NASAA

Comprehensive
Collaborative
Efficient
Strong

North American Securities Administrators Association

2008-2009 Report

ABOUT NASAA

State and provincial securities regulators have been protecting investors from fraud and abusive sales practices, beginning in the United States with the passage of the first “blue sky” law in Kansas in 1911 and in Canada in 1912, 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.

Contents

Leadership Letter

All of us – regulators, legislators, and industry alike – must be on a mission to serve the best interests of investors. We must help investors throughout North America maintain their confidence in our securities markets.

The historic economic, financial, and political events of 2008 set the stage for significant legislative and regulatory changes in 2009. It is clear that a new financial services regulatory structure is warranted to help ensure that Main Street investors benefit from the ever innovative financial services industry while enjoying strong protections.

As policymakers map out the next generation of financial services regulation throughout 2009, we urge them to fully recognize the extent of the contributions of state securities regulators to consumer protection in financial services.

All of us – regulators, legislators, and industry alike – must be on a mission to serve the best interests of investors. We must help investors throughout North America maintain their confidence in our securities markets. We must educate and inform investors so that they can make appropriate financial decisions. And we must protect investors from those who seek to cheat them of their hard-earned savings.

NASAA members are on this mission because we believe that every investor deserves protection. Day in and day out, the professionals working in state, provincial, and territorial securities agencies throughout North America carry out their mandate of investor protection with dedication and commitment. Whether through our expertise in registration or examinations, investigations, or education, all contribute to the mission.

Over the past two years, a number of plans have surfaced in Washington and on Wall Street calling for regulatory change. Now, as we face the worst financial crisis since the Great Depression, policymakers must examine these proposals and others with a critical eye to eliminate those that benefit only a few while championing those that promote responsibility, accountability, and transparency for all.

NASAA and its members will continue to speak with a unified and clear voice when we say that the interests and protection of Main Street investors must remain the centerpiece of the financial services regulatory system. NASAA is committed to working with the Obama Administration and the 111th Congress to ensure that the ongoing policy debate over the future of the nation's financial services regulatory structure promotes changes that are necessary for Main Street investor protection, which state securities regulators have provided for nearly 100 years.

NASAA will continue to serve as a strong and united advocate for investors and for the state and provincial securities regulators who protect them. Financial markets today are more complicated than ever. In this environment, it makes no sense to lessen the influence of regulators. When it comes to securities regulation, one size does not fit all. It is dangerous to rely on one regulatory model during a time when regulation has not kept pace with innovation in financial services and markets – innovation that has had both positive and negative effects on investors.

The responsibility of protecting investors is too large to be overseen solely by a single federal agency, by one industry self-regulatory organization, or by state securities regulators alone. Investors need the protections provided by state, federal, and industry regulatory organizations, working in a collaborative, coordinated, and cooperative manner with one another.

We will seek and encourage opportunities to strengthen our relationships with other regulators and in particular, state insurance regulators, for the purpose of protecting investors.

We look forward to helping our association fulfill its mission of investor protection.

Denise Voigt Crawford
Texas Securities Commissioner
NASAA President-elect 2008-2009

Fred Joseph
Colorado Securities Commissioner
NASAA President 2008-2009

Karen Tyler
North Dakota Securities Commissioner
NASAA President 2007-2008

Financial Services Regulatory Reform

At this critical time in our nation's history, it is imperative that our system of financial services regulation be improved to better protect our investors, our markets, and our economy.

To serve all of these vital interests, the Obama Administration and Congress, working together with federal and state regulators, must take the difficult, yet necessary, steps to ensure that our new regulatory approach promotes change on Wall Street to the benefit of Main Street investors.

In an appearance on Meet the Press in early December 2008, then President-elect Obama signaled his clear intent to reshape the nation's financial services regulatory structure, saying:

"As part of our economic recovery package, what you will see coming out of my administration right at the center is a strong set of new financial regulations in which banks, ratings agencies, mortgage brokers, a whole bunch of folks start having to be much more accountable and behave much more responsibly because we ... can't create the kind of systemic risks that we're creating right now, particularly because everything is so interdependent. We've got to have transparency, openness, fair dealing in our financial markets."

U.S. Senator Jack Reed (D-RI) outlines the need for regulatory reform in a speech at the 2008 NASAA Public Policy Conference.

Earlier in the year, in an address during the NASAA Public Policy Conference, Sen. Jack Reed (D-RI), Chairman of the U.S. Senate Subcommittee on Securities, Insurance, and Investment, outlined the key elements that converged to devastate the U.S. and global economies in 2008. Among the common themes were: a lack of transparency and disclosures in complex financial products; a lack of accountability, governance, and oversight; a lack of effective analysis by credit rating agencies; and a "*lax regulatory environment created in part by financial regulators' desires to emulate their overseas counterparts' 'principles-based' approaches. This has been fueled by an overreliance by financial regulators on communicating expectations with speeches and press releases rather than regulatory guidance, rules, and examinations. And even some efforts by federal regulators to block state regulators from trying to put the brakes on from heading in the wrong direction.*

"The events of the past year no doubt signal a clear and critical need to modernize the country's financial services regulations. But underlying that effort there needs to be a sober review on how we got here," Reed said. *"There should be serious reflection among all the regulators about what they have done in the last several months and years and how they can improve dramatically their regulation and supervision. This is not about pointing fingers but about understanding what went wrong so we can understand how to fix it."*

Indeed, 2009 holds the promise to be one of the most active years for public policy since the New Deal. Millions of Main Street investors are looking to Wall Street, its regulators, and lawmakers to help safeguard their financial security.

Main Street investors deserve a regulatory structure that is collaborative, efficient, comprehensive, and strong. NASAA members have offered a series of recommendations to help achieve these objectives as applied to five core principles for regulatory reform.

NASAA President Fred Joseph outlines NASAA's 2009 legislative agenda at the National Press Club in Washington, DC.

"Our principles and recommendations provide an appropriate level of investor protection through a new financial services regulatory structure that promotes responsibility, accountability, and transparency."

Fred Joseph
NASAA President
Colorado Securities Commissioner

Throughout the United States, state securities regulators have a long history of providing national leadership on issues of real concern to Main Street investors. The unique experiences of state securities regulators on the front lines of investor protection provide the framework of the core principles for regulatory reform.

First, the new approach to financial services regulation must build upon the collaboration between state and federal authorities. Regulating our financial markets is an enormous challenge that requires the combined efforts of state and federal regulators to protect the integrity of the marketplace and to shield consumers from fraud

Issue Focus:
Financial Services Regulatory Reform

> **"When it comes to securities regulation, one size does not fit all. It is dangerous to rely on one regulatory model during a time when regulation has not kept pace with innovation in financial services and markets."**
>
> **Denise Voigt Crawford**
> **NASAA President-elect**
> **Texas Securities Commissioner**

and abuse.

State securities regulators must not be preempted or marginalized as mere advisers to federal authorities. Particularly in the areas of enforcement, licensing, and compliance examinations, state regulators add an indispensable layer of consumer protection.

Perhaps the greatest lesson of 2008 was that risk must be reined in. Clearly we must enhance our ability to manage risk in all financial markets. The keys to this reform are better detection, communication, and intervention. These improvements are best achieved not by creating a new federal regulator, but rather by improving the tools and methods that existing agencies have at their disposal for identifying and limiting risk. In order to improve communication and coordination, we have recommended the expansion of the President's Working Group on Financial Markets to include representatives from the state agencies that regulate banking, insurance, and securities.

The new approach must guarantee that no markets escape regulation. Gaps in the current regulatory system have allowed an enormous amount of capital to be traded on opaque financial markets, free from licensing, oversight, and enforcement. Closing these regulatory gaps would ensure greater transparency for all financial markets, products, and participants.

The new approach also must demand higher standards of conduct in all financial sectors. In the area of securities regulation, NASAA believes that a fiduciary duty should be imposed on all securities professionals who dispense investment advice, including broker-dealers. Every sector must be held to more stringent accounting standards and capital requirements to ensure transparency and solvency.

Finally, the new structure must toughen

NASAA President-elect and Texas Securities Commissioner Denise Voigt Crawford questions Obama presidential campaign adviser Roel Campos (center) and McCain presidential campaign adviser Peter Wallison to learn details about each campaign's plans for regulatory reform.

punishments for those who violate securities laws. Lawmakers should increase the enforcement budgets for state and federal regulators to fund aggressive investigations into those who abuse the consumer's trust. Consumers must also be assured the right to seek private action against sellers of fraudulent financial products.

State securities regulators also must continue to provide a valuable layer of protection that – in conjunction with their federal counterparts and industry self-regulators – insulates the investing public, the markets, and the overall economy from subsequent financial freezes. Whether we are making national headlines as was the case with the recent settlements of auction rate securities investigations – which promise to return more than $50 billion to harmed investors – or our daily activities of licensing, registration, examination, investigation, and investor education, state securities regulators are on the front lines of investor protection.

Taken together, NASAA's Core Principles for Regulatory Reform offer positive and progressive change. They provide an appropriate level of investor protection through a new financial services regulatory structure that promotes responsibility, accountability, and transparency. As policymakers map out this new regulatory approach in 2009, we urge them to fully recognize the extent of the contributions of state securities regulators to consumer protection in financial services.

NASAA's Core Principles for Financial Services Regulatory Reform

Our system of financial services regulation must be strengthened and improved to better protect our investors, our markets, and our economy as a whole.

To serve all of these vital interests, Congress, working together with federal regulators, state regulators, and self-regulatory organizations, should take steps to ensure that our new approach is strong, comprehensive, collaborative, and efficient.

NASAA believes policymakers can achieve these objectives by applying five core principles of regulatory reform:

1. **Preserve** state/federal collaboration while continuing to streamline the regulatory system where appropriate.

2. **Close** regulatory gaps by subjecting all financial products and markets to regulation.

3. **Strengthen** standards of conduct, and use "principles" to complement rules, not replace them.

4. **Improve** oversight through better risk assessment and interagency communication.

5. **Toughen** enforcement and shore up private remedies.

Protecting Senior Investors

Continuing their leadership to protect seniors from investment fraud, NASAA members in 2008 approved a new model rule prohibiting the misleading use of senior and retiree designations, a problem first spotlighted by state securities regulators and now the subject of federal legislation.

Then- NASAA President Karen Tyler launched NASAA's efforts to protect seniors from unscrupulous financial advisers using misleading designations.

"We detected a growing problem for senior investors and responded to it aggressively with a regulatory solution," NASAA's Past-President Karen Tyler said.

The model rule prohibits the misleading use of senior and retiree designations while providing a means by which a securities administrator may recognize the use of designations conferred by an accredited organization.

NASAA's Model Rule on the Use of Senior-Specific Certifications and Professional Designations represents the culmination of an effort NASAA and its members launched in 2003 to focus national attention on unscrupulous behavior targeting senior investors. The NASAA Task Force on Senior Designations developed the proposed rule, which was released for public comment in November 2007.

"Through a process informed by member and public comment, the Task Force produced a model rule that will provide state securities regulators with an effective weapon in the fight against senior investment fraud," Tyler said.

In his endorsement of the NASAA model rule, then Securities and Exchange Commission Chairman Christopher Cox said: "This national approach to senior designations at the state level will make it easier for honest firms to help their aging customers, while making it harder for fraudsters to rob our parents and grandparents of their financial security."

The model rule addresses the growing use of financial designations or certifications that ostensibly convey expertise in advising seniors and retirees. "Investors often have insufficient information when trying to determine whether so-called 'senior designations' represent meaningful educational achievement by the salesperson, or are merely marketing tools," said Task Force Chair and Maryland Securities Commissioner Melanie Lubin.

The use of a senior designation by salespersons, whether registered or not, confers an impression that the salesperson has special qualifications or specialized education in addressing the needs of senior citizens or retirees, particular areas of finance, financial planning, estate planning, or investing. "The requirements to obtain designations and certifications vary greatly, as can the processes for monitoring compliance with a code of conduct or ethics, if any, adopted by the organization that awards the designation or certification," Lubin said.

Current NASAA President Fred Joseph noted that the state of Massachusetts led the way as the first state to adopt rulemaking affecting the use of senior specialist designations. At the beginning of 2009, 11 states had adopted NASAA's model rule either through legislation or regulation, with action pending in several states.

> **"Investors often have insufficient information when trying to determine whether so-called 'senior designations' represent meaningful educational achievement by the salesperson, or are merely marketing tools."**
>
> **Melanie Lubin**
> **Maryland Securities Commissioner**

NASAA appreciates the leadership of Sen. Herb Kohl (D-WI), chair of the U.S. Senate Special Committee on Aging, to protect senior investors. NASAA strongly supports the "Senior Investor Protection Act of 2008," introduced by Sen. Kohl. The legislation would provide grants to states to enhance the protection of seniors from being misled by false designations.

NASAA joined forces with AARP in 2008 to launch an innovative program that gives individuals an opportunity to fight back against unscrupulous promoters by reporting questionable investment practices in their communities to state securities authorities for evaluation.

The "Free Lunch Monitor" program is designed to monitor whether investors are being pressured into purchasing inappropriate or unsuitable investments. "State securities regulators appreciate the opportunity to work closely with AARP and its membership to put unscrupulous salespeople on notice that the victimization of senior investors will not be tolerated," Joseph said.

Also in 2008, NASAA, the SEC, and FINRA released a joint report outlining practices that financial services firms can use to strengthen their policies and procedures for serving older investors as they approach and enter retirement. The report – *Protecting Senior Investors: Compliance, Supervisory, and Other Practices Used by Financial Services Firms in Serving Investors* – provides practical examples of proactive steps being taken by financial services firms in serving senior investors.

"The practices in this report, combined with strong regulation, effective industry compliance and supervision, and increased investor awareness, help ensure that the financial needs of our growing senior population are being met by brokers, investment advisers, and others in the financial services industry. We appreciate the efforts of those in the industry who shared their successful programs with us, and we look forward to continue working with the SEC, FINRA, and the financial services industry in the fight against senior investment fraud," Joseph said.

SPECIAL REPORT

NASAA Members at the **Forefront**

What began with a number of investor complaints in early 2008 to state securities regulators about a complex and little understood financial instrument grew into a series of investigations and settlements with major Wall Street firms promising to return billions of dollars to beleaguered investors.

The auction rate securities investigations and settlements are examples of well-coordinated, collaborative efforts among state and federal regulators. They come only a few years after many of the same Wall Street firms were involved in the analysts' conflict of interest global settlement with the states, SEC, NYSE, and the NASD (now FINRA).

These examples of widespread misconduct in the financial services industry prove that now is the time to strengthen, not weaken, our unique complementary regulatory system of state, federal, and industry regulation. More than 100 million investors – many of them wary and cynical – expect regulators to remain vigilant – and to make sure that Wall Street puts investors first.

The Investigations

State securities regulators began responding to auction rate securities (ARS)-related complaints soon after the ARS market froze in February 2008.

State offices received complaints from a wide range of outraged investors – young families saving for a first home, small business owners, retirees, and people with parents in nursing homes – whose financial lives have literally been put on hold because the money they were told was "cash-like" was tied up in the frozen market and inaccessible to them. NASAA members have logged hundreds of complaints from individuals holding frozen auction rate securities valued at over $600 million.

Given the growing number and the serious nature of the complaints received around the country, state securities regulators initiated a collaborative approach to investigate the marketing and sale of auction rate securities by various broker-dealers.

On April 13, 2008, NASAA announced the formation of its Auction Rate Task Force, chaired by Bryan Lantagne, Director of the Massachusetts Securities Division. The original Task Force members included state securities regulators from Florida, Georgia, Illinois, Massachusetts, Missouri, New Hampshire, New Jersey, Texas, Virginia, and Washington.

These states led the national effort and continue to serve, with California and Pennsylvania, as leads in the investigative process. Many other states are functioning in supporting capacities.

From its inception, the goal of the task force has been to restore liquidity to ARS investors and, as of today, the firms have agreed to buy back an estimated more than $50 billion of the securities from investors. When all is said and done, this will be the single largest repayment to investors in the history of the capital markets.

State Securities Regulators Lead Effort to Provide Relief for Auction Rate Securities Investors

The investigations covered the breadth of the problem from underwriting, to the auction process, to marketing, sales practices, and the conflicts of interest that arose between the firms and their customers.

The investigations also attracted attention on Capitol Hill, where the House Financial Services Committee held a hearing on September 18 to examine the ARS problem and potential solutions. Committee Chairman Barney Frank (D-MA) opened the hearing with strong support of the role of state securities regulators, stating that "[I]t has been the state securities officials . . . that have taken the lead."

> **"It has been the state securities officials . . . that have taken the lead."**
> **Rep. Barney Frank (D-MA)**
> **Chair, U.S. House Financial Services Committee**

Enforcement Actions

On June 26, 2008, the Massachusetts Securities Division of the Secretary of the Commonwealth filed the first ARS related enforcement action, which was against UBS Financial Services (UBS). The case highlights the profound, undisclosed conflict of interest that arose between UBS and its customers: The firm was promoting ARS securities to its clients at the same time that it was desperate to reduce its own inventory, based on concerns about potential problems in the ARS auction market. The Massachusetts Securities Division followed the UBS complaint with one against Merrill Lynch, Pierce, Fenner & Smith on July 31, 2008, addressing the manner in which Merrill Lynch conducted its ARS business, as well as how it interacted with its research department. It charges the firm with separate counts of fraud and dishonest and unethical conduct for creating and implementing a sales and marketing scheme that significantly misstated not only the nature of auction rate securities, but also the overall stability of the auction market, resulting in thousands of investors being abandoned with illiquid investments.

The Settlements

Through the end of 2008, 11 Wall Street firms had reached settlements in principle to restore an estimated $50 billion of liquidity to nearly 190,000 investors across the nation. Negotiations are ongoing with several additional firms. "Given the current economic situation, these settlements represent a step toward providing a measure of relief for thousands of Main Street investors," said NASAA President Fred Joseph.

The terms of the settlements are not identical because there were different and varying degrees of alleged wrongdoing uncovered at each firm.

In addition to restoring liquidity to investors, the common elements of the settlements include, among other provisions: establishing of a special arbitration procedure; refunding certain refinancing fees to municipal auction rate issuers; and assessing fines and penalties payable to the states reflecting the firms' dishonest and unethical marketing and sale of ARS securities to investors.

NASAA Members at the **Forefront**

Billions of Dollars Lost to Penny Stock & Micro-cap Stock Fraud

State Initiative
1989: States determined penny stock offerings by newly formed shell companies to be per se fraudulent. These "blank check" companies had no business plan except a future merger with an unidentified company. In **1996-97**, 33 states participated in sweep of 15 broker-dealer firms that specialized in aggressively retailing low-priced "micro cap" securities to investors. States found massive fraud in firms' manipulation of shares of start-up companies, most of which had no operating history.

National Response
1990: Congress passed Penny Stock Reform Act, which mandated SEC to adopt special rules governing sale of Penny Stocks (<$5.00 per share) and public offerings of shares in blank check companies (SEC Rule 419). In **1997-98,** Congress held hearings on fraud in the micro-cap securities markets (shares selling between $5-10). In **2002**, Congress passed Sarbanes-Oxley Act, which made certain state actions a basis for federal statutory disqualification from the securities industry.

Securities Offerings on the Internet

State Initiative
1996-97: States issued uniform interpretative guidance on use of Internet for legitimate securities offerings and dissemination of product information by licensed financial services professionals.

National Response
1998: SEC issued interpretative guidance based on the States' Model on the use of Internet for securities offerings and dissemination of services and product information by licensed financial services professionals.

Online Trading & Day Trading Risks

State Initiative
1999: States issued a report showing that day trading firms failed to tell prospective investors that 70% of day traders would lose their investment while the firm earned large trading commissions. In another 1999 report, on trading of securities on the Internet, states found that investors did not appreciate certain risks, including buying on margin and submitting market orders.

National Response
2000: SEC approved new NASD rules making day trading firms give written risk disclosure to individual investors. **2001**: SEC approved new NASD and NYSE rules governing margin extended to day traders. Also in 2001, the SEC approved a new NASD rule requiring brokers to provide individual investors with a written disclosure statement on the risks of buying securities on margin.

SPECIAL REPORT

of **Investor Protection** Issues

Research Analyst Conflicts of Interest

State Initiative
2002-03: States investigated and helped focus attention on conflicts of interest between investment analysts and major Wall Street firms.

National Response
2002-03: The SEC, NASD, NYSE, and states reached a landmark $1.4 billion global settlement and firms agree to reform practices

Illegal Mutual Fund Trading Practices

State Initiative
2003: States uncovered illegal trading schemes that had become widespread in the mutual fund industry.

National Response
2003-2004: SEC, NASD and NYSE launch investigations; reform legislation introduced in Congress but fails to gain support; SEC initiates wide-ranging effort to reform certain fund regulations.

Senior Investment Fraud

State Initiative
2005-2008: After calling attention to widespread fraud against senior investors in 2005, NASAA members approved a model rule in 2008 prohibiting the misleading use of senior and retiree designations and numerous states have adopted the model through legislation or regulation.

National Response
2008: Sen. Herb Kohl, chair of the U.S. Senate Special Committee on Aging, introduced legislation that would provide grants to states to enhance the protection of seniors from being misled by false designations.

Auction Rate Securities

State Initiative
2008: Based on investor complaints, states launched a series of investigations into the frozen market for auction rate securities. The investigations led to settlements with 11 major Wall Street firms to return $50 billion to ARS investors.

National Response
2008: SEC looked into underwriting and sales practices of auction rate securities. While it did discover and try to remedy certain manipulative practices, the SEC failed to identify or correct fundamental conflicts of interest and self dealing that pervaded the auction rate market.

Accomplishments & Activities

NASAA's fundamental mission is to protect investors from fraud and abuse. For NASAA and its members, 2008 was a year of significant accomplishment in a number of key areas, including legislative, regulatory, legal, media, and investor education.

Governmental Affairs

NASAA and its membership developed strong relationships with lawmakers on both sides of the aisle during the 110th Congress because of our mutual goal of putting the interests of investors first. The fight against investment fraud knows no party labels, and NASAA welcomes the opportunity to work with all members of Congress to find common ground in our efforts to advance investor protection. We look forward to building upon those relationships during the 111th Congress. NASAA, through its membership, the Federal Legislation Committee, and Corporate Office staff, actively promotes the interests of state and provincial securities regulators before legislatures. NASAA provides a united voice to call for maintaining the essential authority of state and provincial securities regulators to keep capital markets safe for all investors. NASAA members testify before federal, state, and provincial legislatures on a variety of initiatives and have been the voice of reasonable and responsible regulation to protect investors in our securities markets.

TESTIMONY

U.S. House Committee on Financial Services: ***"Auction Rate Securities Market: A Review of Problems and Potential Resolutions"*** **/ September 18, 2008**

In written testimony submitted to the U.S. House Committee on Financial Services, NASAA outlined the efforts of state securities regulators to provide relief to auction rate securities investors. The testimony concluded: "The auction rate securities investigations and settlements are examples of well coordinated, collaborative efforts among state and federal regulators. They come only a few years after many of the same Wall Street firms were involved in the analysts' conflict of interest global settlement with the states, SEC, NYSE, and the NASD (now FINRA). These examples of widespread misconduct in the financial services industry prove that now is the time to strengthen, not weaken, our unique complementary regulatory system of state, federal, and industry regulation. One hundred million investors – many of them wary and cynical – expect regulators to remain vigilant – and to make sure that Wall Street puts investors first."

COMMENTS

Financial & Economic Stabilization Plans

September 25, 2008

In the days leading to Congressional approval of the unprecedented $700 economic stabilization legislation, NASAA President Fred Joseph wrote to the chairmen and ranking members of the U.S. Senate Banking Committee and the U.S. House Committee on Financial Services to stress that the plan must safeguard the interests of Main Street investors and taxpayers. NASAA outlined three key elements required for the plan to be effective, fair, and credible. Each of these elements was subsequently adopted. First, the plan should ensure that the government's authority to purchase, manage, and sell distressed assets, using taxpayer money, is subject to close scrutiny and accountability. Second, the plan should mitigate the cost of the rescue by giving the government, and thus all taxpayers, an ownership interest in any company that avails itself of this extraordinary opportunity to off-load distressed assets. Finally, the plan should impose appropriate limits on the compensation of executives at companies participating in the plan. Joseph noted that once some measure of calm is restored to financial markets, the nation's system of financial regulation must be reassessed and strengthened. "NASAA looks forward to working with the Congress and the Administration as we consider reforms to the financial services regulatory structure," Joseph wrote. "Any changes must preserve the vital role that state securities regulators play in protecting Main Street investors—a role that has served the public well for nearly 100 years."

H.R. 6513, "Securities Act of 2008"

September 8, 2008

In a letter to Members of Congress, NASAA expressed its support of congressional efforts to strengthen securities regulation, saying "now is the time to strengthen, not weaken, investor protection given what's happened on Wall Street during the past year." In its letter, NASAA wrote that the proposed amendments to the federal securities laws in the Securities Act of 2008 will strengthen the tools available to the Securities and Exchange Commission (SEC) and some, such as the authority to impose civil monetary penalties, are consistent with state securities laws and with the Uniform Securities Acts. NASAA also expressed its opposition to further amendments of Section 18(b)(1) of the Securities Act of 1933.

The Arbitration Fairness Act of 2007

July 15, 2008

In a letter to the chair and ranking member of the House Subcommittee on Commercial and Administrative Law, NASAA expressed its support of H.R. 3010, the Arbitration Fairness Act of 2007, which NASAA interprets as prohibiting broker-dealers from requiring investors to accept mandatory arbitration clauses. Almost every broker-dealer presently includes in their customer agreements a pre-dispute arbitration provision that forces public investors to submit all disputes that they may have with the firm and/or its associated persons to mandatory arbitration. "NASAA believes this 'take-it-or-leave-it' clause in brokerage contracts is inherently unfair to investors and that the Arbitration Fairness Act of 2007 is a positive step in the right direction," NASAA stated. "This legislation will not prohibit arbitration, it will only give investors a choice between arbitration and the traditional court system."

NASAA said Congress should also review the manner in which arbitrations are conducted to determine whether (1) there is sufficient disclosure of potential conflicts by panel members; (2) selection, qualification, and composition of the panels is fair to the parties; (3) arbitrators receive adequate training; (4) explanations of awards are sufficient; and (5) the system is fast and economical for investors.

President's Advisory Council on Financial Literacy / May 23, 2008

NASAA offered its views of the state of financial literacy and education in the United States and outlined the efforts of NASAA members to deliver financial education to constituents. "State securities regulators share the President's Council's concerns with our nation's current level of financial literacy. We also share a belief that we can make a difference, and we are committed to pursuing constructive and proactive solutions," NASAA wrote.

The Preservation of Federalism in Banking Act

March 4, 2008

In a letter to Rep. Luis V. Gutierrez (D-IL), NASAA expressed its support of H.R.1996, the *Preservation of Federalism in Banking Act*, saying it would help to rectify the Supreme Court's decision in *Watters v. Wachovia* that ruled that wholly owned operating subsidiaries of national banks are provided the same ability as national banks to ignore state consumer protection statutes and regulations. In its letter, NASAA outlined its concerns that "as the worlds of banking, insurance, and securities increasingly intersect, federal regulators, such as the Office of the Comptroller of the Currency (OCC) and the Office of Thrift Supervision (OTS) may seek to encroach further upon state regulatory jurisdiction, not only in banking, but potentially in the areas of insurance and securities as well." H.R.1996 addresses the need for states to be able to enforce both state and federal laws when a financial institution's primary federal regulator is not protecting the citizens of the state. Moreover, state legislators and attorneys general need a clear statement of their roles in protecting the citizens of their states.

Advancing the interests of state and provincial securities regulators through effective regulation is a fundamental aspect of NASAA's mission. A significant amount of NASAA's work focuses on representing the interests of state and provincial securities regulators and working in a coordinated and cooperative manner with the U.S. Securities and Exchange Commission, industry self-regulatory organizations such as the FINRA, and international regulatory bodies, including the International Organization of Securities Commissions (IOSCO) and the Council of Securities Regulators for the Americas (COSRA).

The state-federal-industry regulatory relationship has a proven record of serving investors well. With more than 100 million investors relying on our securities markets to meet their financial goals – and on securities regulators to keep those markets well-policed – state, federal, and industry securities regulators must continue to work together to ensure that this complementary regulatory relationship remains as seamless as possible.

Legal & Regulatory Affairs

NASAA also serves an important role in representing the membership's position, as *amicus curiae*, in significant cases brought by private plaintiffs, as well as government regulators, involving the interpretation of the securities laws and the rights of investors.

COMMENTS

Privacy of Consumer Financial Information

September 12, 2008

In a comment letter to the SEC, NASAA outlined its ongoing support for efforts to safeguard personal and financial information. "The use and dissemination of sensitive personal and financial information has been an area of continuing concern for state securities regulators and we support strengthening Regulation S-P and the Commission's goal of maintaining consistency with regulations and guidance issued by other regulatory agencies," NASAA wrote. "Protecting consumers from unwanted access to personal information and identity theft is paramount. However, we do not believe that firms that prevent a departing representative from retaining basic customer contact information are doing so in an effort to prevent identity theft. Rather, we find that some firms attempt to use Regulation S-P as a means to prevent consumers from moving their accounts to another firm, and limit their choice of registered representatives to those affiliated with the firm." NASAA urged the SEC to revisit the proposed exemption to permit representatives to retain basic contact information for the clients that they have serviced: "We believe such an exemption will afford consumers the benefit of being properly informed regarding a relocation of their financial professional and the opportunity to retain the portability of their account(s)."

Equity-Indexed Annuities

September 10, 2008

NASAA strongly endorsed a proposal, which the SEC subsequently adopted, to subject equity-indexed annuities (EIAs) to regulation under the federal securities laws and help protect millions of investors across the country, many of them senior citizens, from the fraud and abuse that is taking place in the sale of EIAs. "NASAA strongly supports the SEC's proposed rule. Equity-indexed annuities are extremely complex investment products that have often been used as instruments of fraud and abuse. Although these products are securities, they remain largely unregulated under federal securities law," NASAA wrote. "For years, they have taken an especially heavy toll on our nation's most vulnerable investors, our senior citizens. We commend the SEC and Chairman Cox in particular for taking this important step, and we urge the SEC to adopt the proposed rule expeditiously so that the investing public can benefit from the protections it will afford." In its letter, NASAA said the proposed rule would enable the SEC to address these abuses with the regulatory tools available under the federal securities laws, ranging from mandatory registration and disclosure requirements to strong suitability standards and antifraud remedies.

Form ADV

May 16, 2008

In a letter to the SEC, NASAA outlined its support of the SEC's proposal of a single form for use by state and SEC registered investment advisers, stating that "overall the proposed rule and form amendments further investor protection by requiring investment advisers to provide meaningful information to investors, including an adviser's and its supervised persons' disciplinary history." NASAA also said that the proposal struck an "appropriate balance" in that "increased investor protection is achieved without overburdening the investment advisers who must complete these forms." NASAA supported the rule's requirement that investment advisers file their narrative brochures electronically through the IARD system, something that state-registered advisers have been doing since 2007. To date, more than 5,600 state adviser filings have been processed. NASAA also offered several suggestions to enhance fee and disciplinary disclosures on the form.

Expungement

April 24, 2008

In a comment letter filed with the SEC regarding FINRA's proposal to establish new procedures for arbitrators to follow when considering requests for expungement relief, NASAA noted the urgent need to reform the expungement process. While expressing support for FINRA's endeavors to effectuate change to the arbitration procedures for expungement relief, NASAA also said FINRA must make further improvements to the expungement process in order to maintain the integrity of the Central Registration Depository (CRD) and further our shared mission of investor protection. "The CRD, and the information contained therein, is a central component of this mission," NASAA wrote. "We recognize that expungement relief is appropriate in certain circumstances, but it is extraordinary relief. Those seeking such relief and those recommending it should only do so in limited circumstances. FINRA must take further steps to guard against valuable information about brokers being destroyed. We support the Proposal and FINRA's attempts to clarify what has become a murky process. We encourage FINRA to take further steps to provide guidance on the substance of the Rule and to make certain that expungement truly be extraordinary relief that can not be bought."

Arbitration

April 17, 2008

In a comment letter to the SEC regarding FINRA's proposed rule change relating to amendments to the Codes of Arbitration Procedure to permit submissions to arbitrators after a case has closed, NASAA outlined concerns that the proposal may create a new avenue through which registered representatives can seek expungement of customer complaints from their Central Registration Depository (CRD) records. "NASAA is concerned that, whether intended or not, this rule proposal gives respondents an indirect and unfair route to expungement," NASAA wrote in urging FINRA to abandon the rule. Instead, NASAA suggested FINRA amend its rule proposal to include language that explicitly states that parties may not submit post-award documents that request expungement. "A clear and unequivocal prohibition will serve to bring an additional measure of finality to the arbitration process and ensure that the minimal procedural requirements currently in place are not bypassed," NASAA wrote.

LEGAL BRIEFS

Pet Quarters, Inc. v. Depository Trust and Clearing Corporation

In an amicus brief filed in the United States Court of Appeals for the Eighth Circuit, NASAA argued that states retain a significant role as to securities regulation generally, and with respect to clearing and settlement in particular. NASAA also argued that the long-standing role of state law in protecting investors from fraud and abuse has always been and remains vital. "State statutes governing securities transactions and other financial services all play a vital role in protecting consumers," NASAA argued. "Congress can and does set limits on the scope of those laws, but those limits should be sparingly applied, not only because Congress and the courts have said so, but because investors and consumers usually suffer when they are denied access to state courts to seek redress for unlawful conduct. Limiting the scope of preemption in accordance with a fair interpretation of federal law and congressional intent is vital, not only in this case, but for the sake of other consumers whose best, and perhaps only, recourse is in state court under state law. Thus, if the preemption arguments advanced by the Clearing Agencies are validated, then other plaintiffs with legitimate claims regarding other types of securities fraud may also be denied redress. Especially today, as financial frauds of all kind continue to proliferate, barriers to the courts should be removed, not fortified."

Communications & Investor Education

NASAA promotes the work of its members through a proactive communications and media relations program focused on print, broadcast, and online media. The communications staff also provides support for legislative and grassroots media activities and raises media awareness of the value of state and provincial securities regulation.

NASAA continued to receive heightened media attention in 2008. Through early December, NASAA was referenced in more than 2,400 articles and broadcasts. The primary drivers of media interest and coverage were the investigations and settlements of auction rate securities cases, NASAA's response to the Treasury Blueprint for regulatory restructuring in April; and the efforts of state and provincial securities regulators to combat investment fraud, especially fraud targeting senior investors. In April, NASAA commended Dateline NBC for its program, "Tricks of the Trade," which featured Alabama Securities Commission Director Joseph Borg and exposed questionable sales practices that some insurance agents use to sell equity indexed annuities that may be unsuitable investments for seniors.

NASAA's investor education outreach program also enjoyed a year of significant accomplishment. Since NASAA began tracking investor education outreach efforts by the membership in November 2006, more than 324,000 constituents have been reached through 2,369 investor education presentations. NASAA also represented its members in 2008 at meetings of the American Savings Education Coalition, the Jump$tart Coalition for Personal Financial Literacy, the U.S. Treasury's Financial Literacy Education Commission, National Financial Education Network, and the President's Advisory Council on Financial Literacy.

In November, NASAA launched a new investor education program to provide members of the Sandwich Generation–adults who are raising children while taking care of aging parents–with the information and tools they need to be financially prepared and to protect their assets from fraud. "Millions of adults are facing a generational sandwich that's putting an economic squeeze on everyone involved," said NASAA President Fred Joseph. NASAA's *"Sandwich Generation: Caught in the Middle" Outreach Program* is being used in member jurisdictions to provide adults facing competing financial responsibilities with information and guidance on practical steps they can take to shore up their financial future. NASAA's Pre-Retiree Outreach Project Group developed the program.

In April, NASAA launched an outreach program to provide law enforcement with resources and information to help investigate public complaints about investment fraud.

Designed for use by law enforcement officers and district attorneys, the *Law Enforcement Outreach Program* features a series of resources about financial instruments commonly used in schemes to defraud investors. The program offers training for law enforcement who field complaints or questions from investors who believe they have been defrauded.

"We recognize the importance of training law enforcement officers and prosecutors how to approach securities fraud, a crime that is often difficult to detect or understand," said NASAA Past-President Karen Tyler.

The program was produced by NASAA's Investor Education Coordination Project Group and has been endorsed by the National White Collar Crime Center.

Conferences & Training

NASAA's two major conferences – the Public Policy Conference and the Annual Conference – brought regulators, industry representatives, policymakers, media representatives, and others to Washington, D.C. in April and Las Vegas, Nevada, in September. The spring Public Policy Conference included keynote speeches by U.S. Senator Jack Reed (D-RI) and SEC Chairman Christopher Cox. Panels explored how investors will be affected by changes to the U.S. financial services regulatory structure. NASAA's Annual Conference featured panel discussions addressing the risk management challenges presented by the credit market crisis and how the financial services industry will face challenges presented by rapid globalization and changing demographics. Roel Campos and Peter Wallison, advisers to the Obama and McCain presidential campaigns respectively, outlined the impact of a new presidential administration and congressional session on the financial services industry, regulators, and investors. Other speakers included Nevada Secretary of State Ross Miller, noted political commentator Norm Ornstein, and Dr. Keith Schwer, Professor of Economics at the University of Nevada, Las Vegas, who detailed the impact of the credit crises on the West.

Educating and training our members is an integral aspect of NASAA's mission. NASAA's emphasis on training helps promote uniformity by ensuring that state examiners, investigators, and prosecutors are aware of current problem areas so that they can more effectively regulate the securities industry and serve investors.

In 2008, NASAA hosted a series of training seminars devoted to broker-dealer, investment adviser, franchise, corporation finance, investor education, litigation, attorney/investigator, CRD/IARD, and joint regulatory issues.

NASAA Conferences & Events

2008 Public Policy Conference

Conference Chair and North Carolina Deputy Securities Administrator David Massey delivers opening remarks to NASAA members.

New Hampshire Securities Commissioner Mark Connolly (left) listens as former SEC Commissioner Roel Campos discusses the future of securities regulation.

NASAA President Karen Tyler listens as U.S. Sen. Jack Reed (D-RI) delivers the keynote address.

NASAA Executive Director Russ Iuculano outlines the association's accomplishments and goals in an address to the membership.

In his final address at a NASAA conference, former SEC Chairman Christopher Cox tells NASAA: "There's nowhere that our joint collaboration with our state regulatory partners is more important than in our daily battle to combat fraud. We could not do our jobs at the SEC without you. We're proud to be your partners."

Maryland Securities Commissioner Melanie Lubin (left) and Wisconsin Securities Administrator Patricia Struck (second from left) outline the importance of extending the fiduciary duty to all financial professionals.

2008 Annual Conference

NASAA Enforcement Section Chair and Delaware Securities Commissioner Jim Ropp (left) listens as Pennsylvania Securities Commissioner Steven Irwin briefs members.

Noted political commentator Norman Ornstein offers an entertaining and insightful outlook for the upcoming presidential and congressional elections.

Arizona Securities Director and Annual Conference Chair Matt Neubert delivers opening remarks.

Nevada Secretary of State Ross Miller welcomes NASAA members and industry representatives.

California Corporations Commissioner Preston DuFauchard (far right) listens as former SEC Accountant Lynn Turner (left) discusses the credit crisis and the lessons learned from a failure to adequately recognize risk in today's financial markets.

Florida Commissioner Don Saxon (center) is joined by Karen Tyler and Fred Joseph upon receiving NASAA's top honor, the Blue Sky Cube.

2008 Arbitration Forum

Leading Arbitration Experts Discuss Ways to Ensure Fairness, Balance at New York Forum

Massachusetts Securities Director Bryan Lantagne opened NASAA's Forum on Arbitration by saying: "Investor protection mandates that the current arbitration forum be fixed to make it fair and transparent to all."

In June 2008, NASAA hosted a public forum in New York, bringing together leading arbitration experts to discuss the current securities arbitration system and to offer constructive steps to ensure that the system is fair, balanced and provides choice to investors seeking to settle broker-related disputes. Moderated by Massachusetts Securities Division Director Bryan Lantagne, the forum included panelists: Barbara Roper, Director of Investor Protection for the Consumer Federation of America; Theodore G. Eppenstein, Senior Partner, Eppenstein & Eppenstein; Tanya Solov, Director, Illinois Securities Department; Jill Gross, Professor of Law, Pace University School of Law; and F. Paul Bland, Jr., Staff Attorney, Public Justice.

The forum attracted an audience of more than 150 participants, including a standing-room only audience of 70 and another 82 who participated via the Internet. A Dow Jones report on the forum noted that it represented the opening of what promises to be a "battle royale" between consumer advocates and industry over the future of securities arbitration.

2008 Regulatory Reform Roundtable

NASAA Members Offer Main Street Agenda for Wall Street Regulatory Reform

In December 2008, NASAA members convened on Capitol Hill to promote a set of five core principles for regulatory reform to help guide the Obama Administration and the 111th Congress as they map out the future of financial services regulation.

NASAA's Regulatory Reform Roundtable was moderated by Colorado Securities Commissioner and NASAA President Fred Joseph. Panelists included Texas Securities Commissioner Denise Voigt Crawford, Alabama Securities Commission Director Joseph Borg, Illinois Securities Department Director Tanya Solov, Maryland Securities Commissioner Melanie Senter Lubin, and Delaware Securities Commissioner James Ropp. The roundtable attracted an audience of 167 participants, including 66 in-person, and another 101 who participated via the Internet.

Alabama Securities Director Joseph Borg listens as Texas Securities Commissioner Denise Voigt Crawford stresses the vital investor protection role of state securities regulators during NASAA's Regulatory Reform Roundtable.

BROKER-DEALER SECTION

Overview

NASAA's Broker-Dealer Section focuses on issues involving broker-dealers and agents. These issues include qualification and licensing requirements, record keeping and compliance requirements, continuing education, and practices involving investors. The Section provides official comments on rule proposals; participates in discussions with industry, SROs, and federal regulators regarding trends and concerns in the brokerage industry; and provides guidance to states on broker-dealer issues. Recent issues include suitability determinations, required disclosures, account fees, variable annuity sales, arbitration, finders, sales practices, and supervision issues. The point-of-sale contact that broker-dealers have with investors makes the work of this Section critical in achieving NASAA's mission of investor protection. The Section oversees the activities of five Project Groups: Arbitration, Continuing Education, Exams Advisory, Market and Regulatory Policy and Review, and Broker-Dealer Operations, and works closely with the CRD/IARD Steering Committee.

Key Activities

Arbitration Project Group Chair Bryan Lantagne and member Tanya Solov represented NASAA at meetings of the Securities Industry Conference on Arbitration. In February, SICA issued a study showing that investors view the securities arbitration forum as biased and unfair.

The Arbitration Project Group also contributed to the successful NASAA Forum on Arbitration, which was held on June 23 in New York. Mr. Lantagne moderated the forum and Ms. Solov served as a featured speaker.

Members of the Continuing Education Project Group offered their expertise in meetings with FINRA, the SEC, and industry representatives to write scenarios for the regulatory elements of the continuing education requirement for securities sales personnel.

The Broker-Dealer Operations Project Group assisted with the ongoing development of the NASAA Electronic Examination Modules (NEMO) database project and also sponsored extensive training for NASAA members regarding broker-dealer issues.

The Broker-Dealer Market Regulatory Policy & Review Project Group supported the efforts of the 12-state Auction Rate Securities Task Force.

Broker-Dealer Section 2008-2009

Matthew Neubert, Arizona, Chair; Tanya Solov, Illinois, Vice-Chair; Preston DuFauchard, California; Ralph Lambiase, Connecticut; Chris Naylor, Indiana; Douglas Brown, Manitoba.

Project Groups

Arbitration: John Cronin, Vermont, Chair; **Continuing Education:** Vacant, Chair; **Exams Advisory:** Sheila Cahill, Nebraska, Chair; **Market and Regulatory Policy and Review:** Carolyn Mendelson, Pennsylvania, Chair; **Operations:** William Reilly, Florida, Chair.

Broker-Dealer Section 2007-2008

Matthew Neubert, Arizona, Chair; Preston DuFauchard, California; Bryan Lantagne, Massachusetts; Tanya Solov, Illinois; Douglas Brown, Manitoba.

Project Groups

Arbitration: Bryan Lantagne, Massachusetts, Chair; **Continuing Education**: Don Saxon, Florida, Chair; **Exams Advisory:** Sheila Cahill, Nebraska, Chair; **Market/Regulatory Policy & Review:** Vacant, Chair; **Operations:** William Reilly, Florida, Chair.

2008 Section Overview

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 seven Project Groups, including: Coordinated Interpretations, Corporate Accountability, Corporation Finance Policy, Direct Participation Programs Policy, Franchise and Business Opportunities, Small Business/Limited Offerings, and Tenancies-in-Common.

Key Activities

A major focus of the Section's 2008 activities, including that of the Small-Business/Limited Offerings Project Group, revolved around the Regulation D electronic filing project that NASAA is developing to interface with the SEC's Form D electronic filing process, which began on a voluntary basis for issuers in September 2008.

The Franchise Project Group completed its extensive work over a two-year period to update and replace the 1993 NASAA Uniform Franchise Offering Circular franchise registration and disclosure guidelines with the NASAA 2008 Franchise Disclosure Guidelines. The new guidelines were adopted by the NASAA membership in June to coordinate with the July 1, 2008 effective date for mandatory compliance with the new Federal Trade Commission Franchise Rule.

Corporation Finance Section
2008-2009

Jack Herstein, Nebraska, Chair; Randall Schumann, Wisconsin, Vice-Chair; Heath Abshure, Arkansas; William Beatty, Washington; Peter Cassidy, Massachusetts; Susan Powell, New Brunswick.

Project Groups

Coordinated Interpretations: Rick Fleming, Kansas, Chair; **Corporate Accountability:** John Quinn, Pennsylvania, Chair; **Corporation Finance Policy:** Patrick Morgan, Missouri, Chair; **Direct Participation Programs Policy:** Mark Heuerman, Ohio, Chair; **Franchise and Business Opportunities:** Dale Cantone, Maryland, Chair; **Small Business/Limited Offerings:** David Weaver, Texas, Chair; **Tenancies-In-Common:** Denise Voigt Crawford, Texas, Chair.

Corporation Finance Section
2007-2008

Mark Connolly, New Hampshire, Chair; Randall Schumann, Wisconsin, Vice-Chair; Peter Cassidy, Massachusetts; Bruce Kohl, New Mexico; Susan Powell, New Brunswick.

Project Groups

Coordinated Interpretations: Rick Fleming, Kansas, Chair; **Corporate Accountability:** Robert Lam, Pennsylvania, Chair; **Corporation Finance Policy:** William Beatty, Washington, Chair; **Direct Participation Programs Policy:** Susan Baker Toth, Arizona, Chair; **Franchise and Business Opportunities:** Dale Cantone, Maryland, Chair; **Small Business/Limited Offerings:** David Weaver, Texas, Chair; **Tenancies-In-Common:** Denise Voigt Crawford, Texas, Chair.

ENFORCEMENT SECTION

Overview

NASAA members have a significant history of bringing enforcement actions, including criminal prosecutions. NASAA assists its members in coordinating enforcement efforts regarding multi-state frauds by facilitating the sharing of information and leveraging the resources of the states more efficiently. NASAA's Enforcement Section acts as a point of contact for other federal agencies and the self-regulatory organizations, such as the SEC, the FBI, the Postal Inspectors, FINRA, and the NYSE; and helps identify new fraud trends. The Section oversees the activities of six Project Groups, including: Attorney/Investigator Training, Enforcement Technology, Enforcement Trends, Litigation Forum, Special Project Development & Coordination, and Enforcement Zones.

Key Activities

The Enforcement Technology Project Group, working in cooperation with the National White Collar Crime Center, continued efforts to upgrade the Securities Investigation Database (SID).

The Enforcement Trends Project Group developed its annual list of top investor traps and conducted a detailed analysis of the product offered by Prosper Marketplace, Inc. an online "peer-to-peer" lending service. In December 2008, NASAA announced that a task force of state securities regulators had reached a settlement in principle with Prosper to resolve matters relating to the sale and offer of unregistered securities and the omission of material facts in connection with the offer, sale, or purchase of a security.

Enforcement Section 2008-2009

James Ropp, Delaware, Chair; Steve Irwin, Pennsylvania, Vice-chair; Kevin Anselm, Oregon; Matt Kitzi, Missouri; Bob Terry, Georgia; Marc Arseneault, Alberta.

Project Groups

Attorney/Investigator Training: Peter Jamison, Delaware, Chair; **Enforcement Technology:** Rob Brunner, Oregon, Chair; **Enforcement Trends:** Michael Byrne, Pennsylvania, Chair; **Litigation Forum:** Mary Beth Williams, Virginia, Chair; **Special Project Development & Coordination:** Zach Ortenzio, Pennsylvania, Chair; **Enforcement Zones:** Katharine Weiskittel, Maryland, Chair.

Enforcement Section 2007-2008

Jim Ropp, Delaware, Chair; Steve Irwin, Pennsylvania, Vice-chair; Kevin Anselm, Oregon; Matt Kitzi, Missouri; Robert Terry, Georgia; Marc Arseneault, Alberta.

Project Groups

Attorney/Investigator Training: Peter Jamison, Delaware Chair; **Enforcement Technology:** Colin McCann, Ontario, Chair; **Enforcement Trends:** Michael Byrne, Pennsylvania, Chair; **Litigation Forum:** Mary Beth Williams, Virginia, Chair; **Special Project Development & Coordination:** Zachary Ortenzio, Pennsylvania, Chair; **Enforcement Zones:** Katherine Weiskittel, Maryland, Chair.

2008 Section Overview

INVESTMENT ADVISER SECTION

Overview

NASAA's Investment Adviser Section develops policies and monitors the state registration and regulation of firms and professionals in the investment advisory business. Such involvement includes development of the Investment Adviser Registration Depository (IARD). 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 four Project Groups, including: Operations, Regulatory Policy and Review, Training, and Investment Adviser Zones. The Section also works closely with the CRD/IARD Steering Committee.

Key Activities

The Section stepped up its outreach to external organizations, including the SEC, FINRA, and the SIFMA Investment Adviser Committee, and continued to spotlight the value added by state regulation of investment advisers.

The Regulatory Policy and Review Project Group concentrated its efforts on completing the new version of the Investment Adviser Model Rules, which provide a template for states adopting the Uniform Securities Act of 2002 (USA 2002). These rules will not replace existing Model Rules, which were compiled based on the 1956 Act, but will be an additional tool to help states organize or create their own rules should they adopt USA 2002.

The Investment Adviser Operations Project Group completed its notices to NASAA regarding fiduciary duty and independent trust companies. The group also prepared for the development of the NASAA Examination Modules (NEMO) database by reviewing the existing IA module. The group also prepared one training lesson for NASAA's web-based training project.

Investment Adviser Section 2008-2009

Patricia Struck, Wisconsin, Chair; Daphne Smith, Tennessee, Vice-chair; Linda Cena, Michigan; Ron Thomas, Virginia; Estella Tong, Ontario.

Project Groups

Operations: Mike Huggs, Mississippi, Chair; **Regulatory Policy and Review:** Ken Hojnacki, Wisconsin, Chair; **Training:** Linda Cena, Michigan, Chair; **Investment Adviser Zones:** Daphne Smith, Tennessee, Chair.

Investment Adviser Section 2007-2008

Patty Struck, Wisconsin, Chair; Colleen Keefe, Kentucky, Vice-chair; Linda Cena, Michigan; Ronald Thomas, Virginia; Richard White, Florida; Estella Tong, Ontario.

Project Groups

Operations: Michael Huggs, Mississippi, Chair; **Regulatory Policy and Review:** Ken Hojnacki, Wisconsin, Chair; **Training:** Rick White, Florida, Chair; **Investment Adviser Zones:** Colleen Keefe, Kentucky, Chair.

2008 Section Overview

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 our members. The Section oversees the activities of five Project Groups, including: Affinity and Military Outreach, Coordination, Senior Outreach, Youth Outreach, and Pre-Retiree Outreach (formerly know as "The Sandwich Generation.")

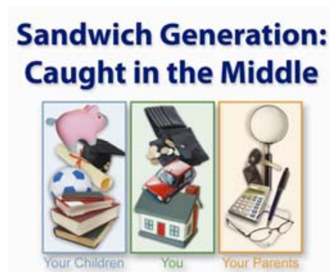
Key Activities

The Investor Education Section held a two-day training on social marketing in conjunction with the FINRA Investor Education Foundation and the Tuck Business School Institute at Dartmouth University.

Senior Outreach Project Group representatives participated in the 2008 Joint Conference of the American Society on Aging and the National Council on Aging, the largest U.S. conference on issues related to aging. The group also participated in the National Guard Bureau's 2008 Human Resources National Conference.

Affinity and Military Outreach Project Group representatives participated in the annual convention of the Association for Financial Counseling and Planning Education.

The Coordination Project Group developed and released its "Securities 101 for Law Enforcement" program to train law enforcement officers and prosecutors on the basics of securities law and securities fraud.



The Pre-Retiree Project Group developed and released its "Sandwich Generation: Caught in the Middle" Toolkit designed to inform middle-aged adults who are balancing the financial demands of preparing for retirement, the higher education of their children, and the care for aging parents.

The Youth Outreach Project Group presented its web-based "Fraud Scene Investigator" program at the Newspaper Association of America's Young Reader Seminar. The FSI program reported more than 25,000 hits in 2008.

Senior Outreach Project Group Chair Tina Kotsalos (PA) represented NASAA at the National Guard Bureau's 2008 Human Resources National Conference.

Investor Education Section 2008-2009. Bruce Kohl, New Mexico, Chair; Colleen Keefe, Kentucky, Vice-Chair; Tung Chan, Hawaii; Lynne Egan, Montana; Theodore Miles, District of Columbia; Anthony Wong, British Columbia. **Project Groups. Affinity and Military Outreach:** Dan Lord, Alabama, Chair; **Research & Coordination:** Andrew Roth, California, Chair; **Senior Outreach:** Christina Kotsalos, Pennsylvania, Chair; **Youth Outreach:** Justin Southern, West Virginia, Chair; **Pre-Retiree Outreach:** Diane Young-Spitzer, Massachusetts, Chair.

Investor Education Section 2007-2008. Wayne Strumpfer, California, Chair; Daphne Smith, Tennessee, Vice-Chair; Tung Chan, Hawaii; Anna Drummond, Vermont; Theodore Miles, District of Columbia; Anthony Wong, British Columbia. **Project Groups. Affinity and Military Outreach:** Dan Lord, Alabama, Chair; **Coordination:** Karen Terhune, Ohio, Chair; **Senior Outreach**: Christina Kotsalos, Pennsylvania, Chair; **Youth Outreach:** Justin Southern, West Virginia, Chair; **Sandwich Generation:** Diane Young-Spitzer, Massachusetts, Chair.

Board of Directors

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

2008-2009 Board

Fred J. Joseph, Colorado, President
Denise Voigt Crawford, Texas, President-elect
Karen Tyler, North Dakota, Past President
David Massey, North Carolina, Treasurer
Glenda Campbell, Alberta, Secretary
Joseph P. Borg, Alabama, (Ombudsman)
Chris Biggs, Kansas
Melanie Senter Lubin, Maryland
Michael Stevenson, Washington

2007-2008 Board

Karen Tyler, North Dakota, President
Fred J. Joseph, Colorado, President-elect
Joseph P. Borg, Alabama, Past President
David Massey, North Carolina, Treasurer
Glenda Campbell, Alberta, Secretary
Denise Voigt Crawford, Texas
Chris Biggs, Kansas
Melanie Senter Lubin, Maryland
Michael Stevenson, Washington
Don Saxon, Florida (Ombudsman)

Board Committees 2008-2009

Awards
Craig Goettsch, Iowa, Chair

Communications
Daphne Smith, Tennessee, Chair

Corporate Governance
Craig Goettsch, Iowa, Chair

CRD / IARD Steering
Melanie Senter Lubin, Maryland, Chair

CRD / IARD Forms and Process
Pam Epting, Florida, Chair

External Affairs
Patricia Struck, Wisconsin, Chair

Federal Legislation
James Ropp, Delaware, Chair

Finance and Audit
Patricia McKenna, Maryland, Chair

Finders
Tanya Solov, Illinois, Chair

International
Joseph Borg, Alabama, Chair

Legal Services
Robert McDonald, Maryland, Chair

NEMO User Acceptance Team
Michael Huggs, Mississippi, Chair

Reg. D Electronic Filing Committee
Michael Stevenson, Washington, Co-Chair
Jack Herstein, Nebraska, Co-Chair

Standards, Certification and Training
Matt Kitzi, Missouri, Chair

State / Federal Relations
Denise Voigt Crawford, Texas, Chair

Technology Planning & Coordination
Vacant, Chair

Uniform Securities Act
Craig Goettsch, Iowa, Chair

Board Committees 2007-2008

Awards

Craig Goettsch, Iowa, Chair

Communications

Daphne Smith, Tennessee, Chair

Corporate Governance

Craig Goettsch, Iowa, Chair

CRD / IARD Steering

Melanie Senter Lubin, Maryland, Chair

CRD / IARD Forms and Process

Pamela Epting, Florida, Chair

External Affairs

Patricia Struck, Wisconsin, Chair

Federal Legislation

James Ropp, Delaware, Chair

Finance and Audit

Patricia McKenna, Maryland, Chair

Finders

Tanya Solov, Illinois, Chair

International

Joseph Borg, Alabama, Chair

Legal Services

Robert McDonald, Maryland, Chair

NEMO User Acceptance Team

William Reilly, Florida (FL), Co-Chair

Michael Huggs, Mississippi, Co-Chair

Reg. D Electronic Filing Committee

Michael Stevenson, Washington, Co-Chair

Mark Connolly, New Hampshire, Co-Chair

Standards, Certification and Training

Matt Kitzi, Missouri, Chair

State / Federal Relations

Denise Voigt Crawford, Texas, Chair

Technology Planning & Coordination

Don Saxon, Florida, Chair

Uniform Securities Act

Craig Goettsch, Iowa, Chair

2008 NASAA Awards

BLUE SKY CUBE

Karen Tyler, North Dakota

Don Saxon, Florida

OUTSTANDING SERVICE AWARD

Anna Drummond, Vermont

Michael Johnson, Arkansas

Wayne Klein, Utah

Franklin L. Widmann, New Jersey

DISTINGUISHED SERVICE AWARD

Carol Gruis, Oklahoma

Anthony Wong, British Columbia

ENFORCEMENT AWARD

Ricky G. Locklar, Alabama

INVESTOR EDUCATION OUTREACH

California Department of Corporations

Ontario Securities Commission

APPRECIATION AWARD

Steven Toporoff

Corporate Office Staff

Executive & Administrative Office

Russ Iuculano
Executive Director

John H. Lynch
Deputy Executive Director

Gina Haidle
Membership Services and Finance Manager

Michelle O'Donnell
Executive Assistant / Office Manager/ Benefits Coordinator

Josephine Oundo
Receptionist

Legal

Rex A. Staples
General Counsel

Steve Hall
Deputy General Counsel

Tina Stavrou
Assistant General Counsel

Faye Gordon
Paralegal

Government Affairs

Deborah A. Fischione House
Director of Policy

Scott Janish
Assistant Legislative Affairs Manager

Communications & Investor Education

Bob Webster
Director of Communications

Melinda Semadeni
Investor Education Manager

Leah Szarek
Communications Assistant

Conferences & Events

Lonnie Martin
Membership and Meetings Manager

Mary Franklin
Meetings and Membership Services Assistant

Training & Technology

Jason Wolf
Training and Technology Manager

North American Securities Administrators Association
750 First Street, N.E. Suite 1140
Washington, DC 20002
www.nasaa.org
(202) 737-0900

NASAA