

*Standing  
Strong  
for  
Investors*



**2010 - 2011 Report**

North American Securities Administrators Association

# About NASAA

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State and provincial securities regulators have been protecting investors from fraud and abusive sales practices since the passage of the first “blue sky” law in Kansas in 1911 and since 1912 in Canada when Manitoba became the first province to approve securities legislation. In the United States, state securities regulation preceded federal securities laws, including the creation of the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA), formerly the NASD.

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

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

NASAA represents and serves its members through advocacy, education, subject-matter expertise, communication and coordination. NASAA values investor protection, education, respect for diverse views, building consensus, being proactive, and active participation by all members of the organization. NASAA has a long history of advocating for federal and state legislation, rule making and coordinated enforcement actions that advance the goal of protecting investors.

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# Leadership Letter

NASAA's leadership firmly believes in the strength, determination and integrity of this association. These qualities come from our shared belief that our public service allows us to contribute to the common good.

More so than any other kind of regulator, our work focuses on protecting "Mom and Pop" investors. Our primary goal has been and remains to advocate and act for the protection of investors, especially those who lack the expertise, experience and resources to protect their own interests.

History shows us that the best tips and information tend to flow from the ground up. So as the regulators closest to investors, state and provincial securities regulators serve a vital role as the best resource for investors to turn to for help when they have concerns about what appears to be an investment "opportunity."

NASAA acts as an international network made up of local crime fighters working to protect investors. Our job is straightforward. It is to make sure investors get a fair deal based on full and accurate information.

Our strong history of responsiveness, aggressiveness and cooperation in the pursuit of investor protection is what defines us. During the coming year, NASAA will be recognizing our history of 100 years of investor protection. Our centennial celebration culminates at our 2011 annual conference in Kansas, the birthplace of securities regulation.

As regulators, we are convinced that every investor deserves protection and an even break, and that the welfare of investors must not be sacrificed in the process of capital formation.

We have also marked another significant milestone in our history. President Obama's signature on the Dodd-Frank Wall Street Reform and Consumer Protection Act demonstrates the recognition by federal lawmakers of the

strong investor protection role our members provide.

The Dodd-Frank Act creates an unprecedented opportunity for NASAA and federal regulators such as the SEC to achieve our common goal of "putting investors first."

Whether our goals will be reached will be determined in the coming months as the implementation phase of Dodd-Frank takes place. NASAA intends to seize every opportunity to provide input to the SEC throughout this process. We have 100 years of experience and expertise to contribute to a cohesive regulatory system, and we welcome the opportunity to work with other regulators to achieve our common investor protection goals.

To that end, we have formed a working group chaired by Missouri Securities Commissioner Matt Kitzi to ensure that we are an active participant in both the study and the rulemaking stages of the implementation process. NASAA's leadership wants to see that investors and state securities regulators emerge from the implementation process in a strong position. We want the rules developed during the implementation stage of Dodd-Frank to strengthen investor confidence and actually help investors.

This legislation clearly is going to restructure relationships among regulators. We have an opportunity to strengthen these relationships and to engage in productive discussions about how our shared responsibilities can better protect investors. We believe the state-federal partnership is the critical element in an effective investor protection regulatory structure. Collaboration between regulators is vitally important because we must leverage our collective resources to protect investors.

NASAA will take all necessary steps to preserve and strengthen the role of state and provincial securities regulators in an integrated structure of investment regulation. We must also recognize the interests of the

investment industry as we focus on investor protection. This is critical to supporting and facilitating investment capital formation throughout North America. NASAA members are sensitive to the cost and complexity of regulatory compliance, and where possible, we will continue our efforts toward reducing both.

We want to work cooperatively with all interested parties to identify areas of common interest and opportunities for improvement. We may not agree on every issue, but we have to preserve effective lines of communication so that we can discuss our differences in a respectful and productive manner.

Our NASAA community has faced some demanding times together in recent years, and we certainly will face more challenges ahead. Throughout these interesting times, state and provincial securities regulators have all continued to do what we do best, and that is serving as the investor's first line of defense. Our commitment to investor protection is what has earned the recognition by Congress of the capabilities of NASAA members. The NASAA leadership pledges to make sure that our long service on the frontlines of investor protection continues to be recognized and respected as we enter this new era of financial services regulation together.



David Massey  
North Carolina Deputy  
Securities Commissioner  
NASAA President  
2010-2011

Jack Herstein  
Nebraska Bureau of Securities  
NASAA President  
2011-2012

Denise Voigt Crawford  
Texas Securities Commissioner  
NASAA President  
2009-2010





# A Century of Investor Protection

The goal of securities regulators is to advocate and act for the protection of investors. This has been true since the passage of the nation's first blue sky law in Kansas in 1911.

Although Massachusetts required the registration of railroad securities as early as 1852, and other states passed laws relating to securities in the late 1800s and early 1900s, the real push for securities regulation came from the heartland.

A century ago, Kansas Banking Commissioner Joseph Dolley had seen his fill of "wildcat" stock speculators peddling shares of sham companies to unsuspecting investors in his state. Many of the companies that attracted Dolley's wrath targeted local farmers and widows with wild investment schemes promoting nonexistent mines and Central American plantations.

In April 1910, Commissioner Dolley sent a notice to newspapers throughout Kansas announcing the creation of a new agency, the Investment Information Bureau, to, in his words, "protect the people of Kansas from fakers with worthless stock to sell" by providing information about the financial standing of companies offering to sell stock to investors in Kansas.

After publication of the notice, inquiries flowed into the bureau about questionable companies. Commissioner Dolley provided information to the public about these companies, but found that he had no legal authority to require a statement of any kind from the sellers and no power to stop the sale of stock.

In his 1910 report to the state legislature, Commissioner

Dolley called attention to the wildcat stock speculators running rampant in Kansas and urged legislators to act:

*"Upon systematic investigation I found that the people of Kansas were being swindled through the purchase of immense quantities of stocks and bonds of unreliable and unproductive concerns and corporations. ...*

*"I find there is an army of agents representing these concerns stationed all over the state. They especially prey upon the widows and the beneficiaries of insurance policies, calling upon the beneficiary shortly after the funeral and offering to sell them stock which they state will pay enormous profits, in many cases promising to pay as much as 40 or 50 percent per annum. Ninety-eight percent of the money so invested by the Kansas investor is absolutely lost.*

*"... I ... recommend that the legislature pass a law compelling all parties who offer stocks and bonds for sale in Kansas to register with some department of state, setting forth in detail their securities, and requiring them to furnish any other information that said department may demand of them, and to submit to a full examination of their affairs if said department should deem it advisable."*

On March 10, 1911, the Kansas Blue Sky Law went into effect, taking aim at what a judge called "speculative schemes which have no more basis than so many feet of blue sky."

Within six months of the law's passage, Commissioner Dolley had received about 550 applications to sell stocks on bonds in the state. He approved less than one in ten.

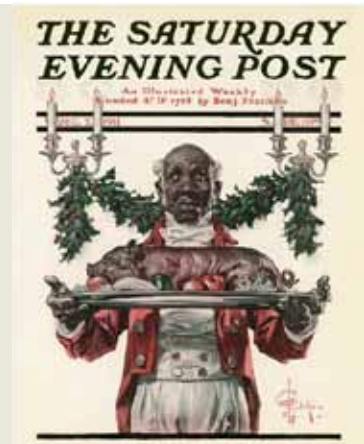


Kansas Banking Commissioner Joseph Dolley



Photo by L.W. Halbe,  
Courtesy of the Kansas Historical Society

Kansas Exchange State Bank, 1908



Saturday Evening Post, 12/21/1911



100 Years

After reviewing a stack of rejected applications, a Saturday Evening Post reporter described what he saw in a December 2, 1911 article, "How Kansas Drove Out a Set of Thieves." The reporter wrote: "They show, more graphically than anything else I know of, with what sublime assurance ingenious gentlemen go out after the money of suckers in exchange for stock engravings ... Apparently some of the people engaged in it think they have an inalienable constitutional right to sell worthless 'securities'; and they resent any interference with their operations as an act of tyranny and oppression."

In the 18 months following the enactment of the Kansas law, more than 1,500 investment companies applied for permission to do business in the state. Of these, 75 percent "were mining, oil, gas and stock selling schemes of a fraudulent nature in which there could be no possible return for the money invested. Of the remaining 25 percent, about half were companies with highly speculative propositions and not at all bona fide investment opportunities," according to noted political scientist Clarence Addison Dykstra.

"A recent statement of the commissioner declares that this law has already saved to the people of Kansas more money than it took to run the entire state government since the law was passed," Dykstra wrote in the May 1913 edition of The American Political Science Review.

The new law helped preserve capital for legitimate investment opportunities. Writing in the October 13, 1911 issue of the New York Times, Missouri insurance executive Walter A. La Bar noted that "This law means from four to eight million dollars of additional capital [is] available for bona fide investments. It also gives a legitimate company a better opportunity to secure funds, as heretofore investors found it difficult to separate 'the sheep

from the goats'."

The media generated by the law's impact in Kansas soon caught the attention of other state and foreign legislators. Dykstra reports that "more than half of the American legislatures are considering bills regulating blue sky sales" within two years of the passage of the Kansas Blue Sky Law. Blue sky proposals had been or were being considered by, among others, California, Connecticut, Arizona, Wisconsin, Vermont, West Virginia, Illinois, Missouri, Michigan, Minnesota, Nebraska, North Dakota, Ohio, Indiana, Maine, Massachusetts, New York, Washington, Arkansas, and Oklahoma. In addition, Manitoba and New South Wales, Australia, had enacted the Kansas law "with practically no variation," Dykstra wrote.

The new state laws were vigorously challenged on constitutional grounds. The first United States Supreme Court test of the state laws under the federal constitution came in 1917 when the Court upheld the securities laws of Ohio, South Dakota and Michigan in three related cases. After the Supreme Court held that state blue sky laws were constitutional in 1917, the blue sky concept gained greater momentum and by 1933 all but one state had adopted a securities law.

Federal lawmakers also took note of the state blue sky laws. Congress passed the Securities Act of 1933 to regulate interstate sales of securities at the federal level, and the Securities Exchange Act of 1934 to regulate sales of securities in the secondary market and to create the U.S. Securities and Exchange Commission to enforce federal securities laws.

One hundred years after the enactment of the first state securities law, NASAA members continue to hold true to Commissioner Dolley's mission to protect citizens from "fakers with worthless stock to sell."



New York Stock Exchange



The Wall Street Journal, 9/30/2008



NASAA President David Massey

## Implementing Reform

*“President Obama’s signature on the Dodd-Frank Wall Street Reform and Consumer Protection Act demonstrates the recognition by federal lawmakers of the strong investor protection role our members provide. This legislation clearly is going to restructure relationships among regulators. We have an opportunity to strengthen these relationships and to engage in productive discussions about how our shared responsibilities can better protect investors.”*

- David Massey, NASAA President  
and North Carolina Deputy  
Securities Administrator



### Dodd-Frank Overview

On Wednesday, July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which demonstrates the recognition by federal lawmakers of the strong investor protection role of state securities regulators. The Dodd-Frank Act addresses a number of critical issues for investors. However, the legislation grants the Securities and Exchange Commission broad discretion to shape many key elements of reform through dozens of studies and more than 200 rulemakings.

Removed from the glare of the heated legislative debate over Dodd-Frank, teams from the SEC worked through the fall of 2010 and winter of 2011 to prepare a number of congressionally mandated studies as a prelude to rulemaking.

Among the first studies launched by the SEC is an examination of the obligations of brokers, dealers and investment advisers, including an exploration of the regulatory resources and effectiveness of those overseeing broker-dealers and investment

advisers who provide services to investors.

As part of the study process, SEC commissioners and staff have been meeting with a diverse group of stakeholders, including delegations from NASAA.

Throughout the implementation phase of Dodd-Frank, NASAA will continue to work toward achieving the best possible outcome for investors, particularly with regard to the following priority issues: investment adviser regulation, fiduciary duty, Regulation D private offerings and systemic risk.

### NASAA Priority Issues

- Investment Adviser Regulation
- Fiduciary Duty
- Regulation D Private Offerings
- Systemic Risk



## Investment Adviser Regulation

States are the sole regulator of smaller investment adviser firms and investment adviser representatives. In recognition of the states' exemplary record of accomplishment in this area, Dodd-Frank expanded the states' authority over the investment adviser population.

Under the law, approximately 4,000 investment advisers with assets under management of less than \$100 million will switch from federal to state regulation by July 21, 2011. This new distribution of firms will significantly enhance the effectiveness of investment adviser regulation at both the state and federal level.

In addition to expanding the states' oversight of investment advisers, Dodd-Frank made substantial changes to the regulation of advisers to hedge funds and other private funds. For example, Title IV of Dodd-Frank, known as the "Private Fund Investment Advisers Registration Act of 2010," eliminated the "private adviser exemption" previously found in Section 203(b)(3) of the Investment Advisers Act, which allowed investment advisers to private funds to operate without federal regulatory oversight.

### States Have a Proven Record

The states have a proven track record in the area of investment adviser regulation. NASAA is confident that state securities regulators will continue to marshal the examination and enforcement resources necessary to effectively regulate investment advisers subject to their oversight.

Comprehensive compliance exams are at the core of state investment adviser regulation. While the methods used by the states range from standard annual questionnaires to formal court-petitioned inspections, at least 47 states monitor compliance through examinations or audits of their registered investment advisers. Virtually all states conduct investment adviser examinations on-site at the investment adviser's principal place of business on a "routine" or non-cause basis. Follow-up examinations are conducted on a frequent basis to reinforce strong compliance practices to prevent investor fraud and abuse.

States currently employ more than 400 experienced employees dedicated to the licensing and examination function, including field examiners, auditors, accountants and attorneys. State investment adviser examination totals have progressively increased each year for the past five years, resulting in a 20 percent increase in the total number performed through the third quarter of 2010 as compared to 2006.

## Regulation is a Governmental Function

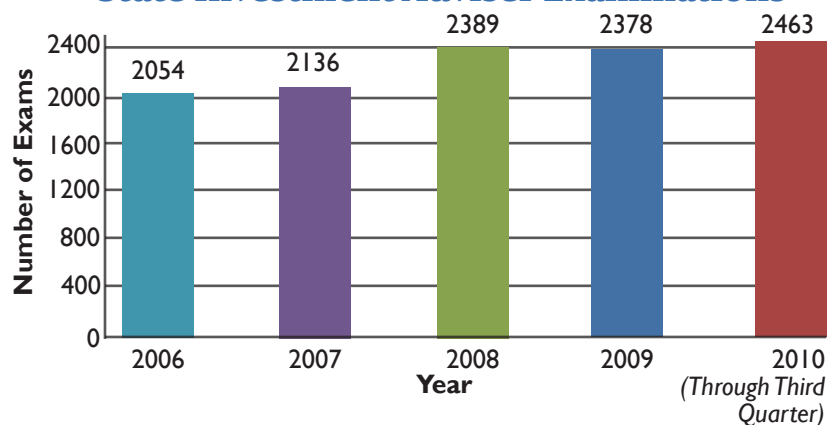
In January 2011, the SEC staff released its study on enhancing the examination of investment advisers. The study recommended that Congress consider three approaches to address "capacity constraints" concerning its investment adviser examination program: 1) impose "user fees" on SEC-registered investment advisers that could be retained by the SEC to fund the investment adviser examination program; 2) authorize one or more self-regulatory organizations (SROs) to examine, subject to SEC supervision, all SEC-registered investment advisers; or 3) authorize FINRA to examine dual registrants for compliance with the Advisers Act.

NASAA urges Congress to continue its commitment to investors by maintaining the strong system of governmental oversight of investment advisers and ensuring that the SEC has the resources it needs to operate an effective oversight program. Accordingly, NASAA prefers a legislative approach that allows investment adviser oversight to remain under governmental authority because this approach is in the best interest of protecting investors.

The oversight of investment advisers has always been an effective partnership between state and federal regulators, both of which are transparent and directly accountable to the investing public. This should not change.

NASAA shares the SEC staff's concerns about the disadvantages inherent in self-regulation. Our primary concerns with the creation of an SRO for the oversight of investment advisers are the lack of accountability, the lack of transparency and the conflicts of interest inherent to the SRO model of regulation.

## State Investment Adviser Examinations



## Fiduciary Duty

Dodd-Frank brought closure to many regulatory issues but failed to resolve the issue of whether broker-dealers should be subject to a fiduciary duty when providing retail investment advice.

Instead, the Act gave the SEC an unprecedented rulemaking opportunity to close a gap in regulation and protect investors from abuses fostered by current standards. Among the dozens of studies Dodd-Frank initiated was a six-month review of the differing standards of care owed to retail investors by investment advisers and broker-dealers when offering investment advice.

Financial professionals who provide investment advice ought to be held to the well-established fiduciary duty standard found in the Investment Advisers Act. When receiving investment advice, investors deserve and should be afforded the same level of protection and care no matter which type of financial professional they engage.

Earlier versions of financial reform legislation had extended the fiduciary duty to brokers when they offer advisory services, but this provision was scaled back in response to opposition from brokers and insurance agents. The opposition arguments focus on costs, but NASAA contends that any increase in compliance costs would be minimal and will be greatly outweighed by the direct benefits to investors.

In January 2011, the SEC staff released its study, which included a recommendation that both broker-dealers and investment advisers should be held to a uniform fiduciary standard in providing personalized investment advice about securities to retail customers that is no less stringent than the existing fiduciary standard of investment advisers under the Investment Advisers Act.

“Investors have a reasonable expectation that the advice that they are receiving is in their best interest,” the report said. “They should not have to parse through legal distinctions to determine whether the advice they receive was provided in accordance with their expectations.”

NASAA looks forward to assisting the SEC as it develops new rules to apply a fiduciary standard of care and loyalty to all who provide investment advice to ensure that this standard is as strong as the existing fiduciary duty of the Investment Advisers Act of 1940.

## Regulation D Private Offerings

In 1996, the National Securities Markets Improvement Act dramatically curtailed the authority of state securities regulators to oversee many aspects of the securities markets, including private offerings under Regulation D Rule 506. These offerings are also exempted from federal oversight, so they receive virtually no regulatory pre-screening.

As a result, these private offerings have become a favorite vehicle for unscrupulous promoters, who use the Rule 506 exemption to evade review and fly under the radar. Even promoters and brokers who have a criminal or disciplinary history have been able to continue to prey on investors under this exemption.

Dodd-Frank takes a necessary first step toward reducing risks for investors in private offerings by requiring the SEC to issue rulemaking disqualifying recidivist violators from taking advantage of the Rule 506 exemption. The SEC has until June 21, 2011 to issue this rule, and NASAA continues to urge the SEC to close all loopholes that allow securities law violators to peddle their scams without regulatory review.

Private offerings were originally intended only for institutional investors and sophisticated individuals who were presumed capable of assessing risks and making investment decisions without the benefit of regulatory review and registration. They have attracted smaller retail investors with the promise of greater returns than traditional stocks and bonds.

“There’s nowhere to go, so even very conservative investors are more amenable to the idea of taking greater risk because they feel like they can finally get a payoff,” Texas Securities Commissioner Denise Voigt Crawford told Bloomberg News in a November 19, 2010 article.

Furthermore, the SEC standard of net worth used to establish an investor as “accredited” to participate in private offerings has remained the same since 1982. Investors, particularly retirees and those with much of their net worth tied to their homes, have been sold risky private placements that they may not fully understand.

Dodd-Frank moves to correct this problem by excluding the value of individual investors’ homes in the calculation of their net worth. NASAA will continue to push for further adjustments to the accredited investor standard.

## Systemic Risk

Dodd-Frank created a new council of regulators, led by the Treasury Secretary, charged with identifying and addressing the systemic risks posed by large, complex companies, products and activities, and promoting market discipline.

The Financial Stability Oversight Council (FSOC) includes representatives of state securities, banking and insurance regulators as non-voting members.

NASAA has been a long and ardent supporter of including state regulators as members of the FSOC. State securities regulators are represented on the council by NASAA President and North Carolina Deputy Securities Administrator David Massey.

State securities regulators bring to the FSOC the insights of “first responders” who see trends developing at the state level that have the potential to impact the larger financial system.

NASAA members are often first to identify new investment frauds and to bring enforcement actions to halt and remedy a wide variety of market-wide investment-related violations.

To assist the FSOC meet its duties under Dodd-Frank, NASAA members are serving as a significant resource to both the council and the newly created Office of Financial Research by forwarding intelligence about developments or trends they are observing in the securities markets that might pose concerns about systemic risk and threats to the U.S. economic system.



*Texas Securities Commissioner Denise Voigt Crawford, then NASAA's president, testifies before the Financial Crisis Inquiry Commission on January 14, 2010. Crawford noted that actions by Congress and the courts to preempt the regulatory authority of state securities regulators contributed to the ongoing financial crisis.*

*“As the regulators closest to investors, state securities regulators provide an indispensable layer of protection for Main Street investors,” Crawford told the bipartisan panel charged with identifying the causes of the crisis. “Our presence did not contribute to the crisis; rather, the fact that our regulatory and enforcement roles had been eroded was a significant factor in the severity of the financial meltdown.”*

*Crawford urged the commission to consider how the aggressive investor protection role of state securities regulators may be expanded through the restoration of regulatory authority that was preempted by the National Securities Markets Improvement Act of 1996 (NSMIA).*

*“Deregulation is no longer the presumptive policy prescription; indeed today, the sense is that the current crisis was deepened by excessive deregulation,” Crawford said. “Similarly, the naiveté behind the view that markets are always self-correcting now seems apparent. But clearly, reliance by the investing public on federal securities regulators, self-regulatory organizations and ‘gatekeepers’ in the years preceding the crisis (and in its very midst) to detect and prevent even the most egregious of frauds and deceit was equally naïve.”*

# Investment Adviser Regulation

## Making the Switch

By signing the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, President Obama set in motion a change for many mid-sized investment adviser firms. Under the law, approximately 4,000 IAs with assets under management of less than \$100 million will switch from federal to state regulation by October 19, 2011.

State securities regulators began preparing early for the added responsibilities of registering, examining and regulating more advisers and their representatives. Working through NASAA, state securities regulators are developing effective ways to deploy resources through enhanced technology. NASAA also is working with the SEC in an effort to minimize any burdens associated with the switch.

NASAA appointed an internal IA Switch team in July 2010 to develop a comprehensive roadmap to handle the migration of investment advisers. Work is underway in several areas to help regulators and industry prepare for the switch.


Some firms have switched before when their assets rose above or fell below the previous threshold of \$25 million, so switching between federal and state regulation is nothing new. Most advisers should find the switch to be a smooth process. State registration also is nothing new to firms that operated before 1996 — when most RIAs were required to register with the SEC and in each state in which they did business.

Firms switching to state regulation for the first time can expect thorough inspections, generally on a more frequent basis, than they may have experienced before. Most advisers should find that thorough regulatory inspections and strong internal compliance benefit customer and firm alike.

NASAA members began holding seminars in the months leading up to the switch to help investment advisers within their jurisdictions prepare to change to state regulation.

### *Dodd-Frank Act's New Regulatory Requirements for Investment Advisers:*

#### *Putting the Pieces Together*



*NASAA members began giving presentations to investment adviser groups in 2010 to help them prepare for the switch to state regulation.*

NASAA has also partnered with media organizations and investment adviser groups on several webinars designed to explain new registration requirements, outline key filing deadlines and caveats, provide an overview of what to expect from a state examination, and direct investment advisers to additional information and support.

NASAA President and North Carolina Deputy Securities Administrator David Massey has pledged his commitment to enhance communication between NASAA members and the regulated community and to remain sensitive to the cost and complexity of regulatory compliance. “My door is open and I look forward to hearing from you in the year ahead to identify areas of common interest and opportunities for improvement,” Massey said.

*NASAA's online IA Switch Resource Center includes an FAQ, calendar of events and additional guidance to help advisers make the switch to state regulation. Advisers can use the resource center to submit questions about the switch. The resource center is available at [www.nasaa.org](http://www.nasaa.org).*



## IA Switch At a Glance

### SEC and State Authority

#### State authority over IAs with AUM of \$0 to \$25 million:

- No changes. (The SEC has proposed that IAs with AUM of less than \$100 million that would be required to register in 15 or more states be required to register with the SEC.)

#### State authority over IAs with AUM of \$25 million to \$100 million:

- Switch to state regulation if 1) state law where IA maintains its principal office and place of business requires the IA to register with the state securities authority and 2) if registered, the IA would be subject to examination.
- IAs required to register in 15 or more states can remain with SEC.

#### IAs to registered investment companies and IAs to business development companies under the Investment Company Act:

- Remain with the SEC.

### Proposed Switch Schedule

#### SEC Release IA No. 3110, Proposed New Rule 203A-5:

- Confirming SEC eligibility: Each IA registered with the SEC on July 21, 2011 will file an amendment to its ADV by August 20, 2011 to report AUM determined within 30 days of amendment filing.
- Terminating SEC registration: IAs no longer eligible for SEC registration must file ADV-W by October 19, 2011.

### Registration Schedule

#### Investment advisers now have two choices regarding the timing of their registration.

- Move forward with dual registration with the SEC and state securities regulator until July 21, 2011.  
*or*
- Submit documents for review to your state but request to remain in a pending status with an effective date of July 21, 2011. (Consult with the state regulator before pursuing this option.)

### New Form ADV Part 2

Investment advisers and regulators alike are preparing for the use of a new Form ADV Part 2, which became effective in October 2010.

The new Part 2 requires registered investment advisers to provide new and prospective clients with a brochure and brochure supplements written in plain English. Blank templates are available on the NASAA Form ADV webpage.

NASAA has recommended that states that have adopted the Form ADV for use in the investment adviser registration process and for disclosure purposes should begin using the new Part 2 after January 1, 2011.

All new investment advisers registering for the first time in any state or for initial registration in a new state should submit the new Part 2 through the IARD to the states in which registration is being sought.

Those already registered will need to incorporate the new Part 2 with their next filing of an amendment to Form ADV or their annual updating amendment to Form ADV, whichever occurs first. Each investment adviser with a fiscal year end of December 31, 2010, who hasn't already filed an updated Part 2, must file an annual updating amendment in IARD with the new Part 2 brochures no later than March 31, 2011.

The SEC has proposed allowing state-registered advisers or new advisers with \$30 million to \$100 million AUM to remain registered in the state in which the IA maintains its principal office and place of business. (See SEC Release No. IA 3110.)

The 2011 IARD Renewal Program Calendar is available online at: [www.iard.com/renewals.asp](http://www.iard.com/renewals.asp). There will be no changes in this process.

# New Resources for Investors

## Enhanced Online Tool Helps Investors Investigate Before They Invest

NASAA launched an enhancement to the Investment Adviser Public Disclosure (IAPD) website in June 2010 to allow investors to electronically access information about individuals who work for money management, financial planning and other investment advisory firms. This enhancement will provide information on investment adviser representatives – the individuals who work for these firms and provide investment advice to clients.

NASAA then-President and Texas Securities Commissioner Denise Voigt Crawford said the enhancement will allow investors to access information for more than 220,000 individual investment professionals, including background information such as customer complaints, criminal or regulatory disclosures, professional qualifications, and employment history. Previously, IAPD provided instant access only to registration documents filed by registered investment advisory firms.

The information provided on IAPD for both investment advisory firms and individuals comes from documents filed electronically with state securities administrators or the Securities and Exchange Commission. The registration documents provide information about each adviser's business, advisory services and fees and also disclose disciplinary problems an adviser or its employees may have had during the last 10 years.

Crawford hailed the enhancement as an important step in improving investor protection.

"Investors should be equipped with the important information that will be available through this website when they evaluate who they should hire to help them plan for retirement or pay for

a child's education," Crawford said. "State securities regulators responsible for protecting investors and providing investors with information about financial firms and professionals are an essential part of that mission. I want to commend the hard work of my colleagues for their efforts in making this enhancement a reality for investors."

## New Investor Education Programs Target Seniors, Women and Youth

**For Seniors.** NASAA, in partnership with physicians and adult protective services organizations, launched a new initiative in June 2010 to increase awareness among doctors and medical professionals of an under-recognized and underreported form of elder abuse: financial fraud.

More than 7.3 million older Americans – one out of every five citizens over the age of 65 – already have been victimized by a financial swindle, according to a new Investor Protection Trust (IPT) survey conducted by Infogroup/ORC.

"The success of a Texas pilot program to train medical professionals to identify and report the signs of elder financial abuse to the Texas State Securities Board encouraged NASAA to form partnerships to expand this education and awareness campaign nationwide," said NASAA then-President and Texas Securities Commissioner Denise Voigt Crawford.

State securities regulators have joined forces with IPT and the National Adult Protective Services Association (NAPSA), in cooperation with the American Academy of Family Physicians, the National Area Health Education Center Organization and the National Association of Geriatric Education Centers, to educate medical professionals and other caregivers about how

*Search IAPD at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). Investors can receive additional information on investment adviser firms and investment adviser representatives by contacting their state securities regulator. Contact information for every state securities regulator is available at [www.nasaa.org](http://www.nasaa.org).*

to identify seniors who may be vulnerable to financial abuse. Professionals who provide front-line elder care will learn how to refer at-risk seniors to the appropriate authorities, whether it is to report investment fraud to securities regulators, suspected abuse to adult protective services workers or symptoms of mild cognitive impairment to physicians.

“Investment fraud against seniors too often goes unreported, but by teaming up with clinicians and adult protective services workers to give voice to the silent victims, state securities regulators will have more information to investigate and prosecute those who financially exploit our nation’s seniors,” Crawford said.

Program resources include an educational brochure for senior patients and a Clinician’s Pocket Guide, which serves as a quick reference tool for medical practitioners outlining the red flags of investment fraud, tips for discussing financial capacity with senior patients and resources for reporting suspected abuse. More than 20 states are developing continuing medical education classes to provide further instruction for doctors in their communities.

**For Women.** NASAA’s Women in Transition program is a new investor education initiative designed to empower women investors to take control of their financial futures. Many women face particularly daunting money challenges during periods of financial transition — marriage, divorce, job loss, retirement, sending kids off to college, and



other changes to their own or their family’s financial circumstances. Through specifically tailored investor education resources, on-site presentations to women’s groups and a public awareness campaign, NASAA aims to help women invest with confidence and steer clear of investment fraud.

More women than ever before - 40 percent, according to Wi\$eUp - serve as their household’s primary breadwinner, and nearly all women will be financially responsible for

themselves or their families at some point. The Women in Transition on-site presentation encourages these women to evaluate their relationship with money and take the first step toward more proactively managing their investments. The presentation highlights the red flags of investment fraud, outlines how to investigate before investing and offers tips and tricks to face any financial transition with confidence. Women investors can request a Women in Transition presentation in their area by contacting their state securities regulator.

**For Youth.** NASAA created the Live “Stock” Adventure, a new youth investor education program that uses farm animals – including the shifty fox – to help middle school students learn about the risks and rewards of investing.



“This fun and interactive resource not only teaches students about the ups and downs of the stock market, but it also provides an innovative way to practice specific math skills such as calculating percentages and adding, subtracting and multiplying multi-digit numbers,” said Vickie Moseley, chair of the NASAA Investor Education Section’s Youth Outreach Project Group, which developed the Adventure.

With \$300 in virtual funds, students select a portfolio from a barnyard of low-, medium- and high-risk animal stocks, as well as the volatile “wild card” fox stock. Over the course of the Adventure, a series of chance events affect the value of the students’ portfolios, and they must compute their earnings and losses. At the end of the Adventure, students write a report discussing their experiences.

Middle school teachers can visit the NASAA website at [www.nasaa.org](http://www.nasaa.org) to download the free Adventure materials, including instructions, student ledger sheets, exchange tracking sheets, mini-posters for classroom display and a situation guide. The situation guide corresponds to a regular deck of 52 playing cards. Teachers draw a card, find the corresponding situation, and inform the students which stocks gain or lose as a result of that situation. For example, if a teacher draws a six of diamonds, students would learn that a new pizza place has increased demand for cheese, so the value of cow stocks goes up. A specialized deck of colorful Live “Stock” Adventure situation cards may be available upon request.

# Activities & Accomplishments

*The primary mission of NASAA is to represent and serve its members through **advocacy, education, subject-matter expertise, communication and coordination** as they protect investors from fraud and abuse. **2010** was a year of historic change for the financial services industry, and NASAA and its members worked collaboratively to advance our common goal of protecting investors.*

## Government Affairs

Following months of contentious debate, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law on July 21, 2010. NASAA and its members advocated strongly to include provisions in the Dodd-Frank Act that better protect investors and recognize the investor protection role served by state and provincial securities regulators.

The debate has since shifted from Congress to the regulatory agencies who are responsible for conducting dozens of studies and hundreds of rulemakings under the new reform law. NASAA and its members remain committed to ensuring that the Dodd-Frank Act's investor protection intent is fulfilled in the ongoing rulemaking and study process.

Throughout this historic year of legislative change, NASAA and its members made their voices heard through testimony, comment letters and joint outreach with other national organizations.

## Advocacy Efforts

NASAA's government affairs staff, with assistance from the NASAA legal department, supported the NASAA leadership during three testimonies before House and Senate committees and the Financial Crisis Inquiry Commission. The government affairs staff also produced 13 letters to Congress in 2010, including three joint letters with NASAA's partner organizations. They assisted the NASAA membership with letters to Congress, resulting in 153 letters from state securities regulators to members of the House of Representatives and 63 letters to U.S. senators throughout the reform law debate, as well as 56 letters to the House and Senate conferees during the conference committee on the



*Then-NASAA President and Texas Securities Commissioner Denise Voigt Crawford greets House Financial Services Committee Chairman and primary author of the financial reform bill Barney Frank (D-MA) at the presidential signing ceremony in Washington, D.C. on July 21, 2010. "President Obama has ushered in a new era of investor protection and financial market oversight. State securities regulators are eager to help fulfill this important mission on behalf of Main Street investors," Crawford said following the ceremony.*

## Dodd-Frank Act.

NASAA's thoughtful, investor-oriented contributions to the reform debate resulted in several key legislative victories for investors, and was rewarded with an invitation for NASAA's then-president, Texas Securities Commissioner Denise Voigt Crawford, to attend the bill-signing ceremony in Washington, DC.



## NASAA 2010 Testimonies

- ***The Federal Government's Role in Empowering Americans to Make Informed Financial Decisions***

Lynne Egan, Montana Deputy Securities Commissioner | Senate Committee on Homeland Security – Subcommittee on Oversight of Government Management | July 15, 2010

- ***Corporate Governance and Shareholder Empowerment***

Steven Irwin, Pennsylvania Securities Commissioner House Financial Services Committee – Subcommittee on Capital Markets | April 21, 2010

- ***Investigations into the Financial Crisis***

Denise Voigt Crawford, Texas Securities Commissioner | Financial Crisis Inquiry Commission Jan. 14, 2010

To read the full text of any NASAA testimony, visit the NASAA website at [www.nasaa.org](http://www.nasaa.org).

## Legal & Regulatory Affairs

As the legislative phase of the Dodd-Frank Act concluded, the focus shifted to the federal regulators charged with implementing the reform law through studies and rulemakings. The NASAA legal department has taken the lead in representing the views of NASAA and the membership through public comment on critical regulatory rule proposals.

NASAA has focused on reviewing and commenting on proposed legislation and conducting meetings with congressional staff to highlight NASAA priorities. In 2010, NASAA filed 14 comment letters with the SEC and FINRA on a wide range of issues, including extending the fiduciary duty to broker-dealers who provide advisory services and adopting changes to the uniform application for investment adviser registration (ADV Part 2).

### On Regulatory Reform

NASAA's legal staff served an active role in providing critical support to the association's Dodd-Frank Studies Working Group as it prepared comment letters and other relevant information to submit to the SEC as it completed congressionally mandated studies under sections 913 and 914 of the Dodd-Frank Act. Legal also participated in NASAA's discussions with the Government Accountability Office as it prepared its Dodd-Frank mandated study on financial planners.

NASAA's legal staff also provided legal assistance to the Financial Crisis Inquiry Commission, drafted a memorandum of understanding on state cooperation in the regulation of investment advisers, negotiated with Angel investor groups on Regulation D, Rule 506 provisions, and served as a resource to the SEC on Title VII of Dodd-Frank, Swaps and Derivatives.

### On Other Matters

Beyond Dodd-Frank, NASAA's legal staff devoted considerable attention to other key NASAA initiatives by helping to increase state regulatory uniformity through the Emerald Project, a survey and analysis of the states' broker-dealer registration requirements; launching IAPD Individual, an online tool allowing investors to electronically access information about individuals who work for investment advisory firms; continuing to assist in the development of NEMO, a new module for state examinations of investment advisers and broker-dealers, for rollout in Spring 2011; and assisting in the Electronic Form D Filing initiative.

# NASAA Overview

## NASAA 2010 Amicus Briefs

NASAA's legal team serves the membership by providing legal counsel and representing their positions as amicus curiae in significant cases brought by private plaintiffs.

- **State of North Dakota v. Hager**  
NASAA filed an amicus brief in support of the state of North Dakota regarding North Dakota's authority to license/register individuals who offer Reg D securities | July 2, 2010
- **Mathers Family Trust, et al. v Cagle, et al.**  
NASAA filed an amicus brief in the Colorado Court of Appeals arguing that choice of law provisions in securities agreements are void | June 21, 2010
- **Matrixx v. Siracusano**  
NASAA filed an amicus brief in the United States Supreme Court in support of an investor's right to state a claim under § 10(b) of the Securities Exchange Act and SEC Rule 10b-5 based on a company's nondisclosure of "adverse event" reports even though the reports are not alleged to be statistically significant | Nov. 12, 2010
- **Janus v. First Derivatives Traders**  
NASAA filed an amicus brief jointly with the AARP in the United States Supreme Court arguing that §10(b) liability exists for a mutual fund investment adviser that wrote and disseminated prospectuses falsely stating that the funds did not permit market timing, and to hold otherwise constitutes an unwarranted extension of the Stoneridge Doctrine Nov. 2, 2010

To read the full text of any NASAA amicus brief, visit the NASAA website at [www.nasaa.org](http://www.nasaa.org).

## Communications & Investor Education

NASAA's proactive media relations program capitalized on the heightened interest in financial services regulation throughout the Dodd-Frank debate to raise awareness of the valuable investor protection role served by NASAA members. Through 42 news releases, six media tours and two live news conferences in New York and Washington, NASAA's communications staff supported the NASAA leadership as they advocated for pro-investor legislative and regulatory proposals that preserved and enhanced the authority of state and provincial securities regulators to protect investors.

### Policy Promotion

The NASAA media team connected print, broadcast and online journalists with the state securities regulators whose frontline experience protecting investors enabled them to provide insightful analysis and commentary on congressional reform proposals and how they would affect investors. In 2010, NASAA then-President, Texas Securities Commissioner Denise Voigt Crawford met with editors and reporters from The Economist, The New York Times, The Wall Street Journal, USA Today, Forbes, Money, Redbook, AP, Dow Jones, CNBC, Reuters, Bloomberg News & TV, Fox Business News and Canada's Business News Network, among others. Since taking office as NASAA President in September 2010, North Carolina Deputy Securities Administrator David Massey has appeared on Fox Business News and traveled to New York to meet with reporters from The New York Times, The Wall Street Journal, the Financial Times and Bloomberg, among others.

The NASAA communications team further advanced NASAA's policy goals through an advertisement in Roll Call and expanded NASAA's web presence through the use of social media, including Facebook.

### Investor Education

In addition to promoting NASAA's policy positions in the media, the NASAA communications staff continued to emphasize the importance of investor education. The communications department supported the work of the Investor Education Section and its six project groups. In 2010, the project groups launched three new initiatives, including the Women in Transition program targeting women investors, which was unveiled at a media conference in New York in June 2010.

NASAA maintains ongoing relationships with national partners

in investor education, including the American Savings Education Council, the Jump\$tart Coalition for Personal Financial Literacy, U.S. Treasury's Financial Literacy Education Commission and the National Financial Education Network, among others.

## Conferences & Events

NASAA hosted two major conferences in 2010, bringing together regulators, industry representatives, policymakers, media and others.

### NASAA 2010 Policy Conference

State and provincial securities regulators convened in Washington, D.C., in April 2010 for NASAA's Policy Conference as debate in Congress intensified over the most significant changes in the regulatory structure of financial services in decades.

"The timing of this year's meeting could not be better as all eyes are focused on how Washington policymakers are



*Noted financial commentator Barry Ritholtz delivers the keynote address at NASAA's Spring Policy Conference in Washington, D.C., on April 13, 2010.*

responding to the ongoing financial crisis facing Main Street investors," said then-NASAA President and Texas Securities Commissioner Denise Voigt Crawford.

Barry Ritholtz, noted financial commentator and author of the acclaimed book, "Bailout Nation: How Greed and Easy Money Corrupted Wall Street and Shook the World Economy," delivered the keynote address. Ritholtz stressed that policymakers must take this opportunity to "prohibit banks and Wall Street from having their



*Utah Securities Division Director Keith Woodwell moderates a panel on systemic safety featuring Arthur E. Wilmarth, Jr., George Washington University law professor; Rick Hancox, Executive Director of the New Brunswick Securities Commission; and Gary Teran of First Western Advisors. The panel was a highlight of NASAA's 2010 Spring Policy Conference in Washington, D.C.*

way with the American public."

Mark Connolly, the 2010 spring conference chair and then-director of New Hampshire's Bureau of Securities Regulation, built on Ritholtz's analysis by offering conference attendees two panel discussions spotlighting the vital role of state securities regulators as Congress moved forward with financial services regulatory reform.

The first panel, "Reining in Risk on Wall Street" brought together experts from industry and academia to address how the inability of the private sector to provide systemic safety, coupled with weak federal oversight, demonstrates that deregulation is no longer a presumptive policy prescription to achieve liquidity, stability and reliability in a well-functioning financial system.

During the second discussion, "What Regulatory Reform Means to Main Street Investors," state securities regulators examined congressional reform packages and outlined what investor protections are still needed.

"Our program this year showcased the key areas where Congress can focus as it moves forward toward our shared goal of protecting our nation's investors and restoring their faith and confidence in financial regulators and markets," Connolly said.

# NASAA Overview

## NASAA 2010 Annual Conference

NASAA's 93rd annual conference, a three-day discussion of the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act, was held in Baltimore, Md.

The Sept. 26-28 event focused on the theme of "Charting a Course for the Future of Financial Regulation." The conference featured three panels, each designed to address the particular concerns of one of the three main groups affected by the Dodd-Frank Act: regulators, industry and investors.

The conference's first panel brought together securities regulatory experts to explore the regulatory initiatives that will ultimately reach investors and govern industry actions.

During the second panel, securities industry professionals examined how the business models of today will hold up against the regulation of tomorrow.

The conference's final panel brought together a mix of financial specialists and commentators for a look at successful strategies to help guide investors through the new market era.

Featured speakers included Rep. Elijah Cummings, (D-MD), a senior member of the U.S. House Oversight & Government Reform Committee and the House-Senate Conference Committee on financial regulation that produced the Dodd-Frank Act; Maryland Attorney General Douglas F. Gansler; Harvard University economist David Laibson; and distinguished congressional and presidential scholar Professor James Thurber, director of the Center for Congressional and Presidential Studies at American University School of Public Affairs.



*Rep. Elijah Cummings (D-MD) receives a plaque from Melanie Senter Lubin, Maryland Securities Commissioner and chair of NASAA's 2010 annual conference, thanking him for his support of the important investor protection role served by state securities regulators. Rep. Cummings delivered a stirring address at the NASAA conference in Baltimore, Md., on Sept. 27, where he urged state securities regulators to "continue your tremendous efforts to make the implementation of Dodd-Frank as significant as its passage."*



*Connecticut Director of Securities Ralph Lambiase (third from left) moderates a panel on the "Practical Consequences of Re-forming Your Business Model" at NASAA's 2010 annual conference in Baltimore, Md. Panelists, from left: Gary Klein, Executive Vice President and Deputy General Counsel of Regulation, LPL Financial Corporation; Kristina Staples, Chief Compliance Officer, JER Partners; Susan MacMichael John, Chair of NAPFA and President, Financial Focus, Inc.; and David Montague (not pictured), Associate General Counsel, Bank of America.*





North Carolina Deputy Securities Administrator David Massey delivers the presidential address at NASAA's 2010 annual conference in Baltimore, Md. Massey will serve a one-year term as NASAA president.

NASAA President David Massey devoted his presidential address to outlining his vision for the year ahead. He emphasized that he will build on NASAA's accomplishments during the legislative phase of the landmark Dodd-Frank Wall Street Reform and Consumer Protection Act to ensure that the reform bill's investor protection intent is reflected in the ongoing rulemaking process.

"Whether our goals will be reached will be determined in the coming months as the implementation phase of Dodd-Frank takes place," Massey said. "We have 100 years of experience and expertise to contribute to a cohesive regulatory system, and we welcome the opportunity to work with other regulators to achieve our common investor protection goals."

Specifically, Massey said NASAA members are working to ensure that all financial professionals who provide investment advice about securities be held to the fiduciary duty currently applicable to investment advisers under the Investment Advisers Act of 1940. NASAA members also are preparing to assume additional responsibility for investment adviser firms with up to \$100 million in assets under management.

Massey spotlighted the reallocation of responsibility for the oversight of investment advisers between the SEC and state securities regulators as a good example of how the new law recognizes the capabilities of state securities regulators.

## Training & Technology

Education and training are critical to promoting uniformity in state securities regulations and ensuring that state examiners, investigators and prosecutors are aware of and prepared to respond to emerging and current problem areas.

In 2010, NASAA's training and technology staff focused on utilizing online tools to put valuable educational and training materials right at the fingertips of all NASAA members, regardless of where they are located. By recording and distributing training presentations in a secure online environment, NASAA's training efforts reach a larger audience and reduce the financial burden of travel and accommodation at an in-person training event.

The current library of distance education resources includes the 2009 NASAA trainings in the areas of investor education, attorney/investigator, investment adviser and broker-dealer. The distance education site is available for registered members at <http://training.nasaa.org>.

NASAA instituted online registration for its on-site trainings and events to further reduce costs, increase convenience and improve eco-friendliness.



NASAA's distance education website is available for registered members at <http://training.nasaa.org>. NASAA launched the site in 2010 as a one-stop portal to a variety of training materials for state securities administrators and their staff. The site provides an alternative to in-person training sessions that require costly travel and accommodation.

# Section Overview

## Broker-Dealer Section

### Overview

The point-of-sale contact that broker-dealers have with investors makes the work of the Broker-Dealer Section critical in achieving NASAA's mission of investor protection. This Section focuses on issues involving broker-dealers and agents, such as qualification and licensing requirements, record keeping and compliance requirements, continuing education, and practices involving investors. The Section offers official comments on rule proposals; participates in discussions with industry, SROs, and federal regulators regarding trends and concerns in the brokerage industry; and provides guidance to states on broker-dealer issues. The Section oversees the activities of six Project Groups: Arbitration, Continuing Education, Exams Advisory, Investment Products and Services, Market and Regulatory Policy and Review, and Broker-Dealer Operations, and works closely with the CRD/IARD Steering Committee.

### Activities & Accomplishments

The Section focused attention this year on issues related to "finders," which is broadly defined to include private placement broker-dealers and also merger and acquisition advisers. The Section's Operations Project Group coordinated a review of examinations conducted by state securities regulators of broker-dealer operations and compiled a biannual report and recommended best practices. The Section's Arbitration Project Group continued to pursue reform in the arbitration arena and submitted a comment letter to the SEC regarding a rule filing by FINRA pertaining to the discovery guide used in FINRA arbitrations. The Investment Products and Services Project Group launched its efforts to monitor and educate NASAA members and investors about risk issues. The Market and Regulatory Policy and Review Project Group prepared six comment letters to FINRA and the SEC on issues such as proposed changes to suitability rules, dark pools and payments to unregistered persons. The Section's Continuing Education Project Group met with industry and regulatory agency members to write training scenarios for the regulatory content requirements for securities representatives and supervisors.

#### 2009-2010 Section Committee

Ralph Lambiase (CT), Chair  
Tanya Solov (IL), Vice Chair  
Preston DuFauchard (CA)  
Bryan Lantagne (MA)  
Chris Naylor (IN)  
Douglas Brown (MB)  
Joseph Brady (NASAA)  
Rex Staples (NASAA)

#### 2010-2011 Section Committee

Ralph Lambiase (CT), Chair  
Tanya Solov (IL), Vice-Chair  
John Cronin (VT)  
Bryan Lantagne (MA)  
Chris Naylor (IN)  
Douglas Brown (MB)  
Joseph Brady (NASAA)  
Rex Staples (NASAA)

#### 2009-2010 Project Group Chairs

John Cronin (VT)  
Arbitration  
Ralph Lambiase (CT)  
Continuing Education  
William Cahill (MA)  
Exams Advisory  
Peter Cassidy (MA)  
Investment Products/Services  
Carolyn Mendelson (PA)  
Market & Reg. Policy/Review  
William Reilly (FL)  
Operations

#### 2010-2011 Project Group Chairs

Leslie Van Buskirk (WI)  
Arbitration  
John Cronin (VT)  
Continuing Education  
William Cahill (MA)  
Exams Advisory  
Marc Minor (NJ)  
Investment Products/Services  
Carolyn Mendelson (PA)  
Market & Reg. Policy/Review  
William Reilly (FL)  
Operations

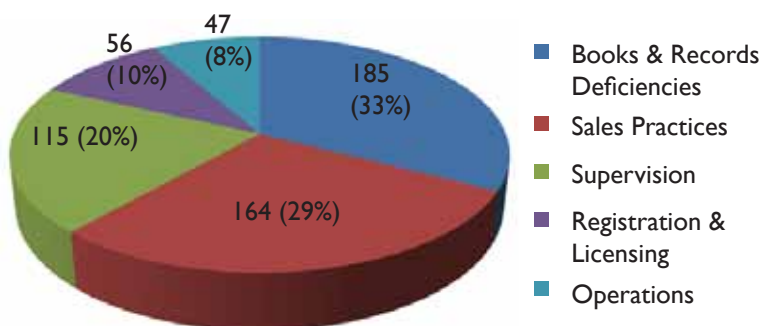
### B-D Exam Review

#### NASAA 2010 Broker-Dealer Coordinated Examination

- **290** examinations conducted between January 1, 2010 and June 30, 2010
- **567** deficiencies found in five compliance areas

### Frequency of B-D Deficiencies

#### NASAA 2010 Broker-Dealer Coordinated Examination



## Corporation Finance Section

### Overview

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

#### **2009-2010 Section Committee**

Jack Herstein (NE), Chair, *Sept. 2009 - April 2010*  
Heath Abshure (AR), Chair, *from April 2010*  
Randall Schumann (WI), Vice Chair  
Heath Abshure (AR)  
Peter Cassidy (MA)  
Mike Stevenson (WA)  
Susan Powell (NB)

#### **2009-2010 Project Group Chairs**

Rick Fleming (KS), Coordinated Interpretations  
Alisha Smith (NY), Corporate Accountability  
Patrick Morgan (MO), Corporation Finance Policy  
Mark Heuerman (OH), Direct Participation Programs Policy  
Dale Cantone (MD), Franchise & Business Opportunities  
David Weaver (TX), Small Business/Limited Offerings  
*(though May 2010)*  
Faith Anderson (WA), Small Business/Limited Offerings  
*(from July 2010)*

#### **2010-2011 Section Committee**

Heath Abshure (AR), Chair  
Randall Schumann (WI), Vice-Chair  
William Beatty (WA)  
Brett Bordelon (MN)  
Peter Cassidy (MA)  
Susan Powell (NB)  
Tina Stavrou (NASAA)

#### **2010-2011 Project Group Chairs**

Marlene Sparkman (TX), Coordinated Interpretations  
Alisha Smith (NY), Corporate Accountability  
Dennis Britson (IA), Corporation Finance Policy  
Mark Heuerman (OH), Direct Participation Programs Policy  
Dale Cantone (MD), Franchise & Business Opportunities  
Faith Anderson (WA), Small Business/Limited Offerings

### Activities & Accomplishments

The Section focused much attention on various provisions of the Dodd-Frank Act. In November, the Section's Small Business/Limited Offerings Project Group, assisted in the preparation of a comment letter filed with the SEC regarding the act's "accredited investor" definition and the adoption of a disqualification provision for Rule 506 offerings. The project group, working in conjunction with the NASAA Reg D Electronic Filing Committee, also continued its progress toward the development of a system for the electronic filing of Form D with the states and considered the development of a Form D filing review protocol that could be used by all states. The Section's Direct Participation Programs Policy Project Group continued its efforts toward the adoption of cross reference sheet standards for NASAA Statements of Policy/ Guidelines addressing asset-backed securities, commodity pool programs, equipment programs and oil and gas programs. The Section's Corporation Finance Policy Project Group has monitored the Dodd-Frank Act's call for an evaluation of the regulatory structure relating to person-to-person lending.

*NASAA remembers David Weaver, General Counsel of the Texas State Securities Board, valued member of the Corporation Finance Section, good friend and passionate securities regulator.*

# Section Overview

## 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 federal agencies and self-regulatory organizations, such as the SEC, the FBI, the Postal Inspectors, and FINRA, and helps identify new fraud trends. The Section oversees the activities of several Project Groups, including: Attorney/Investigator Training, Litigation Forum, Oil/Gas Ventures, Reg D Investigations and Enforcement Zones.

### Activities & Accomplishments

The Section devoted significant attention to supporting the Auction Rate Securities Task Force's continued efforts to reach final resolutions in its investigations. To date, state securities regulators have secured settlements calling for firms to repurchase from investors more than \$61 billion in auction rate securities, the largest return of funds to investors in history. The Section also focused on the formation of a working group to explore issues related to structured products. Calling attention to emerging investment fraud trends, the Section prepared NASAA's annual list of Top Investor Traps. Some of the topics spotlighted by the Section included: exchange-traded funds (ETFs), foreign exchange trading scams, and schemes involving gold and precious metals, "green" investments, oil and gas and unsolicited online social media pitches.

*State securities regulators have secured settlements calling for firms to repurchase from investors more than \$61 billion in auction rate securities, the largest return of funds to investors in history.*

#### 2009-2010 Section Committee

James Ropp (DE), Chair, Sept. 2009 - Feb. 2010  
Matt Kitzi (MO), Chair, from Feb. 2010  
Robert Terry (GA), Vice Chair  
Kevin Anselm (OR)  
Joe Rotunda (TX)  
Marc Arseneault (AB)

#### 2009-2010 Project Group Chairs

Peter Jamison (DE), Attorney/Investigator Training  
Robert Brunner (OR), Enforcement Technology  
Mary Beth Williams (VA), Litigation Forum  
Katherine Weiskittel (MD), Enforcement Zones

#### 2010-2011 Section Committee

Matt Kitzi (MO), Chair  
Keith Woodwell (UT), Vice-chair  
Kevin Anselm (OR)  
Colleen Keefe (KY)  
Joseph Rotunda (TX)  
Marc Arseneault (AB)  
Tina Stavrou (NASAA)

#### 2010-2011 Project Group Chairs

Peter Jamison (DE), Attorney/Investigator Training  
Gerry Rome (CO), Litigation Forum  
Joseph Rotunda (TX), Oil/Gas Ventures  
Allan Russ (NC), Reg D Investigations  
Katherine Weiskittel (MD), Enforcement Zones



## Investment Adviser Section

### Overview

NASAA's Investment Adviser Section develops policies and monitors state registration and regulation of firms and professionals in the investment advisory business. The Section also develops uniform policies for ethical business practices and model rules to enforce the investment advisory provisions of state law. The Section oversees the activities of six Project Groups: Exams Advisory, Operations, Regulatory Policy and Review, Training, Private Funds, and Investment Adviser Zones. The Section also works closely with the CRD/IARD Steering Committee.

#### **2009-2010 Section Committee**

Patricia Struck (WI), Chair  
Daphne Smith (TN), Vice Chair  
Linda Cena (MI)  
Andrea Seidt (OH)  
Ronald Thomas (VA)  
Estella Tong (ON)

#### **2009-2010 Project Group Chairs**

Sheila Cahill (NE), Investment Adviser Exams Advisory  
Michael Huggs (MS), Operations  
Ken Hojnacki (WI), Regulatory Policy & Review  
Linda Cena (MI), Investment Adviser Training  
Daphne Smith (TN), Investment Adviser Zones

#### **2010-2011 Section Committee**

Linda Cena (MI), Chair  
Andrea Seidt (OH), Vice-chair  
Ken Hojnacki (WI)  
Michael Huggs (MS)  
Ron Thomas (VA)  
Estella Tong (ON)  
Joseph Brady (NASAA)

#### **2010-2011 Project Group Chairs**

Sheila Cahill (NE), Investment Adviser Exams Advisory  
Michael Huggs (MS), Operations  
Ken Hojnacki (WI), Regulatory Policy & Review  
Randy Mullikin (KS), Investment Adviser Training  
Ronak Patel (TX), Private Funds  
Andrea Seidt (OH), Investment Adviser Zones

### Activities & Accomplishments

In the months leading up to Dodd-Frank's passage, the Section devoted significant attention to the act's provision expanding state regulatory authority over investment advisers. Since the act's passage, those efforts intensified as the Section concentrated on preparing NASAA members for the move to state regulation of "mid-sized" investment advisers (those with less than \$100 million in assets under management). The Section formed a team devoted to the "switch" and has aggressively pursued a comprehensive plan to handle the switch of adviser registration to the states from the SEC as a result of the Dodd-Frank's creation of a new "mid-sized" adviser category. Each of the Section's project groups also focused on various aspects of the switch. For example, the Section's training project group coordinated with NASAA's Standards, Certification and Training Project Group to enhance training for IA examiners through NASAA's new Distance Learning program.

*See pp. 12-13 for more on the states' efforts to prepare to register and examine mid-size investment advisers after the switch.*

## Investor Education Section

### Overview

Recognizing that education is a key weapon in the fight against investment fraud, the NASAA Investor Education Section was created in 1997 by the NASAA Board of Directors to help support the financial education efforts of the membership. In 2010, the Section oversaw the activities of six Project Groups: Affinity and Military Outreach, Informed Investor Outreach, Research and Coordination, Senior Outreach, Women in Transition Outreach and Youth Outreach.

### Activities & Accomplishments

NASAA's Investor Education Section focused throughout the year on preparing several major projects for national rollout. The Senior Outreach Project Group, working in collaboration with the National Adult Protective Services Association, various medical organizations and the Investor Protection Trust, launched an initiative to educate medical professionals, caregivers and senior patients about how to spot the warning signs of elder investment fraud and get help from appropriate authorities. The Women in Transition Outreach Project Group developed a program addressing the needs of women in financial transition. The Youth Outreach Project Group launched the Live "Stock" Adventure educational activity for middle school students that reinforces basic math skills and encourages a greater understanding of the risks and rewards of investing. The Section's Informed Investor Outreach Project Group added to NASAA's library of investor alerts with material on annuities, derivatives, gold and peer-to-peer lending.

#### The Year Ahead

In October 2010, the Investor Education Section underwent a reorganization to increase communication and collaboration with the other NASAA Sections, explore new online tools and social media, and facilitate member use of Section resources. The new Investor Outreach Project Group unites the efforts of the previous four outreach project groups to develop one comprehensive new outreach initiative to be unveiled at the NASAA annual conference in Kansas in September. The Promotion & Coordination Project Group encourages wider usage of existing Section materials and capitalizes on the Section's strength in building coalitions with outside partners. The Online Outreach & Social Media Project Group reaches out to a broader audience of investors by adapting content for the web. The Alerts & Advisories Project Group taps the expertise of the other Sections to prepare timely one-pagers on emerging trends affecting investors.

#### 2009-2010 Section Committee

Tung Chan (HI), Chair, *Sept. 2009 - July 2010*  
Colleen Keefe (KY), Chair, *July 2010 - Oct. 2010*  
Lynne Egan (MT)  
Theodore Miles (DC)  
Diane Young-Spitzer (MA)  
Marissa Rignanesi (NB)

#### 2009-2010 Project Group Chairs

Dan Lord (AL), Military & Affinity Outreach  
Diane Young-Spitzer (MA), Informed Investor Outreach  
Andrew Roth (CA), Research & Coordination  
Christina Kotsalos (PA), Senior Outreach  
Gena Wilimitis (NM), Women In Transition Outreach  
Vickie Moseley (IL), Youth Outreach

#### 2010-2011 Section Committee

Daphne Smith (TN), Chair  
Marissa Rignanesi (NB), Vice Chair  
Lynne Egan (MT)  
Theodore Miles (DC)  
Diane Young-Spitzer (MA)

#### 2010-2011 Project Group Chairs

Diane Young-Spitzer (MA), Alerts & Advisories  
Debora Whipple (NJ), Investor Outreach  
Christina Kotsalos (PA), Promotion & Coordination  
Marissa Rignanesi (NB), Online Outreach & Social Media

## NASAA Awards



### Blue Sky Cube

**Denise Voigt Crawford, Texas**  
**Daphne D. Smith, Tennessee**

*The Blue Sky Cube, NASAA's highest honor, recognizes career achievement and distinguished contributions to securities regulation. It is named for Blue Sky Law, the umbrella term for state laws throughout the United States that regulate the offering and sale of securities. Kansas enacted the first Blue Sky Law in 1911 to protect investors from speculative schemes that, in the words of a judge of the period, had no more substance than so many feet of "blue sky."*

### Outstanding Service Award

**Chris Biggs, Kansas**  
**Mark Connolly, New Hampshire**  
**Bruce Kohl, New Mexico**  
**James B. Ropp, Delaware**  
**Michael Stevenson, Washington**

### Distinguished Service Award

**Kevin Anselm, Oregon**  
**Randall Schumann, Wisconsin**  
**David Weaver, Texas**

### Outstanding Team Service Award

**Auction Rate Securities Task Force:**  
**Peter Dean, New York**  
**Cheryl Farson, Arizona**  
**Carolyn Mendelson, Pennsylvania**  
**Ronak Patel, Texas**

### Special Recognition:

**Pat Ahearn, Massachusetts**  
**Angela Angelakos, Illinois**  
**Peter Cole, New Jersey**  
**Bill Donahue, Massachusetts**  
**Zesley Haislip, North Carolina**  
**Judi Lahr, Missouri**  
**Jennifer Monopoli, Georgia**  
**Jim Nix, Illinois**  
**Jerry Rome, Colorado**  
**Nathan Soendker, Missouri**  
**Mary Beth Williams, Virginia**

## Board of Directors

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

### 2009-2010 Board

Denise Voigt Crawford, Texas, President  
David Massey, North Carolina, President-elect  
Fred J. Joseph, Colorado, Past President  
Rick Hancox, New Brunswick  
Mark Connolly, New Hampshire, *Sept. 2009 - May 2010*  
Chris Biggs, Kansas, *Sept. 2009 - March 2010*  
Joseph P. Borg, Alabama  
Melanie Senter Lubin, Maryland  
Bruce Kohl, New Mexico, *Sept. 2009 - Dec. 2009*  
Ralph Lambiase, Connecticut, *Jan. 2010 - April 2010*  
Preston DuFauchard, California, *from April 2010*  
Jack Herstein, Nebraska, *from April 2010*  
Daphne Smith, Tennessee, *June 2010 - Sept. 2010*

### 2010-2011 Board

David Massey, North Carolina, President  
Jack Herstein, Nebraska, President-elect  
Denise Voigt Crawford, Texas, Past President  
Rick Hancox, New Brunswick, Secretary  
Fred J. Joseph, Colorado, Treasurer  
Joseph P. Borg, Alabama  
Preston DuFauchard, California  
Patricia Struck, Wisconsin  
Franklin Widmann, Florida



*North Carolina Deputy Securities Administrator David Massey accepts the gavel from NASAA Past-President and Texas Securities Commissioner Denise Voigt Crawford at NASAA's 2010 annual conference in Baltimore in September. "Dave is assuming the leadership of our organization at a pivotal time for regulators, industry and investors," Crawford said. "The signing of the Dodd-Frank Wall Street Reform and Consumer Protection Act on July 21, 2010, ushered in a new era of investor protection and financial market oversight, but that was just the beginning. President Massey faces the unenviable task of shepherding us through the studies and rulemakings authorized by the legislation. I have every confidence that his knowledge and humor will lead NASAA through another seminal year for investor protection."*



## Board Committees

### 2009-2010 Board Committee Chairs

#### **Awards**

Craig Goettsch, Iowa

#### **Communications**

Daphne Smith, Tennessee

#### **CRD/IARD Steering**

Melanie Senter Lubin, Maryland

#### **CRD/IARD Forms and Process**

Pam Epting, Florida

#### **Federal Legislation**

Steve Irwin, Pennsylvania

#### **Finance and Audit**

Patricia McKenna, Maryland

#### **International**

Joseph Borg, Alabama

#### **Legal Services**

Robert McDonald, Maryland

#### **Life Settlements**

Fred Joseph, Colorado

#### **NEMO User Acceptance Team**

Michael Huggs, Mississippi

#### **Reg. D Electronic Filings**

Jack Herstein, Nebraska

#### **Standardized Training, Certification & Technology**

Matt Kitzi, Missouri, Chair

#### **State Legislation &**

#### **Uniform Securities Act**

Tom Michlovic, Pennsylvania

### 2010-2011 Board Committee Chairs

#### **Awards**

Craig Goettsch, Iowa

#### **Communications**

Daphne Smith, Tennessee

#### **CRD/IARD Steering**

Melanie Senter Lubin, Maryland

#### **CRD/IARD Forms and Process**

Pam Epting, Florida

#### **Federal Legislation**

Steve Irwin, Pennsylvania

#### **Finance and Audit**

Patricia McKenna, Maryland

#### **International**

Joseph Borg, Alabama

#### **Legal Services**

Robert McDonald, Maryland

#### **Life Settlements**

Fred Joseph, Colorado

#### **NEMO Training and Support**

Michael Huggs, Mississippi

#### **Reg. D Electronic Filings**

Jack Herstein, Nebraska

#### **Standardized Training, Certification & Technology**

Judith Shaw, Maine

#### **Uniform Securities Act**

Craig Goettsch, Iowa

## Corporate Office Staff

### *Executive and Administrative Office*

**Russ Iuculano**  
Executive Director

**John H. Lynch**  
Deputy Executive Director

**Gina Haidle**  
Membership Services and Finance Manager

**Aaron Loewenberg**  
Executive Assistant, Office Manager  
& Benefits Coordinator

**Josephine Oundo**  
Receptionist

### *Legal*

**Rex Staples**  
General Counsel

**Joseph Brady**  
Deputy General Counsel

**Tina Stavrou**  
Assistant General Counsel

**Joseph Opron**  
Counsel

**Faye Gordon**  
Paralegal

### *Government Affairs*

**Deborah Fischione House**  
Director of Policy

**Diana Defino**  
Assistant Manager of Government Affairs

### *Communications & Investor Education*

**Bob Webster**  
Director of Communications

**Leah Szarek**  
Assistant Manager of Communications  
& Investor Education

### *Conferences & Events*

**Lonnie Martin**  
Membership & Meetings Manager

### *Training & Technology*

**Jason Wolf**  
Training & Technology Manager

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