



NASAA Insight

The Voice of State & Provincial Securities Regulation
Fall, 2018

Vermont Financial Regulation Commissioner Michael Pieciak Elected as NASAA President

Vermont Commissioner of Financial Regulation Michael S. Pieciak has begun his term as the 101st president of the North American Securities Administrators Association (NASAA).

"I am honored to lead our association into its second century of service to our members, to the securities industry, and, most importantly, to Main Street investors throughout North America," Pieciak said in his inaugural address at NASAA's 2018 Annual Meeting in Anchorage, Alaska.

"We've been on the beat protecting investors during times of boom and bust. From ticker tape to the blockchain, NASAA members have worked together to adapt and advance our mission of investor protection," he said.

Commissioner Pieciak was first appointed by Gov. Peter Shumlin in July 2016 and reappointed by Gov. Phil Scott in December 2016 to serve as commissioner of Vermont's Department of Financial Regulation.



"Although it is impossible to predict the future, our first century has taught us that change is the only certainty and that change happens fast," said NASAA President and Vermont Financial Regulation Commissioner Michael S. Pieciak at NASAA's 2018 Annual Meeting in Anchorage, Alaska.

NASAA Prepares for Centennial Celebration with Release of New Video



In 2019, NASAA will commemorate its 100-year anniversary of service to investor protection throughout the United States, Canada and Mexico.

NASAA was organized in 1919 by a small group of regulators with a big idea and has since grown to be the oldest international organization devoted to investor protection.

To help launch the celebration, NASAA created a short video outlining the Who, What, and Why of state and provincial securities regulation. The video is available on the homepage of the NASAA website, www.nasaa.org. Watch for more information in the months ahead.

From the Leadership

President's Message: Michael Pieciak



It is an honor to be entrusted by my fellow administrators to lead NASAA into its second century of service. It so happens that I am the second Vermonter to hold this title. Eighty-eight years ago, Vermonter R.C. Clark took the gavel at NASAA's annual meeting in Washington, D.C.

As the second Vermonter to have the privilege to lead our organization, I cannot help but

reflect on our state's motto, "Freedom and Unity." The Vermont motto balances two seemingly opposite ideals: the freedom and independence of the individual, with the collective, common good of the larger community. These are the very principles NASAA has grappled with every day of our existence and will continue to grapple with during our next century.

To effectively serve our constituents, we must embrace this duality – remembering to take our mission seriously but to never take our disagreements personally.

I want to thank Past President Joe Borg for all he has done for me this past year and for NASAA the last 24 years. I am very fortunate to have a talented and dedicated team and I look forward to all we will accomplish together.

This team includes NASAA's Board of Directors:

- President-elect Frank Borger-Gilligan of Tennessee,
- Past President Joe Borg of Alabama,
- Treasurer Tom Cotter of Alberta,
- Secretary Pam Epting of Florida,
- Bill Beatty of Washington,
- Travis Iles of Texas,
- Melanie Lubin of Maryland, and
- Tanya Solov of Illinois.

This year's strong leadership team also includes our section chairs:

- Lynne Egan of Montana, Investor Education;
- Chris Gerold of New Jersey, Enforcement;
- Lisa Hopkins of West Virginia, Corporation Finance;
- Andrea Seidt of Ohio, Investment Adviser; and
- Leslie Van Buskirk of Wisconsin, Broker-Dealer.

This year we will be reflecting and celebrating NASAA's first 100 years of investor protection. Although it is impossible to predict the future, our first century has taught us that change is the only certainty and that change happens fast.

For NASAA that has meant evolving from a loosely organized group of administrators to today's 22-person staff based in Washington, D.C., with more than 300 volunteers from member agencies throughout North America.



NASAA President Michael Pieciak (center) is joined by President-elect Frank Borger-Gilligan of Tennessee (left) and Past President Joe Borg of Alabama (right) at NASAA's 2018 Annual Meeting in Anchorage, Alaska.

Change has meant establishing new technologies to promote uniformity, efficiency and oversight; and being there to help investors as investments and securities markets grew more complex.

Change also has meant better coordination on multi-jurisdictional enforcement actions to investigate and eradicate systemic failures. From microcaps and boiler rooms in the 1990s to this year's Operation Cryptosweep, NASAA has been there for investors.

NASAA has much to celebrate from its past, yet our mission calls all of us to redouble our efforts to focus on the future.

Over the summer, I surveyed the NASAA membership for their views on the most pressing matters facing state regulators in the years ahead.

Preservation of state authority stood above all others as the top priority for our members. With broad preemption legislation in recent decades and renewed threats in recent months, this priority is well placed.

Where appropriate, modernizing our association and promoting uniformity are the most effective ways for us to fight preemption and preserve our authority. However, determining the most effective strategies in promoting uniformity and where and how to modernize will take considerable thought, time, collaboration and discussion.

That is why I asked the board to establish a new Strategic Planning Committee tasked with reviewing our bylaws, committee structure, policies and procedures and engaging our membership in order to develop a strategic plan to help guide NASAA into its next 100 years. I believe the opportunities that lie ahead are far greater than our challenges and that NASAA's best days will be achieved during our second century.

NASAA Comments on SEC Standard of Care Proposal

NASAA has expressed support for the SEC's work to raise the standard of care for broker-dealers, but in an August 23, 2018 comment letter encouraged the agency to make significant revisions to its Regulation Best Interest proposal (Reg BI) in order to best serve the interests of investors.

"NASAA especially appreciates Chairman Clayton's leadership in advancing this important regulatory priority," said then NASAA President and Alabama Securities Commission Director Joseph Borg. "Given our members' shared responsibility with the SEC for oversight of the firms and individuals that will be impacted by the proposals, NASAA is anxious to work closely with the Commission on further refinements to the proposals and we hope our constructive comments are well received and considered fully."

Reg BI is intended to establish a standard of conduct for broker-dealers and their agents akin to the fiduciary duties owed by investment advisers and investment adviser representatives. The SEC's rulemaking proposals also include new potential disclosure obligations, restrictions on the use of certain names or titles, and an expression of the SEC's views on the scope of investment advisers' fiduciary duties.

"We believe the Commission's approach of raising the standard for broker-dealers, while not weakening the current standard applicable to investment advisers, is the correct one," Borg wrote in NASAA's comment letter, noting that NASAA supports the proposal's effort to address conflicts of interest, improve fee transparency, restrict the use of potentially misleading professional titles, and clarify investment adviser conflict of interest obligations. While the SEC's proposals represent a good initial step, "significant improvements are needed in order to promulgate final rules that will serve the best interest of investors as the Commission intends," Borg said.

BD Coordinated Exams Focus on Heightened Supervision

NASAA recently released findings of a series of coordinated examinations of broker-dealer firms to survey heightened supervision plans for their registered representatives. The coordinated examinations by securities regulators in 30 NASAA member jurisdictions sought to better understand how broker-dealers of varying types and size are addressing the issue of heightened supervision and highlight practices state securities administrators expect from broker-dealers in this space.

NASAA members conducted 165 exams of 121 broker-dealers, a mix that included wirehouse, independent, and introducing firms. Of the firms examined, nine had no policies or procedures related to heightened supervision. Thirty-four firms had no criteria for the assessment of whether heightened supervision would be appropriate for new hires, and an equal number had no criteria for currently associated representatives.

Nearly half (49 percent) of the examined firms that had heightened supervision procedures had no policies and procedures regarding how a registered representative could be removed from heightened supervision; 14 of these firms had at least one registered representative on heightened supervision, and one firm had 13. Overall, the coordinated examinations found that of the 121 examined firms, 51 had at least one registered representative on a heightened supervision plan.



Member News: Long-time Massachusetts Securities Regulator Bryan Lantagne Retires

Veteran Massachusetts Securities Director and NASAA Board Member Bryan Lantagne retired from the Massachusetts Securities Division effective October 26, 2018.

Throughout his 28-year career with the Division, which he has led since 2005, Mr. Lantagne has been recognized as a tenacious advocate of investor protection and a staunch defender of state regulatory authority.

His significant contributions to investor protection and to NASAA, including as a long-serving member and chair of the Broker-Dealer Section, have not gone unnoticed by his peers. He received NASAA's Distinguished Service Award in 2007 and NASAA's highest honor, the Blue Sky Cube, in 2014.

2018 Annual Meeting

North to the Future: Alaska Meeting Explores Opportunities for Investors and Challenges for Regulators



NASAA Executive Director Joseph Brady welcomes members and non-members to Alaska.



William Beatty, conference chair and Washington Securities Director, addresses the audience as he opens the 2018 Annual Meeting.



Fred Parady, Deputy Commissioner of the Alaska Department of Commerce, Community and Economic Development, provides an overview of the department's activities to protect investors and help small businesses raise investment capital.



Ohio Securities Commissioner Andrea Seidt (left) moderates a discussion focused on standards of care for broker-dealers and investment advisers. Panelists included (from left) Massachusetts Securities Division Director Bryan Lantagne; Gail Bernstein, General Counsel, Investment Adviser Association; Ira Hammerman, Executive Vice President and General Counsel, SIFMA; Chris Besko, Director, Manitoba Securities Commission; and Barbara Roper, Director of Investor Protection, Consumer Federation of America.



Bryan Lantagne, of Massachusetts, makes a final point of keeping investor protection at the center of the standard of care discussion.

Michigan's Linda Cena, second from left, discusses NASAA's proposed cybersecurity model rule for investment advisers. Also pictured are members of NASAA's Investment Adviser Section, including (from left) William Carrigan, Vermont; Section Chair Andrea Seidt, Ohio; and Alex Glass, Indiana.



2018 Annual Meeting



Maryland Securities Commissioner and NASAA Board Member Melanie Lubin (left) leads a discussion exploring the future of capital formation, with an emphasis on how crowdfunding is affecting the economic and regulatory calculus for business fundraising. Panelists included (from left) financial journalist and author Amy Cortese; George Humm, a financial examiner with the Alaska Department of Commerce, Community and Economic Development; Julius Brecht of Bankson, Gronning, O'Hara P.C.; and Rick Armstrong, owner of Baranof Island Brewery.



Peter Van Valkenburgh, Director of Research at Coin Center, delivers the keynote address, which focused on the future of cryptocurrency and blockchain technology.



SEC Investor Advocate Rick Fleming discusses the enforcement challenges facing regulators in the unicorn era on a panel moderated by Claire McHenry, Deputy Director of the Nebraska Bureau of Securities (left). Additional panelists included Faith Anderson, Chief of Registration & Regulatory Affairs with the Washington Department of Financial Institutions Division of Securities (right) and Boston College of Law Professor Renee Jones.



Joe Borg receives an ovation as he concludes his term as NASAA's first three-term president.



NASAA Past President Joe Borg turns the gavel over to NASAA President Michael Pieciak.



NASAA President-elect Frank Berger-Gilligan delivers remarks during the Presidential Luncheon.



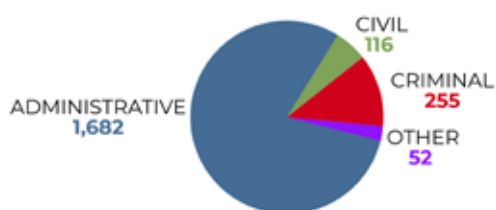
NASAA President Michael Pieciak delivers his inaugural address at NASAA's Presidential Luncheon.

NASAA 2018 Enforcement Report Highlights

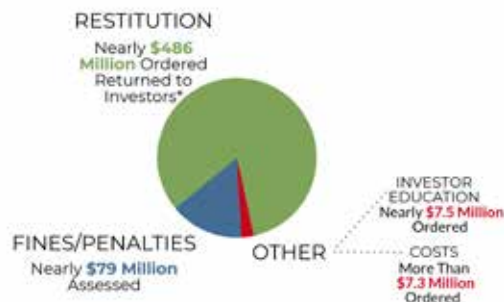
Based on 2017 Data*



Enforcement Actions Taken



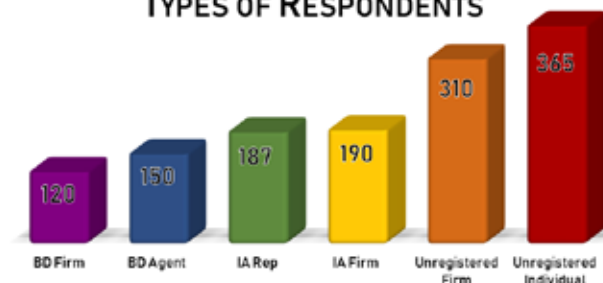
Monetary Relief



* NASAA annually conducts an enforcement survey of its U.S. members, analyzes the data and identifies trends. This year, 51 U.S. jurisdictions responded to the survey. The results demonstrate that NASAA members aggressively protect the integrity of financial markets and investors from fraud.

Visit www.nasaa.org for the full report.

TYPES OF RESPONDENTS



NASAA Section Committee Activity

Proposed Cybersecurity Model Rules and Amendments for IAs

NASAA has proposed an investment adviser model rule to address information security and privacy, a proposed amendment to the investment adviser NASAA model Recordkeeping Requirements rule, and a proposed amendment to the NASAA Unethical Business Practices of Investment Advisers, Investment Adviser Representatives, and Federal Covered Advisers model rule.

NASAA released the proposed rule amendment for public comment in September. The rule proposal has three components:

- A proposed model rule to require investment advisers to adopt policies and procedures regarding information security (both physical security and cybersecurity) and to deliver its privacy policy annually to clients (“Proposed Information Security and Privacy Rule”).
- A proposed amendment to the existing investment adviser NASAA model recordkeeping requirements rule to require that investment advisers maintain these records (“Proposed Recordkeeping Rule Amendment”).
- A proposed amendment to the existing investment adviser NASAA Unethical Business Practices of Investment Advisers, Investment Adviser Representatives, and Federal Covered Advisers model rules to include failing to establish, maintain, and enforce a required policy or procedure to the enumerated list of unethical business practices/prohibited conduct.

Proposed Updates to the Small Company Offering Registration SOP & Form

NASAA has proposed updates to the Small Company Offering Registration (SCOR) Statement of Policy and the SCOR Form (Form U-7). These were last updated in 1996 and 1999 respectively.

Since that time, the internet has been embraced as a method of raising capital in small offerings to retail investors through crowdfunding and the formatting tools available for offering documents have evolved. In addition, the offering amount limitation under federal Rule 504 was increased from \$1 million to \$5 million.

NASAA is proposing updates to the SCOR Statement of Policy to increase the offering limit from \$1 million to \$5 million and to incorporate many of the investor protections that have been put in place under state and federal crowdfunding laws, including investment limits, sales report requirements, and ongoing reporting requirements.

Other existing provisions from the SCOR Statement of Policy have been updated and modernized in the interests of both investor protection and capital formation.

NASAA also has proposed a comprehensive update of the SCOR Form. The proposed SCOR Form includes updates drawn from intrastate crowdfunding forms, federal Form C, word processing features, and changes in federal law.

Members of NASAA’s Small Business/Limited Offerings Project Group determined that updates to the SCOR program are appropriate to allow issuers to more fully take advantage of this program under amended federal rules.

NASAA: Because Every Investor Deserves Protection

About NASAA

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

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

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



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NASAA Honors Significant Accomplishments

At its annual conference in Alaska, NASAA presented several awards to recognize the accomplishments of those who have dedicated their service to help advance the association's goals.

NASAA Past President Joe Borg along with Linda Cena, NASAA's Investment Adviser Section Vice Chair, received the association's highest honor, the Blue Sky Cube, for their leadership and record of investor protection.

NASAA's Investor Champion Award was presented to Barbara Roper of the Consumer Federation of America.



Linda Cena of Michigan was awarded NASAA's highest honor, the Blue Sky Cube for her long record of outstanding service on behalf of NASAA members.



CFA Director of Investor Protection Barbara Roper speaks after being presented with NASAA's Investor Champion Award.

NASAA's Outstanding Service Award was presented to former administrators Kevin Anslem of Alaska, Keith Woodwell of Utah and David Tatman of Oregon.

NASAA's Distinguished Service Award was presented to Joe Rotunda of Texas and Stephen Bouchard of New Jersey.