On Wednesday, July 21, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act, which recognizes and enhances the strong investor protection role of state securities regulators.

"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," NASAA President and Texas Securities Commissioner Denise Voigt Crawford said following the bill signing ceremony, which she attended.

The Dodd-Frank bill addresses a number of NASAA's key issues by increasing state regulatory oversight of investment advisers; updating the accredited investor definition; incorporating a "bad boy" disqualifier to prevent securities law violators from conducting securities offerings under SEC Regulation D, Rule 506; and including state securities, banking and insurance regulators as nonvoting members of the Financial Stability Oversight Council. The legislation also creates a grant program for up to $500,000 for a state that has adopted the NASAA and NAIC model rules on senior designations, and includes a state securities regulator as a member of the SEC's Investor Advisory Committee.

However, in two other NASAA priority areas, fiduciary duty and arbitration, the legislation grants broad discretion to the SEC, which has been authorized or directed to conduct studies or rulemaking.

"Our work is not complete," Crawford said. "With the focus now shifting from the legislative process to the 67 studies and more than 200 rulemakings authorized by the legislation, our task as regulators is to now work cooperatively to ensure that the studies, rules and implementation procedures of the Dodd-Frank legislation actually help investors and strengthen investor confidence," Crawford said.

Noted financial commentator Barry Ritholtz delivers the keynote address at NASAA’s Spring Policy Conference in Washington, D.C., on April 13. The conference brought together state securities regulators, media, industry and academics in a wide-ranging discussion of proposals to reform regulation and better protect Main Street investors.

This year’s conference featured two panel discussions: "Reining in Risk on Wall Street" and "What Regulatory Reform Means to Main Street Investors." The first panel 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, state securities regulators examined Congressional reform packages and outlined what investor protections are still needed.
The Dodd-Frank Wall Street Reform Bill, in many respects, recognizes the strong investor protection role of NASAA members and addresses a number of our priority issues. However, because of political compromises on certain highly contentious issues, the law’s passage marks the beginning of a very important process, since it grants broad discretion to the SEC and GAO to conduct dozens of studies (some with six-month time frames) and authority to implement rules. Several of these studies call for an evaluation of the resources and effectiveness of state regulators, and clearly their outcome will have a profound impact on NASAA members.

Recognizing the need to be an active participant in the study process, the NASAA Board has approved the formation of a 16-member Dodd-Frank Studies Working Group. I am pleased that Missouri Securities Commissioner Matt Kitzi will chair this group and that incoming NASAA President David Massey of North Carolina will serve as an ex-officio member so that he will be in a position to present the group’s work product to the SEC, Congress or the media at the appropriate time.

The overall mission of the Working Group is to ensure that NASAA is an active participant in both the study and rulemaking processes and affirmatively provide relevant information to the respective decision makers that will underscore the important investor protection role of state securities regulators.

I also invite you to mark your calendars for our conference in Baltimore, Maryland, September 26-29 as our panels and speakers will discuss the many implementation challenges of the Dodd-Frank bill.
States Gearing Up For Increased IA Oversight Authority

In anticipation of increased regulatory oversight over investment advisers as part of the landmark financial reform legislation, state securities regulators have been at work gearing up for this added responsibility. Currently, state oversight of investment advisers is limited to those with assets under management (AUM) of $25 million or less. The Dodd-Frank reform legislation increases the $25 million cap to $100 million, and will bring approximately 4,000 additional investment advisers under state oversight.

NASAA and its members have taken several steps to prepare for the increase. First, in December 2009, NASAA developed a memorandum of understanding calling for state securities agencies, when necessary, to assist one another with IA examinations.

“The MOU embodies the long-standing practice among NASAA members to work together to protect investors,” said NASAA President and Texas Securities Commissioner Denise Voigt Crawford. “We are pleased that NASAA members are actively engaged in sharing resources, including staff expertise, in an effort to bolster examination programs.”

The SEC staff has reported that there are 3,000 SEC-registered IA firms that have never been examined. The agency also has said that it is unable to timely and effectively examine the 4,000 smaller advisory firms in the $25 million to $100 million range and has chosen to focus on the larger advisory firms with billions of dollars under management presenting higher risk to investors. “The states will try to get this done since we can conduct exams more efficiently,” Crawford said. “The bottom line: investors will be better served.”

Crawford said innovative and flexible approaches to examinations are in the best interests of both the investing public and investment advisers. To that end, NASAA has asked its IA Operations and Training project groups to recommend and provide training on nontraditional examination approaches and solutions to the NASAA membership and to engage in cooperative discussions with NASAA members and other governmental regulators about new and productive ways to conduct examinations.

States also are developing better ways to deploy their resources through technology. For example, NASAA’s Standardized Training, Certification and Technology Committee has developed a Distance Education program to allow states to receive training on-demand through the NASAA website.

Financial Literacy Month
Education Is an Investor’s Best Defense Against Investment Fraud

President Obama declared April “National Financial Literacy Month,” noting that the nation’s increasingly complex financial system has “left too many Americans behind, unable to build a secure financial future for themselves and their families. For many, financial literacy can mean economic prosperity and protection against fraud and predatory banking practices.”

NASAA President Denise Voigt Crawford used the month to emphasize that education is an investor’s best defense against investment fraud.

State securities regulators offer a wealth of investor education programs and tools to help Americans learn how to avoid investment fraud and answer the president’s call “to improve their understanding of financial principles and practices” during National Financial Literacy Month, Crawford said.

NASAA also launched a new series of investor education materials in April to address complicated and topical securities matters such as variable annuities and derivatives. The Informed Investor Outreach Project Group of NASAA’s Investor Education Section will continually add new product briefs to the series.

Financial Literacy Day on Capitol Hill

Michelle Greene, Treasury’s Deputy Assistant Secretary for Financial Education and Financial Access, pictured with Jump$tart Executive Director Laura Levine, announces the debut of the Financial Literacy Education Commission’s newly redesigned website, mymoney.gov, at Jump$tart’s annual Financial Literacy Day on Capitol Hill. Hosted by Senators Daniel Akaka (D-HI) and Mike Enzi (R-WY) with Representatives Judy Biggert (R-IL) and Ruben Hinojosa (D-TX), Financial Literacy Day drew more than 300 attendees. NASAA distributed fraud prevention and investor education resources at the event.
The **Road Ahead** for Regulatory Reform

Lawmakers from both sides of Capitol Hill met in conference committee in late June to hammer out the final shape of the financial reform bill. The negotiations ultimately resulted in a bill that passed the House by a vote of 237 to 192 and narrowly passed the Senate 60 to 39. With President Obama’s signature on Wednesday, July 21, the reform bill officially became law. The chart below outlines the legislative compromises on NASAA’s priority investor protection issues and maps out the road ahead for these critical provisions.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Congressional Solution</th>
<th>Next Steps</th>
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<tbody>
<tr>
<td><strong>Fiduciary Duty</strong></td>
<td>The obligation to act in the clients’ best interests. Currently applies to investment advisers, not broker-dealers.</td>
<td>SEC is empowered to promulgate a rule to address the standards of care for brokers, investment advisers and associated persons providing personalized investment advice about securities to retail investors as necessary or appropriate in the public interest and for the protection of retail customers.</td>
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<tr>
<td><strong>Regulation D</strong></td>
<td>Exempts private placements from regulatory scrutiny.</td>
<td>SEC to issue rulemaking on recidivist disqualifier not later than one year after enactment of law. Accredited investor standard adjusted upon enactment and re-evaluated every four years.</td>
</tr>
<tr>
<td><strong>AUM Cap</strong></td>
<td>Assets under management (AUM) threshold at which an investment adviser is either registered with the states or the SEC.</td>
<td>Effective one year after date of enactment. NASAA has a team in place to ensure a smooth switch from federal to state registration.</td>
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</table>
Pennsylvania Securities Commissioner Steven Irwin urged Congress to help restore investors’ confidence in the financial markets by addressing perceived failures of inadequate corporate governance and executive compensation standards.

Testifying on behalf of NASAA on April 21, Irwin, who also chairs NASAA’s Federal Legislation Committee, told the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises that restoring public confidence in financial institutions is “the single most important task that confronts legislators and securities regulators.”

As the regulators closest to investors, state securities regulators have witnessed firsthand the withdrawal of Main Street investors from the markets due to fear, distrust and anger. “The person in the street sees salaries of corporate decision makers constantly increasing to a level viewed as obscene, while at the same time the corporations being managed are decreasing in value, losing money, failing in competition and eliminating productive jobs,” Irwin said.

“We have to make clear that a position in management does not represent an entitlement to steal from the corporate owners, the shareholders,” Irwin said. “We must assure adequate incentive for creative management while at the same time tying that incentive to actual production of long-term value for shareholders, rather than manipulation to achieve short-term financial results.”

Irwin said increasing disclosure requirements to give shareholders access to full and accurate information is part of the solution. He pointed to NASAA’s 2007 resolution on executive compensation disclosures and the Securities and Exchange Commission’s recent amendments to proxy disclosure rules that require disclosure of risks arising from compensation policies.

In addition to expanding disclosure rules, Irwin advocated empowering shareholders by establishing legal mechanisms by which issues of executive compensation and other corporate governance matters can be raised and decided by those who have a real interest in the outcome.

The full testimony is available on the NASAA website at www.nasaa.org.

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### NASAA Urges Congress to Address Executive Compensation, Restore Investor Confidence

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NASAA Conference Spotlights the Regulatory Road to Recovery

Those who attended NASAA’s Public Policy Conference in April had an opportunity to hear firsthand about the steps leading to the ongoing financial crisis and those needed to get the nation back on the road to recovery.

Nearly 200 participants, including securities regulators, policymakers and industry representatives from throughout the United States and Canada convened in Washington on April 13 as the Senate’s regulatory reform proposals continued inching toward completion.

In a news briefing before the conference, NASAA President and Texas Securities Commissioner Denise Voigt Crawford called on the full Senate to strengthen the package of financial regulatory reforms approved by the Senate Banking Committee in order to provide Main Street investors with the protections they need to invest with confidence in the markets.

“This is the time for real reform that brings accountability and increased transparency to our financial markets. Investors deserve more from Congress than legislation driven by industry interests,” she said. “Congress must not waste this opportunity to provide meaningful investor protection reforms.”

The need for greater accountability and transparency in financial markets was illustrated in keynote speaker Barry Ritholtz’s overview and analysis of the actions leading up to and fueling the meltdown that engulfed Wall Street and took with it a significant portion of the financial security amassed by Main Street investors.

Ritholtz, author of “Bailout Nation” and Chief Executive Officer of Fusion IQ, stressed that policymakers must take this opportunity to “prohibit banks and Wall Street from having their way with the American public.”

Mark Connolly, this year’s conference chair and 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 moves forward with financial services regulatory reform.

“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.

The first panel, “Reining in Risk on Wall Street,” was moderated by Utah Securities Division Director Keith Woodwell and brought together experts to offer national and international perspectives on the efforts of the government and private sector to provide systemic safety to achieve liquidity, stability and reliability in a well-functioning financial system.

Panelist Arthur E. Wilmarth, Jr., a professor of law at the George Washington University, argued that when the SEC “lost their way” and became too close with industry, states stepped up for investors. “We need a group of tough-minded, vigorous state enforcers,” he said. “It’s a lot harder to capture 50 regulators than it is to capture one.”

Another panelist, New Brunswick Securities Commission Executive Director Rick Hancox addressed the debate in Canada over the creation of a national securities regulator and highlighted the provinces’ measures to minimize the impact of the global economic collapse.

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.
NASAA presented its highest honor, the Blue Sky Cube, to Tennessee’s Daphne Smith at the 2010 Spring Policy Conference in Washington, D.C. The honor recognized Smith’s “integrity and hard work, curiosity and commitment, and serene determination” throughout her many years of service as a member of NASAA’s Board of Directors, chair of the Investor Education Section and Communications Committee, vice chair of the Investment Adviser Section, and chair of the Investment Adviser Zone Project Group.

NASAA also honored several members with the Outstanding Service Award. Chris Biggs, who is leaving the Kansas Office of the Securities Commissioner to serve as interim secretary of state, was recognized for his service on NASAA’s Board of Directors and as vice chair of the Enforcement Section and chair of the Litigation Forum Project Group. Bruce Kohl of New Mexico was recognized for his “unwavering commitment and enthusiasm for educating the investing public” as a former chair of the Investor Education Section and NASAA board member. Delaware’s Jim Ropp was lauded for his wise counsel as a board member and chair of the Enforcement Section and Federal Legislation Committee. Mike Stevenson of Washington was commended for his leadership as board member and as chair of the Corporation Finance Section, Regulation D Electronic Filing Committee, Small Business/Limited Offering Project Group and as a member of the Uniform Securities Act Committee.

The second panel on “What Regulatory Reform Means to Main Street Investors” allowed state securities regulators to examine both the House and Senate regulatory reform packages. Panel moderator and West Virginia Auditor Glen Gainer led a spirited discussion of how investors will benefit from the legislation and what protections are still needed.

During the discussion, Indiana Securities Commissioner Chris Naylor called the expansion of the fiduciary duty to brokers who offer investment advice the “single most important protection for investors” and made a compelling case for why it needs to be restored to the bill on the Senate floor. “NASAA is looking for clear rules for the road,” he said. Naylor also made a clear case for the inclusion of provisions in both the House and Senate bills to increase state regulatory authority of investment advisers by raising the assets under management threshold for state-regulated advisers to $100 million from the current cap of $25 million. “States are ready to take on the challenge,” he said. “This is a good distribution of regulation and there will be substantial benefits for investors.”

Pennsylvania Securities Commissioner Steven Irwin addressed the “disheartening” erosion of state authority over Rule 506 private placement offerings, noting that the NSMIA preemption essentially “leaves investors to fend for themselves.”

Turning to another key issue for Main Street investors, New Jersey Bureau of Securities Chief Marc Minor argued that investors are not well served by industry-run mandatory arbitration and deserve a choice. “It is not in the best interests of investors on Main Street to delay the end of predispute mandatory securities arbitration by requiring another study,” Minor said.

West Virginia Auditor Glen Gainer and New Jersey Bureau of Securities Chief Marc Minor discuss the implications of regulatory reform for Main Street investors at NASAA’s 2010 Spring Policy Conference in Washington, D.C.
About Us

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

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

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

Contact NASAA

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Visit Us Online

www.nasaa.org

NASAA Remembers

David Weaver
General Counsel, Texas State Securities Board

The NASAA family was deeply saddened by the tragic news that David Weaver, General Counsel of the Texas State Securities Board for the past 14 years, passed away unexpectedly in his sleep on Tuesday, June 1.

David was an outstanding contributor to the Corporate Finance Section, Federal Legislation and Reg D Electronic Filing Committees during his long and distinguished association with NASAA.

We extend our deepest sympathies and condolences to the Weaver family and David’s colleagues at the TSSB.

“Investors have lost a good friend and passionate state securities regulator,” said NASAA President and Texas Securities Commissioner Denise Voigt Crawford. “David was a great friend and colleague to many in the NASAA family. He never met a stranger and will be greatly missed.”