



NASAA Insight

The Voice of State & Provincial Securities Regulation

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NASAA, SEC Launch Senior Investor Protection Initiative

Securities and Exchange Commission Chairman Christopher Cox and NASAA President Patricia D. Struck on May 8 announced a joint national initiative designed to protect seniors from investment fraud and sales of unsuitable securities.

The initiative, which builds upon the success of cooperative efforts between the SEC and Florida securities regulators, in conjunction with the NASD, to crack down on senior investment fraud, will have several components, including targeted examinations to detect abusive sales tactics aimed at seniors, aggressive enforcement of the securities laws in cases of fraud against seniors, and active investor education and outreach.

"Another American baby boomer will turn 60 every eight seconds for the next 20 years," said Chairman Cox. "As the nation's assets increasingly are held by older Americans,

fraudsters can be expected to follow Willie Sutton's example and go where the money is. That's why the SEC's partnership with state regulators to safeguard the assets of older Americans is so important."

President Struck, who also serves as Wisconsin Securities Administrator, said, "We are pleased to work shoulder-to-shoulder with the SEC to help protect our nation's seniors. This initiative reflects the long-standing collaborative relationship between state and federal securities regulators and we believe it will lead to significant protections for senior investors."

Struck and Cox said federal, state, and NASD regulators already have initiated on-site examinations in Florida of firms sponsoring "free lunch" investment seminars to ensure their sales practices are lawful. These coordinated examinations will be expanded to additional



NASAA President Patricia Struck and SEC Chairman Christopher Cox discuss new joint senior initiative.

states where seniors may be targets of abusive sales pitches or fraudulent investment schemes, Struck and Cox said.

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

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NASAA Forum Focuses on The Baby Boom and Beyond

NASAA's 2006 Spring Conference opened on May 9 with a Policy Forum entitled "The Baby Boom and Beyond." The Forum attracted an audience of 200 for a two-hour discussion examining how changing demographics are leading to changes in the way financial products and services, such as variable annuities and investment advice, are being developed and marketed to seniors, and the regulatory

challenges these products and services present.

Colorado Securities Commissioner Fred Joseph moderated a two-hour conversation with panelists Jim Nelson, NASAA Board member and Mississippi Assistant Secretary of State; Lori Richards, Director of the SEC's Office of Compliance Inspections and Examinations; Marc Lackritz, President, Securities Industry Association;

Cecil Swamidoss, Counsel, Senate Special Committee on Aging; Matt Thornhill, founder of The Boomer Project; and Dr. Jan Wassel, of the University of North Carolina at Greensboro.

For those who missed it, an audio webcast of the forum is archived and can be accessed at the link below.

On the Web
www.videonewswire.com/event.asp?id=33731



NASAA President Patricia Struck testifies before Senate Special Committee on Aging.

“The targeting of seniors for investment schemes is a chronic problem.”

— NASAA

President

Patricia Struck

NASAA Identifies Threats to Senior Investors in Senate Testimony

Struck Outlines Initiatives to Protect Seniors from Investment Fraud

In testimony before the Senate Special Committee on Aging, NASAA President Patricia Struck identified three troubling trends endangering the retirement nest eggs of the nation’s growing senior population and outlined the steps state securities regulators are taking to protect senior investors from fraud.

“My colleagues and I are currently seeing a proliferation of noteworthy schemes in three related areas: ‘senior specialists,’ variable annuities, and unlicensed individuals selling unregistered securities to seniors. Unfortunately, these three problems often occur simultaneously at certain senior investment seminars,” Struck said during a March 29 hearing on senior investment fraud.

Noting that the first of an estimated 77 million Baby Boomers celebrated their 60th birthday this year, Struck said state securities regulators are concerned that financial scams targeting seniors will rise.

NASAA members are receiving an increasing number of complaints from investors who have been enticed into attending seminars sponsored

by certain “senior specialists” commonly through the promise of a free meal. “Typically, the specialist recommends liquidating securities positions and using the proceeds to purchase fixed, indexed or variable annuities products the specialist offers,” Struck said, noting that anyone who provides investment advice for compensation must be properly licensed with state securities regulators.

Struck also noted that seniors continue to be sold variable annuities, which, although a legitimate and suitable investment for some investors, are in many cases unsuitable for seniors because of high surrender charges for early withdrawals, the potential of exposure to market risk, and the steep sales commissions agents often earn when they move investors into this product.

Struck told the panel that NASAA is encouraging changes in state laws that would allow state insurance regulators to continue to oversee the insurance companies that sell variable annuities while authorizing state securities regulators to investigate complaints about variable annuities and to take action against the individuals who sell

them.

The third threat facing seniors comes from unlicensed securities sellers pitching securities that are unregistered. Individuals who sell securities or provide investment advice are required to earn a license by passing rigorous examinations before they can offer their services to the public.

Struck said NASAA members believe the most effective weapon against fraud is a dual approach: combine aggressive enforcement efforts with financial education to protect investors from unscrupulous individuals.

She also outlined a series of initiatives NASAA members have launched to actively promote investor awareness among seniors through a variety of venues, including the 2005 Summer National Senior Olympics and through an investment fraud bingo game being used in Texas, Pennsylvania, Indiana and Florida. NASAA members also have developed a blueprint for states to develop effective senior outreach programs and in 2003, NASAA launched the Senior Investor Resource Center on its website (under the Investor Education menu at www.nasaa.org).



NASAA Executive Director Russ Iuculano (center) with NASAA President Patricia Struck (left) and Susan Wyderko, Acting Director of the SEC’s Division of Investment Management at Senate hearing.

NASAA Names Iuculano as New Executive Director

NASAA’s new Executive Director, Russ Iuculano, was appointed in February after a long and successful career in the financial services industry.

“Along with his evident enthusiasm for NASAA’s mission, Russ also brings us more than 30 years of experience in financial services, a wealth of good ideas, and

skills in management, government relations, and communications,” NASAA President Patricia Struck said.

Iuculano joined NASAA from the Financial Services Forum, where he served as Senior Vice President and provided legislative counsel and developed strategies advancing the organization’s public policy initiatives.

Previously, he was Vice President, Government Relations, in the Washington office of Met Life Inc. He began his career in 1973 at the American Council of Life Insurers, where he held a succession of progressively more responsible positions in state legislative affairs before leaving in 1990 as Managing Counsel to join Met Life.

President's Message

Since we met in Minneapolis in the fall, I believe we have made significant progress toward advancing the two themes of my presidency: collaboration and respect. Through a series of meetings, and one-on-one conversations, I believe we now have stronger relationships and understandings with fellow regulators, as well as those whom we regulate. For example:

Working collaboratively with the Securities Industry Association, we launched a Spanish translation of our successful investor education brochure, *"Understanding Your Brokerage Account Statements."*

Working collaboratively with the Investment Advisers Association, the Financial Planning Association, the CFA Institute, and the Consumer Federation of America, we have produced and launched another important investor education publication designed to help investors cut through the confusion when dealing with financial services professionals.

And finally, we are working collaboratively with our counterparts at the SEC to aggressively fight investment fraud against seniors.

Each of these projects would not have been possible without a high level of mutual respect among partners. I look forward to more collaborative projects in the months ahead.



Patricia D. Struck
NASAA President



"I believe we now have stronger relationships and understandings with fellow regulators, as well as those whom we regulate."

— NASAA
President
Patricia Struck

NASAA Notes

NASAA Launches Online Ombudsman Resource

As part of an ongoing effort to enhance communication between regulators and the securities industry, NASAA has launched an online Ombudsman Page on its website, www.nasaa.org.

The new resource can be found in the "Industry and Regulatory Resources" area of the NASAA website.

The Ombudsman Page includes links to an online directory of state securities laws and rules; a list of state rules proposals; and upcoming NASAA conferences.

The resource also includes a comment box for industry representatives to e-mail comments directly to NASAA Ombudsman Don Saxon.

NASAA's long-standing Ombudsman Program is designed to provide securities industry representatives with an alternative means of communication regarding state securities issues. NASAA believes its membership is more effective when it has the best understanding possible of areas that present concerns for the industry.

NASAA Annual Conference Set for September in San Diego

NASAA's 2006 Annual Conference will be held September 17-19 at the Westin Horton Plaza Hotel in San Diego.

Watch for registration information to be coming your way soon. Details also will be available on the Conferences page on the NASAA website, under the "About NASAA" menu.

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NASAA Spring Conference Keynote: SEC Chairman Christopher Cox



SEC Chairman Christopher Cox addresses the NASAA Spring Conference.

**“Together, we
can accomplish a
lot of good for
investors and for
our economy.”**

— SEC Chairman
Christopher Cox



NASAA Board Member Fred Joseph (right) and President-elect Joseph Borg (center) share a conversation with SEC Chairman Christopher Cox at NASAA's Spring Conference.

The following article is adapted from the May 9, 2006 Keynote Speech delivered by SEC Chairman Christopher Cox at the 21st Annual NASAA Spring Conference.

As most of you know, Patty Struck is the Administrator of the Wisconsin Division of Securities, and she does a spectacular job. During her presidency of the North American Securities Administrators Association, she's been outstanding in her efforts to encourage state-federal collaboration. She's served three terms on NASAA's board of directors, and her commitment to investor protection is long standing. Patty, the nation is fortunate to have your leadership.

. . . [T]he role of state securities regulators is a venerable one. Your history and your responsibilities go back well before there was any such thing as the federal securities laws. Just a quarter century after the Washington Monument was completed, the first blue sky law was enacted in Kansas in 1911. It served as a model for similar statutes across the country. By 1919, there was even a national association of state regulators - the North American Securities Administrators Association.

You've been at it ever since. Your estimated 1,400 securities regulators are the local cops on the beat. And in many cases you have powers that the SEC doesn't.

Together, we can accomplish a lot of good for investors and for our economy. That's because we share a common mission - to protect investors. And since more than half of Americans own stock today, we share a big job.

The good news is, we have a long history of working together. In just the past several years, the SEC has granted hundreds of requests from state and local governments to access our investigative files. We've referred thousands of investor complaints to state regulators. And you, in turn, have shared thousands of leads with us. That's why I'm so pleased to be working to continue that tradition.

Our current mutual initiative, to establish "best practices" to guide our federal and state enforcement staffs, is close to completion. A working group of six representatives from the SEC's enforcement staff, and six from the state securities commissions, is preparing recommendations on ways to improve enforcement cooperation between the Commission and the states.

We hope to set clear guidelines for determining when it makes sense for one rather than two regulators to work a case - to avoid the duplication that can sometimes result from both

the states and the SEC being involved. We also want to clearly set out when it's appropriate for both of us to work a case. For those occasions, we'll have guidelines to help us coordinate and cooperate with each other.

Partly as a result of our improved coordination in allocating enforcement resources, the SEC and state regulators have recently achieved some spectacular results in a number of high profile cases. The historic global analyst settlement is an excellent example of how much we can accomplish working together.

**“The role of state securities
regulators is a venerable one.”**

—SEC Chairman Cox

By pooling our resources and sharing our expertise, we succeeded in winning a speedy and far-reaching settlement that's already returned over \$280 million to injured investors. All told, 12 firms were ordered to pay over \$875 million in disgorgement and civil penalties. That's in addition to over half a billion dollars to fund independent research and investor education. It's worth recalling some of the other recent successes from our cooperative efforts.

Working with state regulators, the SEC recently reached a \$1.6 billion settlement with the American Insurance Group. Another state-federal partnership concluded a \$375 million settlement with Banc of America. The combined efforts of federal and state securities regulators led to a settlement with Invesco Funds Group, AIM Advisors, and AIM Distributors that totals over \$375 million. Likewise, the settlements with Pilgrim Baxter and its principals totaled a quarter of a billion dollars; with Massachusetts Financial Services \$225 million; with Fleet's Columbia Mutual Fund Adviser and Distributor, \$140 million; and with Strong Capital Management and its founder, Richard Strong, another \$140 million.

In the last two years, as state regulators have asked for more referrals from the SEC, our Division of Enforcement has developed a process to screen cases for issues of potential concern to the states. Following this approach, the SEC has proactively referred complaints that have a nexus to a particular state, or that raise legal issues of special local concern. This improvement in the referral process has led to an increase in the number of referrals by the SEC to the states.

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NASAA Spring Conference Keynote: SEC Chairman Christopher Cox

Of course, our federal-state coordination is much broader than just enforcement. Our examination staffs meet regularly across the country in National and Regional Examination summits. Through these collaborations, we've been able to discuss areas of mutual concern, trends in compliance, priorities in exams, and a host of other issues.

Just yesterday, the SEC and NASAA held a first-ever "Investment Adviser Examination Summit Meeting," to discuss ways we can help each other in this specific area.

One particularly successful joint effort is the Annual Joint Regulatory Examination Training program. Every year, examiners from the states, the SEC, and the SROs receive training from experienced leaders in each organization. They learn about exam strategies and techniques, compare notes on emerging compliance problems, and discuss a host of other issues. Most importantly, our exam staffs in the field gain the opportunity to meet each other, and to develop valuable contacts that continue to grow when they return to their offices.

This year's Joint Regulatory Examination Training is taking place next month, in St. Louis - and I want to thank NASAA for your continuing support and active participation in this vital endeavor.

Of course, what I've just described is barely the tip of the iceberg when it comes to our joint efforts. Our staff at the federal and state levels are taking advantage of many other joint conferences, panels, and meetings to share information and to work together.

. . . Today, we're building on these relationships to start work together on a new initiative - to better protect our nation's seniors. . . . Our national strategy to combat fraud aimed at seniors is threefold. It begins with aggressive enforcement against those preying on seniors. Second, it includes targeted examinations to uncover this special kind of fraud. And third, it will redouble our specialized investor education aimed at older Americans.

I am very pleased that NASAA, under Patty's leadership, is partnering with the SEC in these efforts.

. . . Our work to protect seniors includes detecting fraud as early as possible. You already know about our work together in Florida. We are working with Florida officials and with NASD to launch a series of on-site compliance examinations of firms that sponsor "free lunch" seminars, often targeted to seniors. One big concern is that these seminars are being used by unscrupulous individuals or firms to sell



SEC Chairman Cox at the NASAA Spring Conference.

investment products that are unsuitable to their would-be clients. We don't want seniors exposed to high-pressure sales tactics, wild claims about projected returns, and no disclosure of the actual risks of an investment. And we're also looking at whether the sales seminars held by firm employees are approved by firms' supervisors and are being adequately supervised.

What we are finding is that, unfortunately, we were right to launch these examinations. Today, I am pleased to announce that we will be expanding this examination initiative to still more parts of the country.

Again, we'll be working hand in hand with state securities regulators and the NASD. For those who thought preying on senior citizens would be easy, there will be no free lunch.

And more broadly, as part of our collaboration with state securities regulators and the NASD, examiners in our SEC field offices will also share regulatory intelligence to better identify firms that may be preying on seniors. Then, we'll examine those securities firms to make sure their sales practices are lawful. And we'll be taking aggressive enforcement actions whenever we find that investors have been defrauded. In the last two years alone, we've had 26 enforcement actions aimed specifically at protecting elderly investors. . . . Our collective efforts, if we plan well and start now, can spare a lot of people a great deal of anguish. . . .

If we work together, all of us, the future of every American of every age can be bright. . . . And as we set out on this journey, I can't tell you how much I respect your dedication and the work that you do every day. We at the SEC are proud to be your partners.

On The Web

<http://www.sec.gov/news/speech/2006/spch050906cc.htm>

**"We at the SEC
are proud to be
your partners."**

— SEC Chairman
Christopher Cox

NASAA Spring Conference, May 9, 2006

The Baby Boom and Beyond: A Photo Gallery

Spring Conference Chair and Tennessee Assistant Commissioner for Securities Daphne Smith delivers welcoming remarks to open the 2006 Spring Conference.



NASAA Executive Director Russ Luculano outlines his vision to accomplish NASAA's mission.



Lori Richards, Director of the SEC's Office of Compliance Inspections and Examinations, outlines regulatory efforts to crack down on "free lunch" seminars as panelists Jim Nelson, Mississippi Assistant Secretary of State; SIA President Marc Lackritz; and moderator Fred Joseph listen.



Colorado Securities Commissioner Fred Joseph warns investment scams against seniors will rise as Baby Boomers retire.

Mississippi Assistant Secretary of State Jim Nelson holds an ad pitching a free dinner and investment seminar for seniors.



Panelists for NASAA's Policy Forum included, from left: Matt Thornhill, founder of The Boomer Project; Dr. Jan Wassel, of the University of North Carolina at Greensboro; Cecil Swamidoss, Counsel, Special Committee on Aging; Lori Richards, Director of the SEC's Office of Compliance Inspections and Examinations; Jim Nelson, NASAA Board member and Mississippi Assistant Secretary of State; Marc Lackritz, President, Securities Industry Association; and moderator, Colorado Securities Commissioner Fred Joseph.

NASAA Listens Forum Examines Hedge Funds

The April 4 NASAA Listens Forum on Hedge Funds brought together a diverse panel of experts and audience members for a 90-minute panel discussion in New York. Audience members, both in New York and on the Internet, included securities industry executives, as well as representatives of the SEC, GAO, House Financial Services Committee, NASD, NYSE and the Securities Industry Association. Media participants included reporters from Dow Jones, Bloomberg News, Business Week, Investment News, EuroMoney, and BNA Securities and Law Report.

Following welcoming remarks from NASAA President Patricia Struck, forum moderator North Dakota Securities Commissioner Karen Tyler (ND) opened the forum by noting the rapid growth of the hedge fund industry.

Massachusetts Secretary of the Commonwealth William F. Galvin expressed concern about a pension reform proposal to liberalize how much pension money a hedge fund could manage before becoming a fiduciary under the Employee Retirement Income Security Act (ERISA). The House-passed pension bill (H.R. 2830) includes a provision that would raise from 25 percent to 50 percent the amount of pension money that can be invested in a hedge fund before the hedge fund is deemed a fiduciary under ERISA. He said the provision is "very troubling," and noted that if hedge funds are "part of the answer to pension fund problems," they should meet the standards of ERISA by having a fiduciary duty.

Panelist Bruce Graham, managing director of Shields Associates in New York,

suggested, "The hedge fund community is looking to the pension fund world to gather a lot of assets."

Secretary Galvin said that the increasing investment of pension fund monies in hedge funds is "probably my greatest concern now relating to hedge funds." He advocated updating the definition of "accredited investor" under the 1933 Securities Act, which uses threshold levels of income and net assets as a proxy for determining that an investor is financially "sophisticated" enough to invest in risky pools like hedge funds.

On the Web

Listen to a webcast of the forum at:

www.videonewswire.com/event.asp?id=33001

NASAA Legal Corner

On May 1, NASAA filed an amicus brief with the Supreme Court of Nevada in *Nanopierce Technologies, Inc. v. Depository Trust and Clearing Corp.* The plaintiffs/appellants are investors who allege, under state law, that the DTCC and its affiliates have committed fraud and market manipulation. Their case was dismissed by the court below.

In its brief to the Nevada Supreme Court, NASAA argued that the investors' state law claims should stand because states retain a significant role as to securities regulation generally, and with respect to clearing and settlement in particular.

NASAA also argued that the long-standing role of state law in protecting investors from fraud and abuse has always been and remains vital.



On April 11, NASAA filed an amicus brief with the U.S. Court of Appeals for the District of Columbia Circuit in *Financial Planning Association v. The U.S. Securities and Exchange Commission*, supporting the FPA's position that the SEC's Rule 202(a)(11)-1 (also known as the "BD/IA Rule") is inconsistent with the Investment Advisers Act of 1940.

NASAA also argued that the rule fuels investor confusion over the types of investment accounts that are available, the levels of disclosure that come with these accounts, and the duties and obligations of financial services providers.

On the Web

http://www.nasaa.org/issues_answers/enforcement_legal_activity/968.cfm

New Brochure Cuts Through the Confusion

The Coalition on Investor Education, a broad group of consumer organizations, state securities regulators, and investment services providers, has published a free brochure designed to guide investors through the process of choosing an investment services provider.

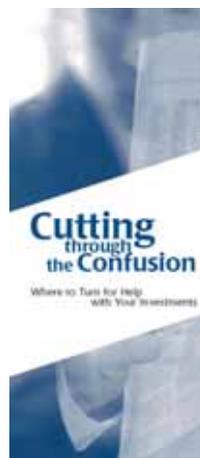
The brochure, "Cutting through the Confusion," explains the differences between brokers, investment advisers, and financial planners and identifies questions investors should ask themselves and potential providers before making a choice. The coalition that produced the publication includes NASAA, the Consumer Federation of America, Investment Adviser Association, Financial Planning Association, and CFA Institute.

"Consumers are confused about differences between the various types of investment services providers, and who can blame them?" said Barbara Roper, Director of Investor Protection for the Consumer Federation of America. "This brochure is designed to cut through that confusion."

"In addition to enforcing our securities laws, state securities regulators are committed to helping investors navigate the maze when seeking an appropriate provider to assist them with their investment needs," said NASAA President Patricia Struck. "In carrying out our front line responsibilities as regulators, we certainly are aware of problems investors face due to the blurring of lines between traditional brokerage, investment advisory, and financial planning activities."

On the Web

A PDF version of the brochure is available on the NASAA website at: http://www.nasaa.org/NASAA_Newsroom/Current_NASAA_Headlines/4666.cfm





Mark Your Calendar:

Sept. 17-19, 2006

NASAA's 2006 Annual Conference San Diego

For details, see:
www.nasaa.org
 Click the "About NASAA" tab and then "Conferences" from the drop-down menu.

Organized in 1919, the North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. NASAA is a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

NASAA members license firms and their agents, investigate violations of state and provincial law, file enforcement actions when appropriate, and educate the public about investment fraud.

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NASAA, SEC Join Forces to Fight Senior Investment Fraud

(continued from Front Page)

An important part of the initiative will involve investor education and outreach to senior investors.

The SEC has a "Senior Care Package" of useful brochures

for seniors, which are available on the SEC's website.

NASAA's Senior Investor Resource Center, launched on NASAA's website in 2003 to provide investor education materials for seniors, also will be expanded. Regulators will

continue to work to promote investor awareness and protection among seniors.

"I am very pleased that NASAA, under Patty's leadership, is partnering with the SEC in these efforts," Cox said.

NASAA, SIA Promote Investor Education to Hispanic Investors

The Securities Industry Association (SIA) and NASAA have released a Spanish translation of their joint publication "Understanding Your Brokerage Account Statements."

"This collaborative venture with the SIA also underscores our commitment toward reducing the risks of affinity fraud in the Spanish-speaking community by providing useful investor education resources," said Patricia Struck, NASAA President and Wisconsin Securities Administrator.

The guide provides Spanish-speaking investors with explanations of common features of most brokerage account statements and a checklist to review these statements.

Copies are available in PDF format on the NASAA website (www.nasaa.org).

NASAA Honors Bruenn, Lubin With Prestigious Blue Sky Cube

NASAA recently bestowed its top honor, one cubic foot of Kansas blue sky, to two long-time investor protection advocates, Maryland Securities Commissioner Melanie Senter Lubin and former Maine Securities Administrator Christine A. Bruenn.

The Blue Sky Cube presented to Lubin, who chairs NASAA's CRD/IARD Steering Committee, read, in part: "Your passion for investor protection is unparalleled."

The award presented to former NASAA President Bruenn marked the second time she has been so honored. Bruenn's award noted that her leadership "put the industry, other regulators, and federal policymakers on notice that NASAA's membership is a vibrant, strong, and dedicated voice of investor protection."