

The background of the entire page is a dark blue globe with a white grid of latitude and longitude lines. Overlaid on the globe is a large, dark blue silhouette of the North American continent. A white rectangular box is positioned horizontally across the middle of the page, containing the title text.

NASAA YEAR IN REVIEW 2006

ADVANCING A LEGACY OF INVESTOR PROTECTION



North American Securities Administrators Association

TABLE OF CONTENTS

LEADERSHIP LETTER

- Advancing a Legacy of Investor Protection 2

NASAA OVERVIEW

4

SPECIAL REPORT

- Working Together to Protect Seniors From Investment Fraud 8

2006 NASAA SECTION REVIEW

BROKER-DEALER

- Overview / Arbitration / Variable & Equity-Index Annuities / Short Sales / BrokerCheck / Broker-Dealer Compliance Issues / Exam Modules / Continuing Education / Training 11

CORPORATION FINANCE

- Overview / Accredited Investor Definition / Finders / Commodity Pool Guidelines / Investor Suitability Standards for DPPs / Shareholder Rights / Small Business Issues / Training 15

ENFORCEMENT

- Overview / Enforcement Statistics / Enforcement Trends / Regulation D 506 Offerings / Internet Enforcement Litigation Forum / Enforcement Outreach & Training 17

INVESTMENT ADVISER

- Overview / Investment Adviser Regulation / Hedge Funds / IARD Fee Waiver & Reduction / Form ADV / Examinations / Training 19

INVESTOR EDUCATION

- Overview / Financial Literacy / Affinity & Ethnic Outreach / Senior Outreach / Online Resources Awareness / Youth Outreach / Investor Education Coordination / Training 21

NASAA LISTS

- Board of Directors / Board Committees / Sections & Project Groups / Awards / Corporate Office Staff 23

LEADERSHIP LETTER

ADVANCING A LEGACY OF INVESTOR PROTECTION

The past year has been one of accomplishment on a number of fronts for the membership of the North American Securities Administrators Association. The state and provincial securities regulators who comprise NASAA's membership have a proud legacy of investor protection. This heritage continues in large part through the tireless efforts of dedicated men and women throughout NASAA's membership who put investor protection and the common good above all else.

For example, under the leadership of Illinois Securities Director Tanya Solov and Arizona Director of Securities Matt Neubert, NASAA's Broker-Dealer Section has successfully focused a national spotlight on the fairness of the arbitration system currently in place to settle securities-related disputes. As long as the current composition of arbitration panels consist of a mandatory industry representative and public arbitrators who maintain significant ties to industry, this process is fundamentally unfair to investors.

In the area of corporation finance, state securities regulators long have been leaders in calling attention to areas that others may have overlooked, such as special purpose acquisition companies, finders, and tenant-in-common issues, thanks in large part to the hard work of NASAA's Corporation Finance Section under the direction of Texas Securities Commissioner Denise Voigt Crawford



Joseph Borg, Patricia Struck (center), and Karen Tyler

and Washington Director of Securities Michael Stevenson.

The efficient and effective regulation of the growing investment adviser population and the tough but fair enforcement of securities laws designed to protect investors from financial predators are top NASAA priorities. While the vast majority of investment advisers are honest professionals, the potential for fraud should concern us all. Under the leadership of District of Columbia Bureau of Securities Director Theodore Miles and New Jersey Bureau of Securities Director Franklin Widmann, NASAA's Investment Adviser Section has worked diligently to help NASAA members protect investors by making the regulation of small investment advisers more manageable, through careful licensing and on-site examinations.

NASAA's Enforcement Section, led by North Carolina Deputy Securities Administrator David Massey, is actively reaching out to regulators at all levels of government to facilitate cooperative efforts to address investment fraud. We have a pressing need to continue increasing coordination and cooperation with other regulators, specifically state and federal banking regulators and state insurance regulators.

NASAA members recognize that financial education also is the first and best defense against financial fraud, abuse, and exploitation. We believe that NASAA's Investor Education Section has set the stage for effective and efficient financial education initiatives since its inception nearly 10 years ago. Under the guidance of Tennessee Assistant Commissioner for Securities Daphne Smith, the Section and its Project Groups have developed and are continuing an innovative series of investor education programs and tools.

While educating the public is important, educating both state and federal government officials about the role of state securities regulators is absolutely critical to preserve the regulatory authority that enables each of us to further our core mission of investor protection. In this regard, not only are we enhancing our communications with key government officials across the spectrum, we are also stepping up our ongoing efforts to reach out and involve related state-membership organizations, such as the National Governors' Association, the National Association of Secretaries of State, the National Association of Attorneys General, the Conference of State Bank Supervisors, and the National Conference of State Legislatures. And we will continue to work with consumer protection advocates such as the AARP and the Consumer Federation of America. We will also increase our efforts to work closely with international organizations, such as the Canadian Securities Administrators, the International Organization of Securities Commissions (IOSCO), and the Council of Securities Regulators of the Americas (COSRA).

Recent history has witnessed great strides from NASAA, our colleagues at the SEC, as well as the New York Stock Exchange and NASD, toward our mutual goal of cooperative and complimentary securities regulation. But as the financial services industry continues to evolve and as new financial products come to market, we need to try to cooperate even more. NASAA is dedicated to ensuring that our relationships with outside organizations and associations and fellow regulators remain strong, effective and positive. Given our limited resources, we must strive to do a better job of coordinating, sharing, and supporting one another.

In the year ahead, NASAA will continue to listen and work with our industry colleagues. A balanced approach to regulation requires that we understand the issues that the industry faces. Only through communication can we truly realize our mutual goal of doing what's best for investors. While we may have our differences, they should not diminish our common goal of doing what's right for investors to maintain their trust and confidence.

As we move forward together, we encourage all NASAA members to build on the momentum of the past year to continue working to ensure that senior investors are treated fairly; to remain resolute in our efforts to make certain that the arbitration system treats all investors fairly; and to continue our endeavors to ensure that investors have all of the information they need to make informed decisions not only about the investment products and services they are offered, but also about the registered representatives and investment advisers providing those products and services.

We look forward to working with the NASAA Membership and Corporate Office staff, as well as federal and industry securities regulators, to accomplish great things together to protect investors and to help them build wealth in a healthy investment market.



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



Patricia D. Struck
*Wisconsin Securities Administrator,
NASAA President 2005-2006*



Karen Tyler
*North Dakota Securities Commissioner,
NASAA President-elect 2006-2007*



NASAA OVERVIEW

NASAA members have been protecting investors from fraud and abusive sales practices, beginning with the passage of the first “blue sky” law, in Kansas, in 1911. 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 securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico. In the United States, state securities regulation preceded federal securities laws including the creation of the Securities and Exchange Commission (SEC) and the NASD.

The system of state, federal and industry oversight supports our securities markets and has helped make them the envy of the world. Within this system, each regulator

complements the other, leveraging resources, strengths and expertise.

NASAA assists its members in coordinating enforcement efforts regarding multi-jurisdictional frauds by facilitating the sharing of information and leveraging the resources of our jurisdictions more efficiently. White-collar crime cases encompass a broad range of misconduct that profoundly affects all investors. It is estimated that securities fraud alone costs investors \$40 billion per year. The ability of regulators and prosecutors to fight crime relies on our ability to effectively leverage the resources of local, state and federal agencies. State, federal and provincial prosecutors rely on state securities agencies for expertise and guidance, help and support. To continue delivering this support, NASAA urges state legislatures to increase resources for state securities regulation and enforcement.



NASAA President Patricia Struck addresses the membership at the Annual Conference.

ENHANCING EFFICIENT REGULATION

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 NASD and the New York Stock Exchange, and other international regulatory bodies, including the International Organization of Securities Commissions (IOSCO) and the Council of Securities Regulators for the Americas (COSRA).

As the financial services industry becomes more global in scope, regulators are seeking ways to enhance their international competitiveness. The consolidation of the regulatory functions of the NASD and the New York Stock Exchange will enable the combined resources of the regulatory arms of the NASD and NYSE to concentrate on international competitiveness and create efficiencies in national markets. At the same time, state securities regulators will continue to focus on serving as the "local cop on the beat" protecting millions of Main Street investors, the backbone of the American economy.

ADVANCING COORDINATION AND COOPERATION

NASAA welcomes the opportunity to continue to work with our regulatory counterparts at the SEC and the SROs to collectively use our resources to protect investors. We stand ready to provide insight from our unique perspective to the SEC and SROs as they move forward in their rulemaking processes. 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.

ENCOURAGING EFFECTIVE LEGISLATION

NASAA, through its membership, Federal Legislation Committee, and the 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. Our members testify before federal, state and provincial legislatures on a variety of initiatives and have been the voice of reasonable and responsible regulation to protect investors in our securities markets. NASAA provides technical information and comments on legislation of concern and interest to its members.

In 2006, NASAA successfully worked with the House and Senate on several amendments to "The Military Personnel Financial Services Protection Act," which was signed into law by President Bush and expressly preserves the authority of state securities regulators on military installations. NASAA also successfully worked with the House and Senate to ensure that denied applications of state investment advisers will be made public on the Investment Adviser Public Disclosure (IAPD) website. NASAA also worked successfully with Members of Congress to preserve state securities licensing of independent agents selling jumbo CDs and market-based CDs in the Financial Services Regulatory Relief Act of 2005, which was enacted in 2006.



SEC Chairman Christopher Cox and NASAA President Joseph Borg confer in Washington, DC.

PROTECTING INVESTORS' RIGHTS

NASAA plays an important role in representing the membership's position, as *amicus curiae*, in significant legal proceedings that may have a widespread impact upon securities regulators and the rights of investors. Under the direction of the Legal Services Committee, NASAA filed 4 amicus briefs in 2006. In *California v. American Funds Distributors, Inc.*, NASAA argued that NSMIA does not preempt California's enforcement action for fraud in mutual fund offering documents. In *Nanopierce Technologies Inc. vs. The Depository Trust and Clearing Corporation, The Depository Trust Company, and the National Securities Clearing Corporation*, NASAA argued that states retain a significant role as to securities regulation generally, and with respect to clearing and settlement in particular. NASAA also argued that the long-standing role of state law in protecting investors from fraud and abuse has always been and remains vital.

NASAA also filed an amicus brief with the U.S. District Court of Appeals for the District of Columbia Circuit in support of the Financial Planning Association's ultimately successful position that the SEC's Rule 202(a)(11)-1 (also known as the "BD/IA Rule") is inconsistent with the Investment Advisers Act of 1940. NASAA argued that the rule fuels investor confusion over the types of investment accounts that are available, the levels of disclosure that come with these accounts, and the duties and obligations of financial services providers. NASAA's amicus brief filed in *Blue Flame Energy Corp. v. Ohio Dept. of Commerce*, argued that a promoter's offering was not a "covered security" exempt from state regulation because the offering failed to comply

with all of the requirements of Rule 506, Regulation D; and that the Ohio Department of Commerce had personal jurisdiction over the promoter as a result of the promoter's use of the internet to advertise the offering and solicit investors.

STRENGTHENING MEMBER SKILLS THROUGH EDUCATION

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 2006, NASAA hosted 9 training seminars, which attracted nearly 800 participants from NASAA member jurisdictions. In addition to the joint NASAA/NAIC training seminar, other NASAA training seminars included sessions devoted to broker-dealer, investment adviser, franchise, corporation finance, investor education, litigation, attorney/investigator, and joint regulatory issues.

"The real risk in this case is not that state securities regulators will invoke their fraud authority to pursue preempted regulation. Rather, it is just the opposite: that the nation's most powerful Wall Street firms will cry 'preempted regulation' in an effort to shield genuinely fraudulent practices from the legitimate exercise of state enforcement authority."

— Excerpt from NASAA Amicus Brief
California v. American Funds

NASAA VISION

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

NASAA MISSION

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

NASAA VALUES

NASAA values investor protection, education, respect for diverse views, building consensus, being proactive, and active participation by all members of the organization.

NASAA GOALS

- Promote and enhance the effectiveness and efficiency of securities regulation by NASAA members.
- Promote investor awareness and educate potential and current investors.
- Communicate and advocate the value of securities regulation and investor protection by NASAA members.
- Enhance the skills, knowledge and abilities of members and staff through education.
- Assure an effective and efficient corporate governance and organizational structure.
- Continue to maintain a viable and effective corporate office.

-- from the 2005/2006 NASAA Strategic Plan

SPECIAL REPORT

PROTECTING SENIORS FROM INVESTMENT FRAUD

From the “Greatest Generation” to the “Baby Boomers,” seniors have worked hard to build both our nation’s economic prosperity and a lifetime’s worth of savings. As securities regulators, NASAA members are committed to using every resource available to ensure that the golden years of seniors are not tarnished by investment fraud.

With the first ‘Baby Boomers’ turning 60 in 2006, NASAA members actively focused national attention on our shared concern that investment fraud among seniors could grow significantly in the years ahead.

NASAA first called attention to the problem of senior investment fraud in 2003 and launched the Senior Investor Resource Center on the NASAA website to help seniors learn how to protect themselves. Over the past three years, NASAA members have worked tirelessly to pursue those



NASAA President Patricia Struck outlines how state securities regulators protect seniors during testimony before Senate committee.

who would victimize seniors.

NASAA members were pleased that in 2006 federal regulators and others joined this ongoing effort in a major

initiative to fight senior investment fraud through targeted, aggressive enforcement combined with financial education to protect investors from unscrupulous individuals.

SENATE TESTIMONY

“The targeting of seniors for investment schemes is a chronic problem,” NASAA President Patricia Struck said in testimony before the U.S. Senate Special Committee on Aging. “My colleagues and I are currently seeing a proliferation of troubling schemes in three related areas: “senior specialists,” variable annuities, and unlicensed/unregistered persons. Unfortunately, these three problems often occur simultaneously at certain senior investment seminars.”

NASAA’s participation in this March 2006 Senate hearing brought significant insights into the role investment seminars play in marketing suitable and unsuitable investment products to seniors. Struck noted that seniors are being flooded with pitches for investment seminars; many of them promising a free meal along with little or no risk and higher returns. “Unfortunately, in many of the cases that we see, it’s just the opposite: high risk and no returns, just disastrous losses,” she said. “The current landscape facing



Sen. Herb Kohl, chair of the U.S. Senate Special Committee on Aging listens as NASAA President Struck testifies.

senior investors is littered with slick schemes and broken dreams.”

Regulators see a proliferation of troubling schemes involving unlicensed individuals promoting and

selling unregistered securities to seniors, and continue to be concerned about the way in which variable and equity-indexed annuities are marketed and sold to seniors.

“Let us be clear. Our concerns with variable and equity index annuities are not about the products. These are legitimate and suitable investments for some, but they are unsuitable for many retirees,” Struck said. “And yet they are being pitched aggressively to seniors through investment seminars, where participants aren’t always told about high surrender charges for early withdrawals, the potential of exposure to market risk, and the steep sales commissions agents often earn when they move investors into these products.”

NASAA SURVEY SHOWS SENIORS ARE PRIME TARGET FOR FRAUD

STATE SECURITIES REGULATORS SENIOR-RELATED ENFORCEMENT ACTIVITY (2004/2005 reporting period)

28%	26%	28%
Of All Complaints Come From Seniors	Of All Enforcement Actions Involve the Financial Exploitation of Seniors	Of All Cases of Senior Exploitation Involve Variable or Equity Index Annuities

A NASAA survey released in 2006 shows that 28 percent of all investor complaints received by state securities regulators come from seniors and 26 percent of enforcement actions taken by state securities regulators involves senior investment fraud. The survey also found that unregistered securities, variable annuities and equity-indexed annuities are the most pervasive financial product involved in senior investment fraud.



NASAA President-elect Karen Tyler leads a panel discussion at NASAA's annual conference to focus attention on suitability issues raised by sales of variable annuities to seniors.

SENIOR INITIATIVE

Following the Senate hearing, NASAA and the U.S. Securities and Exchange Commission in May launched a joint national initiative designed to protect seniors from investment fraud and sales of unsuitable securities. State securities regulators believe the most effective weapon against senior investment fraud is aggressive enforcement and financial education. The senior initiative reflects the long-standing collaborative relationship between state, federal and industry securities regulators. NASAA believes it will lead to significant protections for senior investors.

The initiative, which builds upon the success of coopera-



NASAA President Patricia Struck and SEC Chairman Christopher Cox at NASAA's Spring Conference, at which he announced the Seniors Summit and told Struck: "The nation is fortunate to have your leadership."

tive efforts between the SEC and Florida securities regulators, in conjunction with the NASD, to crack down on senior investment fraud, has several components, including targeted examinations to detect abusive sales tactics aimed at seniors, aggressive enforcement of the securities laws in cases of fraud against seniors, and active investor education and outreach.

State, federal, and NASD regulators conducted on-site examinations in Florida of firms sponsoring "free lunch" investment seminars to ensure their sales practices are lawful. These coordinated examinations were later expanded to six additional states where seniors may be targets of abusive sales pitches or fraudulent investment schemes. As part of

the initiative, SEC regional offices work closely with state and local law enforcement, and both federal and state regulatory agencies, to exchange information to help identify and bring administrative, civil, and criminal actions to shut down scams targeting senior investors.

RAISING AWARENESS

In July, NASAA joined with the SEC, NASD, NYSE, AARP and others in the first-ever Seniors Summit in Washington, D.C. The summit, held at SEC headquarters, showcased the actions of state, federal, and industry regulators to protect senior investors. NASAA was represented at the Summit by President Patricia Struck. She was joined by California Corporations Commissioner Preston DuFau-chard, and Tony Lewis, the Chief Deputy Commissioner from California. During the Summit, NASAA released its survey showing that seniors are a favored target for investment fraud.

MOVING FORWARD

Notwithstanding the multi-front offensive launched by state and federal securities regulators, senior citizens remain a target for scam artists. NASAA believes that Congress should 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. 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.

Today's senior investors are our parents, our teachers, our church leaders and our coaches - the same people we looked up to in our childhoods. They deserve the same respect today. We will not tolerate their victimization by those who would profit from their lifetime's savings.



NASAA 2006-2007 President Joseph Borg announces senior investment fraud will remain a focus of NASAA members during the year ahead.



SEC Director Lori Richards, NASAA Board Member Jim Nelson, SIFMA CEO Mark Lackritz and NASAA Board Member Fred Joseph examine the growing threat of investment fraud on Baby Boomers during a panel discussion at NASAA's Public Policy Conference in Washington, DC.

2006 NASAA SECTION REVIEW

BROKER-DEALER SECTION



NASAA Broker-Dealer Section Chair and Illinois Securities Director Tanya Solov.

OVERVIEW

The NASAA 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, SRO's, and federal regulators regarding trends and concerns in the brokerage

industry; and provides guidance to states on broker-dealer issues.

NASAA's 2005-2006 Broker-Dealer Section was chaired by Illinois Securities Director Tanya Solov; Don Saxon, Director of the Florida Department of Financial Services Office of Financial Regulation, served as Vice Chair. Section Members included: Ralph Lambiase, Connecticut; Bryan Lantagne, Massachusetts; Matt Neubert, Arizona; and Douglas Brown, of Manitoba, served as the Section's Canadian Liaison.

The Section oversees the activities of six Project Groups, including: Arbitration (Chair: Bryan Lantagne, Massachusetts); Continuing Education (Chair: Don Saxon, Florida); Exams Advisory (Chair: Sheila Cahill, Nebraska); Market and Regulatory Policy and Review (Chair: Matthew Neu-

bert, Arizona); Broker-Dealer Operations (Chair: William Reilly, Florida); and Variable Annuities (Chair: John Cronin, Vermont).

The Section also works closely with the CRD/IARD Steering Committee, chaired by Maryland Securities Commissioner Melanie Senter Lubin.

2006 ACTIVITIES



Massachusetts Securities Director and NASAA Arbitration Project Group Bryan Lantagne addresses the NASAA membership.

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. NASAA believes this system, which is administered by an affiliate of the NASD, should be examined to ensure it is fair and transparent to all. State securities regulators believe Congress should review how arbitrators are selected, trends in arbitration awards, and how cumbersome and expensive the system has become for investors.

Congress should also determine whether investors should have an option to bypass arbitration and litigate their disputes in the courts. While NASAA commends NASD Dispute Resolution (NASDDR) in its attempts to correct abuses in the arbitration process, we retain serious reservations about the process itself. NASAA believes that NASDDR



Vermont Securities Examiner and NASAA Variable Annuity Project Group Chair John Cronin (left) discusses variable annuities issues at NASAA's Annual Conference.

must first address the arbitration process' fundamental flaw – the current composition of the arbitration panel. So long as NASDDR arbitrations are conducted on the condition that the panel shall consist of a mandatory industry member and public arbitrators who may maintain significant ties to industry, the process is fundamentally unfair.

Variable Annuities

For several years, securities regulators at all levels have been witnessing a heavy volume of complaints from investors involving variable annuity sales practices. NASAA statistics show that 34 percent of all successfully concluded enforcement actions by state securities regulators involved either variable or equity-index annuities. Variable annuities are complex investments that lend themselves to abuse in connection with suitability, liquidity, surrender charges, other fees, tax consequences, add-on features, and market risks. Many state securities regulators actively regulate the offer and sale of variable annuities. State securities regulators are highly effective in the enforcement arena, not only with respect to traditional investment products, but also with respect to variable annuities. 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.

NASAA encourages changes in state laws that would allow state insurance regulators to continue to oversee the 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 believes that the jurisdiction of state securities regulators over variable annuities does not impose excessive regulatory burdens. We appreciate NASD Chairman Mary Schapiro's pledge at our

Annual Conference that the NASD will not sign on to any suggestion that would limit or remove state jurisdiction in the variable annuity area.

Equity-Index Annuities

Sales of equity-indexed annuities have increased dramatically over the past decade. As sales of these products have risen, so too have the number of complaints received by state securities regulators about sales practice violations of agents selling equity-index annuities (EIAs). Although EIAs may be legitimate investment vehicles for some people, NASAA is concerned that these products are unsuitable for many investors and that they are often associated with deceptive marketing tactics. Particularly troubling is the sale of EIAs to senior citizens, who are being aggressively targeted through investment seminars nationwide. NASAA believes that it is time to remove the legal uncertainty surrounding EIAs and that it is appropriate to classify these investment products as securities. NASAA also seeks to ensure that investors are able to receive complete and accurate information regarding all material aspects of these products prior to purchase and that they are afforded fair protections under the law when they are harmed by inappropriate sales practices or fraud. Moreover, it is NASAA's belief that sellers of equity-indexed annuities should be required to strictly adhere to suitability guidelines as is the case with the sale of variable annuities.

Short Sales

NASAA members have an active interest in eliminating abusive naked short-selling and its detrimental impact on investors and small businesses, the entrepreneurial engines that drive the state's and our nation's economy. Naked short selling refers to a stock transaction in which the seller agrees to sell shares of stock that he or she neither owns nor has borrowed in time to make delivery to the buyer within the standard three-day settlement period, potentially resulting in a "fail to deliver" securities to the buyer. When done in large volumes, this sales tactic can be used to manipulate a stock's share value while allowing the seller to profit. The SEC adopted Regulation SHO in 2004 to update short-sale regulation and, in part, to address problems associated with abusive naked short selling transactions. Through Regulation SHO, the SEC requires short sellers to locate the securities they will be borrowing before they proceed with the short sales. Industry compliance with Regulation SHO began in January 2005.

While NASAA commends the SEC for its efforts to address short-selling abuses through Regulation SHO, we continue to urge the Commission to take all necessary steps to eliminate abusive short selling, and the corrosive practices that surround it. Fair, orderly, and efficient markets require the confidence of participants. They must share a certainty regarding the commitment of policy makers and the dedication of regulators to provide a marketplace free of fraud and manipulation, to ensure the dissemination of accurate information regarding market activities, equality of opportunity for all investors – large and small, and to protecting those investors. We stand ready to work with the Commission, the SROs, and the securities industry to prevent the types of abuses that are being seen with short selling and delivery failures. With the assistance of all these groups, we can increase market integrity, shareholder protection, and the capital-raising process.

BrokerCheck

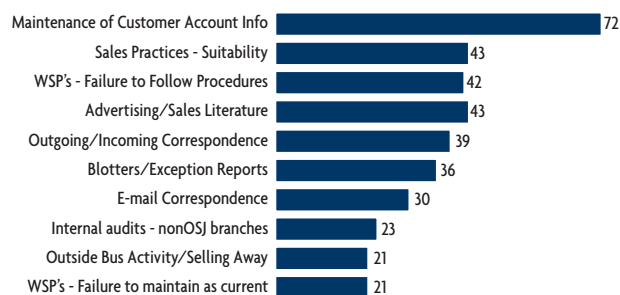
NASAA believes it is imperative that information about broker-dealers and investment advisers is readily accessible to the investing public, industry, and regulators.

In July 2006, NASAA filed a comment letter with the SEC opposing the NASD's plans for its public disclosure program known as "BrokerCheck." NASAA argued that the NASD proposal represented a reversal in course by offering less, not more, disclosure. For example, under the proposed changes, historic complaint information that exists within the Central Registration Depository will never be released to the public through BrokerCheck. NASAA also pointed out that the proposal will lead to investor confusion and uneven levels of disclosure for financial services professionals. NASAA understands that balancing competing interests is difficult. But with NASAA, the SEC, and the NASD raising to new levels the alarm over abusive tactics by those in the financial services industry aimed at the senior community, NASD's decision to rollback the amount of disclosure seemed ill advised. Despite NASAA's objections, the SEC approved the BrokerCheck proposal.

Broker-Dealer Compliance Issues

The Section's Broker-Dealer Operations Project Group developed a series of best practices in 2006 to help broker-dealers develop compliance practices and procedures that will minimize the potential for regulatory violations. The best practices were developed after a nationwide series of

TOP 10 DEFICIENCIES



examinations of broker-dealers state securities examiners in 28 NASAA jurisdictions in the United States revealed a significant number of problem areas.

Overall, the 228 examinations of broker dealers found 654 deficiencies in five compliance areas. The greatest number of deficiencies identified in the examinations involved maintenance of customer account information, sales practices (suitability) and failure to follow procedures. The recommended best practices are designed to promote the better understanding of compliance challenges among regulators, broker-dealers and their representatives. NASAA prepared this information to assist broker-dealers develop compliance programs to reduce the potential for regulatory violations and, in turn, build investor confidence in their activities.

Exams

In 2006, the Section's Exams Advisory Project Group met with industry representatives to draft and review new questions for addition to NASAA exams. The group wrote approximately 350 new questions, of which two-thirds were approved for addition to the exam banks in January 2007. In addition a separate meeting was held for 18 experts from industry and the states to review 2,500 exam questions for correctness under current law and for statistical validity.

Continuing Education

The Securities Industry Regulatory Council on Continuing Education represents an excellent example of state, federal, and industry cooperation. Created in 1995, the Council is comprised of representatives of the securities industry, self-regulatory organizations, the SEC, and NASAA. Our joint efforts have resulted in a national continuing education program that is accepted by all regulatory agencies.

In 2006, the Council introduced netCEP, a web-based application that brings increased efficiency and ease to continuing education and general training. This program includes actual scenarios that were formerly in the industry Continuing Education Regulatory Element Programs. The system provides on-demand, web-based delivery of training content for both individuals and firms.

Broker-Dealer and Joint Regulatory Training

The Section's 2006 Broker-Dealer Training Seminar attracted 110 NASAA participants. The seminar focused on sales practices, supervision and examination procedures, and variable annuity and municipal securities issues. In addition, NASAA participated in the Joint Regulatory Training that was conducted by representatives of NASAA, the SEC, NASD, NYSE, and CBOE, and covered issues for senior examiners.



NASAA Ombudsman and Florida Commissioner of the Office of Financial Regulation Don Saxon also oversees NASAA's Continuing Education Project Group.

CORPORATION FINANCE



Texas Securities Commissioner and NASAA Corporation Finance Section 2005-2006 Chair Denise Voigt Crawford and 2006-2007 Chair Michael Stevenson, Washington's Director of Securities.

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. NASAA's 2005-2006 Corporation Finance Section was chaired by Texas Securities Commissioner Denise Voigt Crawford; Jack Herstein, Assistant Director, Nebraska Bureau of Securities, served as Vice-Chair. Section members included: Randall Schumann, Wisconsin; Michael Stevenson, Washington; Corrina M. Wong, Hawaii; and Canadian Liaison Susan Powell, of Newfoundland and Labrador.

The Section oversaw the activities of seven Project Groups, including: Coordinated Interpretations (Chair: Rick Fleming, Kansas); Corporation Finance Policy (Chair: Timothy Cox, Maryland); Direct Participation Programs Policy (Chair: Peter Cassidy, Massachusetts); Franchise and Business Opportunities (Chair: Dale Cantone, Maryland); Shareholder Rights (Chair: Robert Lam, Pennsylvania); Small Business/Limited Offerings (Chair: Michael Stevenson, Washington); and Small Business Capital Formation (Chair: Randall Schumann, Wisconsin).

2006 ACTIVITIES

Accredited Investor Definition

NASAA believes that raising the individual investor standard to be an accredited investor would provide greater

protection for investors and would aid state regulators in enforcement activities by ensuring that those individuals who are taking a greater risk are in fact accredited. In order to ensure that those representing themselves as "accredited investors" do in fact meet the definition, NASAA suggests implementing, either by rule or by statute, a requirement that industry participants be required to independently verify a potential investor's representation that he or she meets the financial guidelines.

Recently, the Securities and Exchange Commission proposed two rules that would require individuals investing in hedge funds and other private funds that claim an exemption under 1940 Investment Company Act Section 3(c)(1) to have a minimum of \$2.5 million in certain types of investments at the time of their investment in the fund. Such investments would not include, among other items, the value of the individual's residence. This test would be in addition to the current requirement that the investor must have either \$1 million in net worth or a certain level of income--\$200,000 individually or \$300,000 with a spouse. The accredited investor standard should be revised in all its applications, rather than limited to investments in certain private funds.

Finders

A significant issue facing NASAA members is the growing use of unregistered securities brokers by small businesses and start-up companies to raise investment capital. These unregistered securities brokers are commonly referred to as "finders." In April 2006, the Advisory Committee on Smaller Public Companies issued its final report to the Securities and Exchange Commission with a recommendation that the SEC spearhead a streamlined registration process for private-placement broker-dealers. The report noted that "virtually all" of the services provided by private placement broker-dealers in support of capital formation activities amount to unregistered broker-dealer activity. NASAA in 2006 created a Board-level Finders Committee to review and study various regulatory approaches to this issue. The states of Michigan, Minnesota, and Texas have each adopted regulatory provisions, which provide for a limited registration system for finders and/or private placement broker-dealers. NASAA's Small Business/Limited Offerings Project Group also is exploring recent finders-related developments.

Commodity Pool Guidelines

In September 2006, the NASAA membership adopted revisions to the NASAA Commodity Pool Guidelines. The revisions, which were circulated for both member and public comment, were designed to modernize the guidelines, bring them into better conformity with current commodity pool practice, and permit the Commodity Pool Guidelines to be included in the coordinated review system for Direct Participation Programs.

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 2006, NASAA took steps toward strengthening the suitability standards for investors in Direct Participation Programs (DPPs). In October, 2006, NASAA's Direct Participation Program Policy Group held a public hearing in New Mexico to receive comments on proposals to revise the definition of investor "net worth" to exclude retirement assets, and include a percentage limitation on the amount of a DPP program that may be sold to an investor. The DPP suitability guidelines require a specific net worth amount, calculated exclusive of home, home furnishings and automobiles. NASAA proposed increasing the 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. These standards have not been updated for many years and many states have increased their suitability standards upon their own initiative. Increasing the suitability provisions is expected to reduce the number of different state standards. The Project Group also proposed limiting the amount of retirement proceeds at risk in the DPP programs. The exclusion of retirement assets from the computation of Net Worth will help ensure that investors in DPP programs will have resources to absorb any losses and face any liquidity needs.

Shareholder Rights

NASAA generally supports initiatives to bolster corporate governance standards as a positive step toward protecting investors and helping maintain their confidence in capital markets. NASAA's Shareholder's Rights Project Group focused much of its attention in 2006 on potential conflicts of interest created by interlocking board memberships by

CEOs; exploring the advisability to adopting elements of the Sarbanes-Oxley Act into state law; executive compensation issues; and the possible use of the Edgar system for state-based disclosures.

Small Business Issues



*Nebraska Assistant Director of Securities
Jack Herstein also serves as Corporation
Finance Section Vice Chair.*

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 2006 focused on exploring the development of an Entrepreneur Education Program Regarding Capital Formation for use by NASAA member jurisdictions.

Training

The Corporation Finance Section conducted two training seminars in 2006. The Franchise Training Seminar brought together 33 NASAA participants. Seventy-eight NASAA participants attended the annual Corporation Finance Training Seminar, where Randall Schumann, Legal Counsel for the Securities Division of the Wisconsin Department of Financial Institutions, was presented with a Distinguished Service Award for his contributions in the area of corporation finance.

ENFORCEMENT



North Carolina Deputy Securities Administrator David Massey chairs NASAA's 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.

NASAA's 2005-2006 Enforcement Section was chaired by North Carolina Deputy Securities Administrator David Massey. Chris Biggs, Kansas Securities Commissioner, served as Vice Chair. Section members included: Mark Connolly, New Hampshire; Richard Gerber, Pennsylvania; and Michael Colleran, Maine. Glenda Campbell, Alberta, served as the Section's Canadian Liaison.

The Section oversaw the activities of seven Project Groups, including: Attorney/Investigator Training (Chair: Peter Jamison, Delaware); Enforcement Technology (Chair: Colin McCann, Ontario); Enforcement Trends (Chair: Michael Byrne, Pennsylvania); Litigation Forum (Chair: Chris Biggs, Kansas); Special Project Development & Coordination (Chair: Zachary Ortenzio, Pennsylvania); Viaticals and Life Settlements (Chair: Jim Openshaw, California); and Enforcement Zones (Chair: Katharine Weiskittel, Maryland).

2006 ACTIVITIES

Enforcement Statistics

NASAA completed its biannual enforcement survey of state securities regulators in 2006. The survey showed significant increases in the number of enforcement actions, money ordered returned to investors, and years of incarceration for securities law violations during the most recent reporting period. "These statistics reflect the ongoing vigilance of state securities regulators to protect Main Street investors from fraud," said Joseph P. Borg, NASAA President and Director of the Alabama Securities Commission. NASAA reported a 23 percent increase in enforcement actions (including administrative, civil and criminal) during the 2004-2005 reporting period. More than one-quarter (26 percent) of all enforcement actions involved the financial exploitation of seniors and 34 percent of all successfully concluded enforcement actions involved either variable or equity-index annuities. Money ordered returned to investors (including restitution, rescission, and disgorgement) increased 38 percent to \$911 million and years of incarceration as a result of securities law convictions rose 30 percent to a cumulative 935 years. Monetary fines and penalties ordered during the 2004/2005 reporting period totaled \$61 million.

STATE SECURITIES REGULATORS ENFORCEMENT STATISTICS

(2004/2005 reporting period)

ENFORCEMENT ACTIONS	\$3,635
(Includes administration, civil, and criminal)	
MONETARY FINES & PENALTIES ORDERED	\$61 million
(Includes civil and criminal)	
MONEY ORDERED TO BE RETURNED TO INVESTORS	\$911 million
(Includes restitution, rescission, and disgorgement)	
YEARS OF INCARCERATION SENTENCED	935.26 years

Enforcement Trends

Throughout 2006, NASAA took proactive steps to alert the public to emerging trends in investment fraud. The Enforcement Section's Enforcement Trends Project Group, together with the NASAA Corporate Office, developed and publicized the "Unlucky 13" List of Investor Traps to watch for in 2006. The list of the 13 most common ways investors are likely to be trapped, received widespread media attention throughout the year. The 2006 list cautioned investors about affinity fraud, churning, equity indexed certificates of deposit, oil and gas fraud, personal information scams, prime bank schemes, pump and dump schemes, recovery rooms, publicly advertised registered high-interest promissory notes, sale and leaseback contracts, self-directed pension plans, unsuitable recommendations, and variable annuities. NASAA identified personal information scams, oil and gas investment fraud, and prime bank schemes as the greatest potential threats to investors in 2006.

Regulation D 506 Offerings

For some time, 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. The scope of covered securities in Section 18(b) of the 1933 Act has expanded since the National Securities Markets Improvement Act of 1996 (NSMIA) was enacted, even though the definition has technically remained the same. More issuers are using Rule 506 and the listing standards on some of the exchanges are deteriorating, so more securities that fall within the definition of "covered security" are being offered to the public with little or no scrutiny. Moreover, NSMIA has preempted the states from denying sales of Regulation D offerings in which the promoter or broker-dealers have a criminal or disciplinary history. Rule 506 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. NASAA believes the time has come to reexamine whether federal and state regulatory oversight of Regulation D offerings should be reinstated.

Enforcement Technology

NASAA members have long recognized that the Internet plays an ever expanding role in how investment research

and transactions are conducted throughout North America. To help protect investors from Internet-based fraud, NASAA's Enforcement Technology Project Group continued its collaborative work with the National White Collar Crime Center (NW3C) to develop a CD-ROM tutorial to educate investigators on innovative techniques and procedures for investigating Internet fraud. The Project Group also is developing a network of experts on computer forensics and Internet investigations to assist state agencies that may not have staff members with this expertise, but who need these skills for ongoing investigations.

Litigation Forum

NASAA's Litigation Forum Project Group successfully coordinated NASAA's second "hands-on" trial advocacy school in 2006. The training was held at the National Institute for Trial Advocacy in Louisville, Colorado, and attracted nearly 80 "students" from the NASAA membership. The training offered advanced litigation techniques to assist NASAA members to successfully prosecute perpetrators of investment fraud.

Enforcement Outreach & Training

NASAA continued to actively reach out to other regulators at both the state and federal levels in 2006 on issues of common interest in the enforcement arena. For example, NASAA successfully joined forces



Kansas Securities Commissioner Chris Biggs chairs NASAA's Litigation Forum Project Group.

with the National Association of Insurance Commissioners to conduct the third joint training program to benefit state insurance and state securities regulators seeking to work together more effectively to solve the persistent problem of securities fraud by insurance agents. NASAA's annual Winter Enforcement Conference attracted more than 221 NASAA participants for a two-day session on emerging trends in fraudulent activities. During the conference, Richard Barry, Chief of Enforcement for the New Jersey Bureau of Securities, was presented with the annual NASAA Enforcement Award. The Section's Attorney Investigator Training, attended by 177 NASAA participants, offered a two-day seminar covering the fundamentals of securities enforcement.

INVESTMENT ADVISER



District of Columbia Securities Bureau Director Theodore Miles (foreground) served as 2005-2006 chair of NASAA's Investment Adviser Section.

OVERVIEW

NASAA's Investment Adviser Section works proactively to assist NASAA members to protect investors by making the regulation of small investment advisers more manageable. Through careful licensing and on-site examinations, NASAA members protect investors from malfeasance ranging from overreaching sales practices to outright fraud. NASAA members believe it is critical that information about investment advisers be readily accessible to the investing public, industry, and regulators. NASAA members have made much progress in streamlining the regulatory process for investment advisers. Recognizing that good compliance programs have costs associated with them, especially for small firms that make up the majority of the industry, NASAA members remain committed to keeping these costs as low as possible while continuing to protect the interests of investors.

NASAA's 2005-2006 Investment Adviser Section was chaired by Theodore A. Miles, Director of the District of Columbia Securities Bureau. Colleen Keefe, Kentucky Director of Securities, served as Vice Chair. Section members included: Linda Cena, Michigan; Ron Thomas, Virginia; and Richard White, Florida. Sharon Kelly, of the Canadian Securities Administrators, served as the Section's Canadian Liaison.

The Section oversaw the activities of four Project Groups, including: Operations (Chair: Michael Huggs, Mississippi);

Regulatory Policy and Review (Chair: Kenneth Hojnacki, Wisconsin); Training (Chair: Richard White, Florida), and Zones (Chair: Colleen Keefe, Kentucky).

The Section also works closely with the CRD/IARD Steering Committee, chaired by Maryland Securities Commissioner Melanie Senter Lubin.

2006 ACTIVITIES

Investment Adviser Regulation

Through NASAA, state and provincial securities regulators consistently seek to provide regulation and model rules that offer strong investor protection without unduly burdening the financial services industry. In 2006, NASAA completed a comprehensive updating of its investment adviser model rules with a view toward harmonizing them with the 2002 Uniform Securities Act. As part of this effort, model rules regarding investment adviser recordkeeping requirements, custody requirements, bonding requirements and minimum financial requirements, among others, were updated and posted to the NASAA website.

Hedge Funds

NASAA believes that the ongoing expansion of the hedge fund industry's scope and its increasing flow of assets call for additional regulatory oversight and monitoring of hedge fund advisers and their affiliates. NASAA supports efforts to regulate hedge fund advisers in a manner that will provide greater transparency to investors while not overburdening the hedge fund industry. NASAA believes that requiring the registration of hedge fund advisers will ultimately result in the establishment of operational controls and other safeguards that will serve to protect investors.

Moreover, as increasing numbers of pension funds and other ERISA plans are investing substantial amounts into these investment vehicles, NASAA members want to ensure that public pension plan monies are not subject to undue risk through hedge fund investments. ERISA rules make hedge funds and their managers "trustees" pursuant to ERISA if more than 25 percent of the fund's assets are pension assets. The Pension Protection Act of 2006 removed public pension funds from the 25 percent calculation and state securities regulators believe this is an issue that should be closely monitored. NASAA highlighted this concern in an April

2006 NASAA Listens Forum on hedge funds moderated by North Dakota Securities Commissioner Karen Tyler. The forum brought together a diverse panel of experts and audience members for a wide-ranging 90-minute panel discussion in New York.

IARD Fee Waiver and Reduction

In 2006, NASAA and the SEC announced a waiver for the next two years of the annual system fees paid by investment adviser firms to maintain the Investment Adviser Registration Depository (IARD) system. The SEC and NASAA also announced a waiver of initial set-up fees for new advisers filing on the IARD. Separately, NASAA announced that for the next two years it is reducing by one-third the system fees paid by investment adviser representatives. The IARD system provides important information for all investors and provides streamlined registration procedures for investment advisers and their representatives. NASAA is pleased that the system's success has allowed the granting of a waiver of the investment adviser firm's annual and initial fees and a reduction in the annual and initial fees investment adviser representatives pay to use this valuable resource. The IARD system is an Internet-based national database sponsored by NASAA and the SEC and operated by NASD in its role as a vendor. IARD provides a single nationwide database for the collection and dissemination of information about individuals and firms in the investment advisory field; and offers investment advisers and representatives a single source for filing state and federal registration and notice filings. The

system contains the employment and disciplinary histories of more than 24,000 investment adviser firms and nearly 220,000 individual investment adviser representatives. IARD system fees are used for user and system support and for enhancements to the system.



Maryland Securities Commissioner Melanie Lubin also oversees NASAA's CRD/IARD Steering Committee.

Form ADV

The CRD/IARD Steering Committee and the CRD/IARD Forms and Process Project Group continued their work in 2006 on enhancements to both the CRD and

IARD systems. In furtherance of that goal, NASAA expects the deployment of technology in 2007 that will facilitate the filing by investment advisers, on a voluntary basis, of the ADV Part II through the IARD. As part of that overall project, NASAA will be developing a template for firms to use in preparing their ADV Part II for filing. That template, when completed, will be available on the NASAA website.



Mississippi Senior Examiner and NASAA Investment Adviser Operations Project Group Chair Michael Huggs addresses the NASAA membership.

Examinations and Training

The Section focused considerable attention in 2006 on training staff members from NASAA jurisdictions on the use of new modules for examinations of investment advisers. The Section's Investment Adviser Operations Project Group revised the format of the investment adviser examination modules to serve as a template for broker-dealer modules. The Project Group also assisted the NASAA membership by making the modules available online. The Section also continued to prepare resources to help NASAA Members inform investment advisers within their jurisdictions on what they need to know to comply with state or provincial laws and to train staff members from a number of jurisdictions on the use of new modules for examinations of investment advisers. The Investment Adviser Training Group held the annual Investment Adviser Training Workshop, attracting 128 NASAA participants.

INVESTOR EDUCATION



Tennessee Assistant Commissioner for Securities and NASAA Investor Education Section Chair Daphne Smith addresses the NASAA Annual Conference.

OVERVIEW

The securities regulators that form the NASAA membership are firmly committed to promoting and supporting financial literacy, and are dedicated to delivering financial education. NASAA members have a strong record of protecting investors through financial education. Most state and provincial securities regulators have established investor education programs within their agencies.

The Investor Education Section 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.

NASAA's 2005-2006 Investor Education Section was chaired by Tennessee Assistant Commissioner for Securities Daphne Smith. Montana Deputy Securities Commissioner Karen Powell served as Vice Chair. Section members included: Wayne Strumpfer, California; Karen Terhune, Ohio; and Diane Young-Spitzer, Massachusetts. Anthony Wong, of British Columbia, served as Canadian Liaison.

The Section oversaw the activities of five Project Groups, including: Affinity and Ethnic-Based Outreach (Chair: Tonya Curry, Georgia); Coordination (Chair: Karen Terhune, Ohio); Online Resources Awareness (Chair: Bill Wilkerson, Mississippi) Senior Outreach (Chair: Christina Kotsalos, Pennsylvania); and Youth Outreach (Chair: Justin Southern, West Virginia).

2006 ACTIVITIES

Financial Literacy

NASAA members are dedicated to improving financial literacy for our constituents of all ages, recognizing that financial education has a direct impact on the economic health of families, communities, states, provinces and nations. NASAA's Investor Education Section develops and supports financial literacy and education programs to be delivered at the state and provincial level. As part of this effort, NASAA also actively seeks opportunities to join forces with other members of the financial education community. NASAA believes it is essential to pool our resources and share our expertise on these joint ventures. In 2006, for example, NASAA collaborated with the Securities Industry Association to produce a Spanish version of an education tool titled "Understanding your Brokerage Account Statement" and with the Coalition on Investor Education – a broad group of consumer organizations, state securities regulators, and investment services providers – to develop and distribute a free brochure designed to guide investors through the process of choosing an investment services provider. The brochure, "Cutting Through the Confusion," was produced jointly by NASAA, the Consumer Federation of America, Investment Adviser Association, Financial Planning Association, and CFA Institute.

Affinity and Ethnic-based Outreach

NASAA Members recognize the diversity in their communities and endeavor to develop materials and programs accessible to all of our residents, and in languages from Spanish to Cantonese. There is much work being done to ensure that those of our citizens most in need can find the help they need to make the critical first steps toward financial literacy. In 2006, the Section's Affinity and Ethnic-based Outreach Project Group devoted much of its time toward developing new online tools to assist NASAA members in their efforts to reach out to various communities. NASAA also supports the efforts of its members to develop specific investor awareness programs devoted to military personnel. NASAA and the Office of the Deputy Under Secretary of Defense (Military Community and Family Policy) have entered into a Memorandum of Understanding (MOU) to establish an investor education partnership that allows major military installations throughout the Department

of Defense (DOD) to use the programs and materials of NASAA as part of the DOD campaign to improve the financial literacy of Service members and their families.

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 2006 National Council on Aging/American Society on Aging Joint Conference. Project Group members educated attendees during the conference through an exhibit booth and participation in the workshop "Preying on the Elderly: A Session on Financial Abuse." The Project Group will build on this experience and have an expanded role at the 2007 conference. The Project Group also stepped up its outreach efforts by meeting with representatives of the National Center on Elder Abuse to discuss partnership opportunities and actively promoting the Investment Fraud Bingo Game. During 2006 several states, including Texas, Pennsylvania, Hawaii, North Carolina, Tennessee, Indiana, and Florida used this fun and innovative game to deliver important investor protection messages to seniors in their jurisdictions. The Project Group also finalized plans to participate in the 2007 National Senior Olympics, as it did in 2005.

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 2006, NASAA's Online Resources Awareness Project Group focused its attention on enhancing the Investing Online Resource Center (IORC). The website (www.investingonline.org) was launched in 1999 and is the only independent, non-commercial resource dedicated solely to serving individual consumers who



SEC Chairman Christopher Cox and NASAA IE Section Chair Daphne Smith discuss the importance of investor education as NASAA Executive Director Russ Iuculano looks on.

invest online or are considering doing so. The group also explored the development of a new online tool to help both NASAA members and the public find and use investor education materials prepared by NASAA and the membership.

Youth Outreach

Reaching out to young citizens is an important component of the ongoing financial education effort undertaken by NASAA members. NASAA's Investor Education Section's Youth Outreach Project Group continues to develop programs to improve the level of youth financial literacy in our jurisdictions. In 2006, the group focused its efforts on developing an innovative program to offer students and educators an opportunity to investigate financial scams and learn more about the role of state securities regulators.

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 2006, the Project Group compiled a list of investor education contacts within NASAA member jurisdictions, as well as a comprehensive directory of dedicated investor education funding within NASAA member jurisdictions. The Project Group also developed an online directory of investor education presentations that NASAA members can customize and use within their own jurisdictions. The group also continued efforts to develop a "Securities 101" tool kit to help NASAA members increase awareness of securities products and scams within the law enforcement community.

Training

The Section's 2006 Investor Education Training Seminar attracted 97 NASAA participants for a two-day session. Now in its fifth year, the training seminar featured interactive panel discussions and presentations of resources available on practical skills in developing a successful Investor Education program. Highlights also included a media training session to assist NASAA members develop and deliver effective investor education messages. During the training, Christina Kotsalos, Investor Education Coordinator for the Pennsylvania Securities Commission, was presented with a Distinguished Service Award for her contributions to the field of investor education.

NASAA LISTS

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BOARD COMMITTEES

SECTIONS & PROJECT GROUPS

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(since March 2006)

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Maine
Ombudsman
(from September 2005 to March 2006)

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 Alan Ford (KS)
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 Don Saxon (FL) [BD Section Liaison]
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James Nelson, II (MS), Vice Chair
Kelvin Blake (MD)
Larry Burton (TN)
Pamela Epting (FL)
Don Saxon (FL)
Matthew Neubert (AZ) [BD Section Liaison]
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David Weaver (TX)

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750 First Street, N.E., Suite 1140
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202.737.0900 fax 202.783.3571

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