ARM
2016 Annual Educational Conference

NASAA Panel: State Issues
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Panel

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Today’s Agenda

- NASAA Policy Priorities:
  - -Senior Initiatives.
  - -Broker-Dealer Section Initiatives.
- Expungement update.
- Update on CRD, state processes and trends.
- Update on state legislation and rules.
- State enforcement efforts.

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NASAA Policy Priorities

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Senior Initiatives

- NASAA Model Act to Protect Vulnerable Adults (adopted Jan. 2016).
- Advocacy at federal level.
- Best practices:
  - -Training on handling the elderly.
  - -Detection.
  - -Prevention.

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Broker-Dealer Section Initiatives

- Broker Dealer Coordinated Examinations:
  - Designed to find out what policies and procedures firms have in place related to senior investors.
  - May include requests related to multiple areas of a firm's business, including sales, marketing, communications, and training.

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Broker-Dealer Section Initiatives

- Broker Dealer Fee Disclosure Working Group:
  - Industry/Regulator Working Group formed to try to increase the accessibility, understandability, and comparability of miscellaneous fees.
  - On September 28, 2015, the Working Group released its report;
  - Report includes a model fee disclosure template as well as access guidelines.
  - Ideally, the fee schedule should be available on the firm's website (without requiring a log-on or password).

UPDATE ON CRD, STATE PROCESSES AND TRENDS

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CRD Update

- Fingerprint functionality enhancements will be made in CRD in Q2, 2016.

- For states with a statutory requirement to collect fingerprints with a registration, CRD functionality will permit the state to retain a form filing in a "Deficient for Fingerprints" status until such time as a Clear FBI result is posted in CRD.

- The functionality will be applicable with an Initial, Amendment, or Dual filing.

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CRD Update

- If FBI results clear, representative will auto approve in jurisdictions that allow auto approval.

- If FBI results contain RAPP, the individual will be set to Pending and sent to the manual approval queue for further review.

- Fingerprint functionality will require system setting changes by states. Preliminarily, at least six (6) states have indicated that they have this authority pursuant to their statutes and regulations. At this time impact to state business processes is unknown.

Forms Update

- NASAA CRD/IARD Steering & Forms and Process Committees are drafting possible U4/U5 amendments for future adoption.
- Ongoing collaboration with FINRA.
- Recommendations for changes are being evaluated by the regulatory and industry communities.

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Update on State Processes and Trends

- Florida registration staff continues to observe scenarios where an IAR has conducted business requiring registration from a "place of business" within the jurisdiction without the appropriate registration.

- Common scenarios include:
  -Relocation to a new state.
  -A second residential address in a state other than the home state.

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UPDATE ON STATE LEGISLATION & RULES

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Update: Legislation & Rules*

South Carolina – *adopted* regulations effective June 26, 2015 that:

- Permit IARs to register with multiple advisers.
- Require IARs who have not been registered for 2+ years to re-take Series 65, or 7 and 66.
- Clarify that South Carolina IAs with custody must follow Rule 206(4)-2 of Advisers Act.

Update: Legislation & Rules

Minnesota – *proposing* legislation to address financial exploitation of senior citizens and vulnerable adults.

Utah – *proposing* legislation to:

- Clarify conduct considered to be in violation of Utah law.
- Add language to apply factors currently allowed when determining fines and penalties.

Update: Legislation & Rules

Ohio – *adopted* legislation that:

- Permits a BD firm to conduct business without a license, as long as the transactions are solely with institutional investors, the firm has no place of business in Ohio and the firm is licensed with the SEC (Effective 9-2015).

- Amended its definition of institutional investor, to the model Uniform Act definition (2002 version), raising the threshold to be an "institutional investor" (Effective 9-2015).

Update: Legislation & Rules

New Hampshire – *adopted*

- An exemption from broker-dealer registration for "a bona fide preexisting customer whose principal place of residence is not in this state and the person is registered as a broker-dealer under the Securities Exchange Act of 1934 or not required to registered under the Securities Exchange Act of 1934 and is registered under the securities act of the state in which the customer maintains a principal place of residence."

Update: Legislation & Rules

Wyoming – *adopted* legislation to create a state registration requirement for investment advisers.

Florida – *proposed* legislation to create an exemption for merger and acquisition brokers. Proposed exemption closely follows the NASAA Model Rule Exempting Certain Merger & Acquisition Brokers ("M&A Brokers") from Registration.

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Update: Legislation & Rules

Louisiana – Legislation *passed* in 2014 to require:

- IARs of federally-covered advisers to meet state examination/certification requirements by 8/31/16 in order to maintain registration.
- At present, Louisiana will accept the following testing and certifications to meet this requirement (also, see next slide) –

  -Evidence of passage of a post-2000 Series 65.

  -Evidence of passage of a Series 66 in combination with a Series 7.

  -Evidence of an allowable professional designation.

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Update: Legislation & Rules

Louisiana –

- Intends to propose a rule (with an anticipated effective date prior to 8/31/2016) which would allow the addition of the following testing criteria to meet the registration requirement
  - Evidence of passage of a pre-2000 Series 65 if the representative also has passed the Series 7.

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Update: Legislation & Rules

Florida – *reorganized* its administrative rules related to registration. The rules are now organized by license type.

- The changes provide requirements for the application/notice filing process, maintenance of the registration/notice filing, and the termination of the registration/notice filing for each type of filing processed by the Division of Securities.

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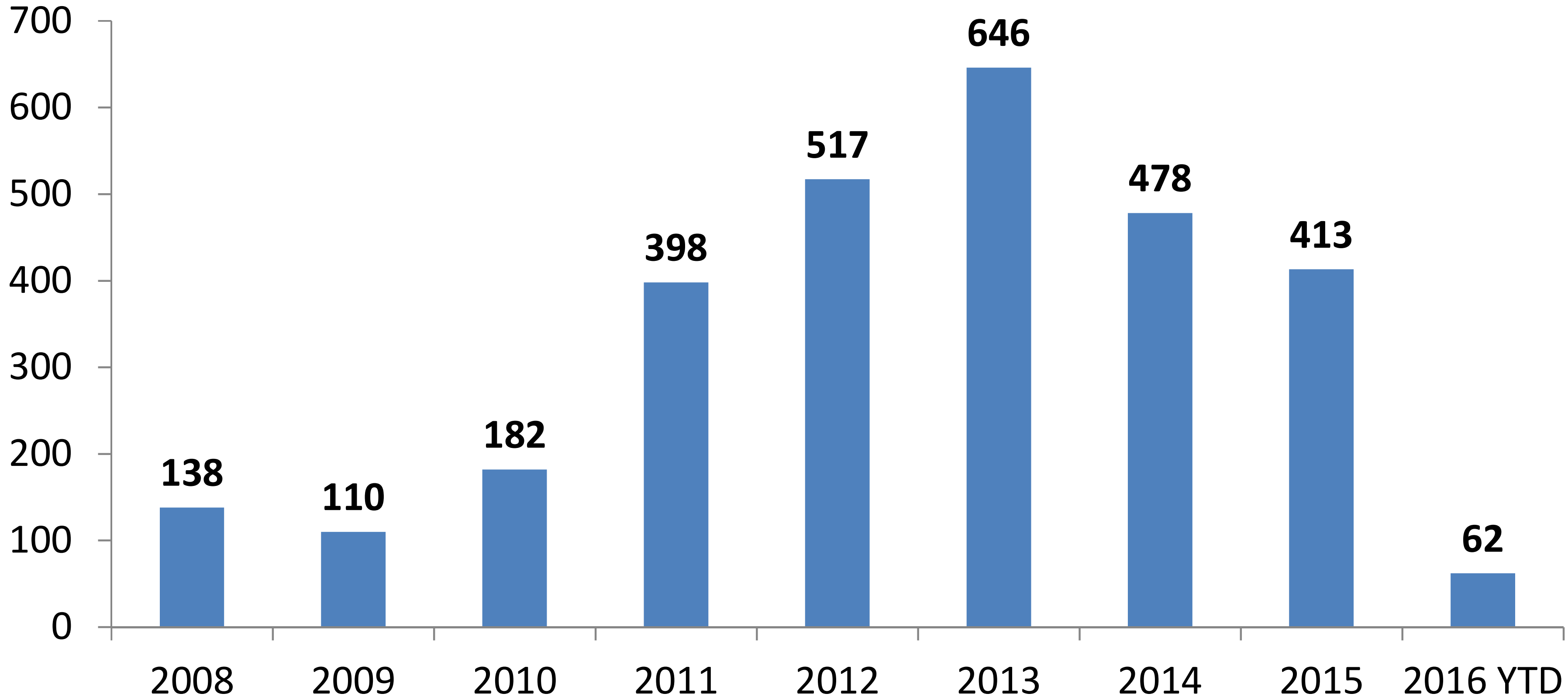
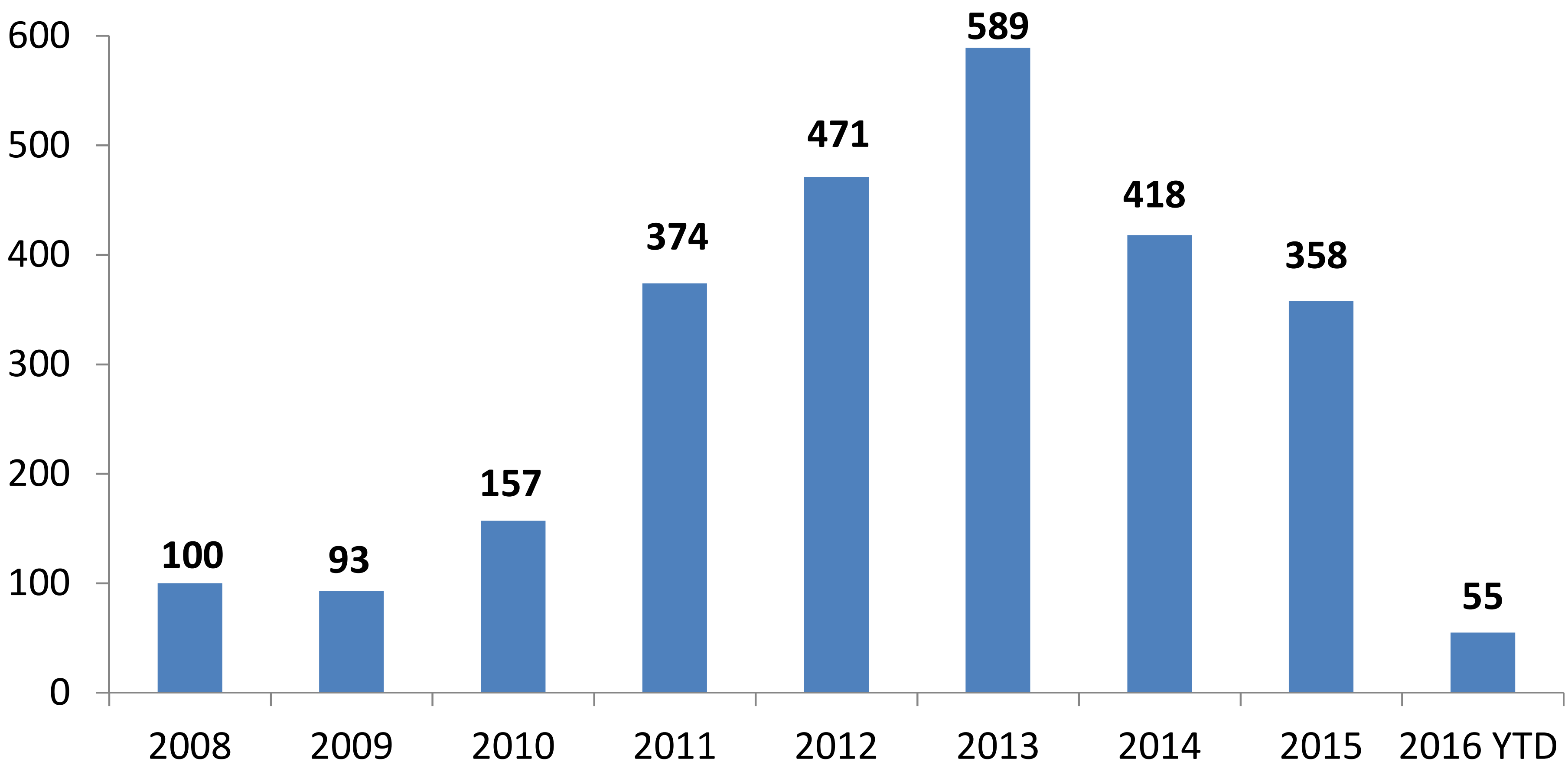
Expungement Update

Combined Rule 2080 Waiver Requests & Litigations



Rule 2080 Waiver Requests



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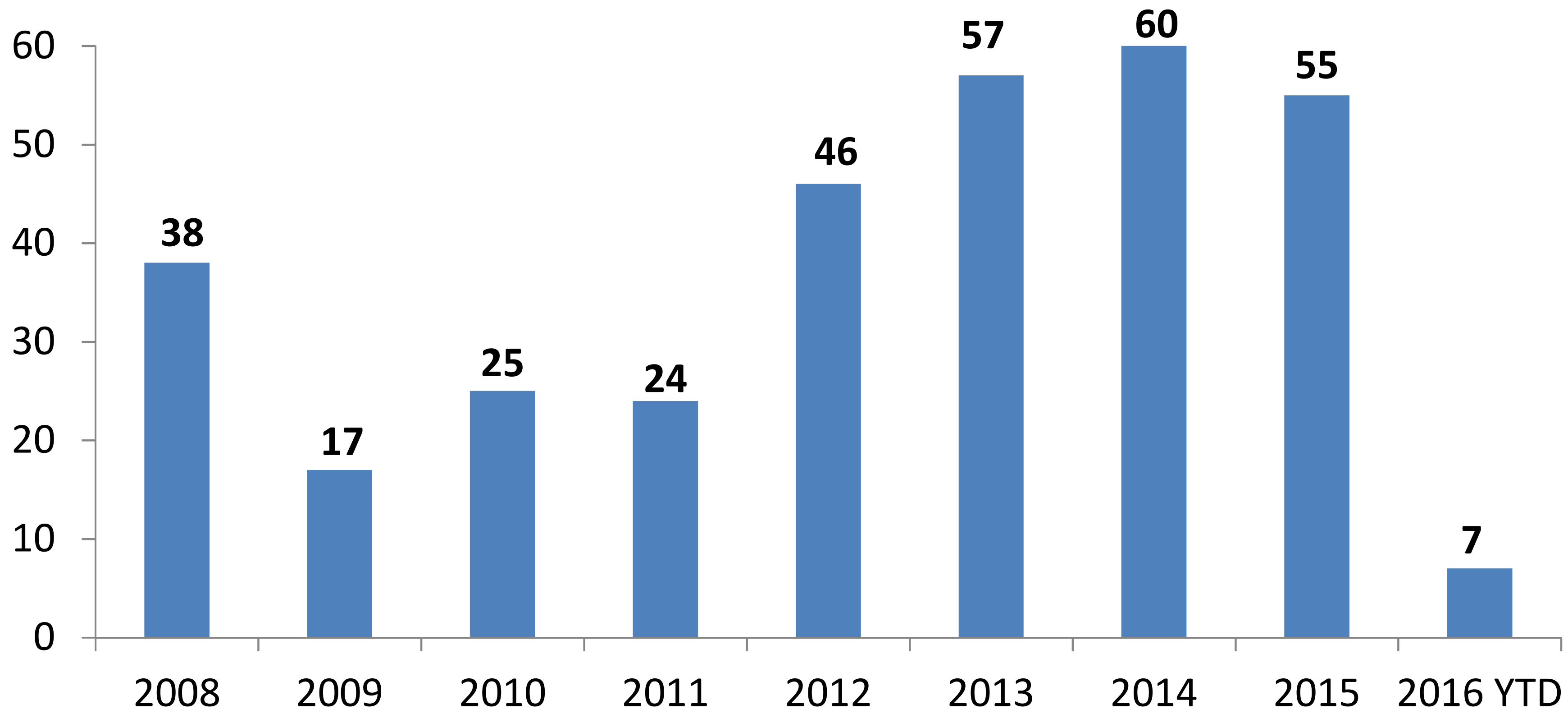
Rule 2080-Related Litigation (No Prior Waiver Request)



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Expungement Policy: State of Play

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NASAA Series 63, 65, & 66 Examinations

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Test Specifications & Scoring

- Year-long review including feedback from >1000 industry participants and regulators.
- Test specifications updated for Series 63, 65 and 66 exams but update includes no dramatic shifts in content.
- Scoring change: Series 66 will require 73/100.
- No scoring changes to Series 63 and 65.
- NASAA will implement these new specifications and scoring changes on July 1, 2016.

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Exam Changes: NASAA Series 63

- Two new topic areas added:
  - Advertising and correspondence, including social media.
  - Cybersecurity and data protection.

- The number of items on the Series 63 remains unchanged, as does the passing score.

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Exam Changes: NASAA Series 65

- New specifications emphasize the characteristics of different types of investments, including pooled investment vehicles.
- The section on alternative investments was also updated.
- New areas were added to highlight the importance of advertising and correspondence, including social media; cybersecurity and data protection; custody obligations; and antimoney laundering.
- The number of items on the Series 65 remains unchanged, as does the passing score.

Exam Changes: NASAA Series 66

- Certain content areas on the Series 66 were renamed, combined, and/or reorganized to increase clarity.
- In other content areas, additional examples were added to clarify certain topics, e.g. valuation methods of fixed income securities and equity securities.
- Content regarding alternative investments: expanded to include additional investment types, given changing market conditions; new areas regarding other assets were included.
- The number of items remains unchanged.
- Passing score: modified to better reflect the weighting of the examination and the number of questions on each topic.
- New passing score on the Series 66 is 73 correct out of 100.

Exam Changes

Please review the NASAA website for more information

http://www.nasaa.org/industry-resources/exams/exam-change-announcement/

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STATE ENFORCEMENT TRENDS

NASAA Investigations and Enforcement Actions

NASAA's 2015 Enforcement Report (re: 2014 activities) reflected that:

- Regulators received 11,340 complaints concerning investors.
- Complaints resulted in 4,853 investigations.
- Investigations resulted in 2,042 enforcement actions comprised of:
  - 1,634 administrative actions.
  - 271 criminal actions.
  - 137 civil actions.

NASAA Investigations and Enforcement Actions

NASAA's 2015 Enforcement Report (re: 2014 activities) reflected that:

- Over $405 million in restitution was ordered returned to investors.
- States levied $174 million in fines and penalties.
- NASAA member activities resulted in 1,629 years in prison sentences and 503 years of probation.
- NASAA member actions resulted in 3,585 licenses being withdrawn, denied, revoked, suspended or conditioned.

Enforcement Concerns

Questions?