C.

NASAA's 2008 Public Policy Conference is shaping up to be an event you won't want to miss.

Held in Washington, D.C, the conference brings together securities regulators, industry representatives and policy makers for an in-depth look at key public policy issues.

The 2008 Public Policy Conference will be held on April 1.

NASAA also will host a meeting of the membership on March 31.

Check the NASAA website (www.nasaa.org) for details.

Save the Date!

NASAA Annual Conference
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