



NASAA Insight

1919 - 2019: 100 Years of Investor Protection
2019 | Volume 3

New Jersey Bureau of Securities Chief Christopher Gerold Elected President

Christopher W. Gerold, Chief of the New Jersey Bureau of Securities, began a one-year term in September after having been elected to serve as president of the North American Securities Administrators Association (NASAA).

"As NASAA's president, I will work my hardest to ensure that NASAA advances its history of investor protection. I am committed to seeing that NASAA remains a vibrant and successful organization," Gerold said in his inaugural address at NASAA's 2019 Annual Meeting in Austin, Texas.

"As regulators, the things we do matter. Chances are we may never meet many of the people we are helping – those who we have prevented from being victims," Gerold said. "Enforcement of state and provincial securities laws is at the heart of what we do every day."

Gerold said he looks forward to continuing NASAA's collaboration with the SEC and FINRA on investor protection initiatives.

"Protecting investors requires all hands on deck," Gerold said. "We may not always agree, but that does not mean we cannot put differences aside to work toward our common mission of investor protection. Because the things we do matter."



"As NASAA's president, I will work my hardest to ensure that NASAA advances its history of investor protection," said Christopher Gerold, NASAA President and Chief of the New Jersey Bureau of Securities at NASAA's 2019 Annual Meeting in Austin, Texas.

States Responsible for \$1 Billion in Monetary Relief

NASAA's recent enforcement report shows state securities regulators were responsible for more than \$1 billion in monetary relief ordered as a result of state enforcement actions in 2018.

In its *2019 Enforcement Report Based on 2018 Data*, released in September, NASAA reported that state securities regulators conducted 5,320 investigations and took 2,067 enforcement actions in 2018. These actions led to more than \$558 million in restitution ordered returned to investors, fines of \$490 million and criminal relief of 1,753 years, including incarceration and probation.

"This report shows that NASAA members are on the frontlines of investor protection," said Christopher Gerold, NASAA President and Chief of the New Jersey Bureau of Securities. "State and provincial securities regulators stand ready to aggressively protect investors from fraud and police the integrity of our capital markets well into the 21st century."

For the 2018 survey year, NASAA's U.S. members reported enforcement actions involving registered and unregistered actors in equal numbers. States reported acting against 639 registered individuals and firms in the securities industry (broker-dealers and investment advisers) and against 639 unregistered individuals and firms. Within the licensed securities industry, NASAA's U.S. members reported a five-year high in the proportion of enforcement actions involving investment adviser firms.

(See pg. 6 for more)

President's Message: Christopher Gerold



As we approach the end of the commemoration of NASAA's 100th anniversary, I am deeply honored to be entrusted to lead the association into its second century of investor protection.

NASAA continues to draw its strength from a network of public servants throughout North America who have the best interests of investors at heart. What you do

matters. This is what NASAA is all about and I am grateful for the countless hours these volunteers spend serving on NASAA committees, project groups and task forces.

I am honored to be joined by a team of outstanding securities administrators working together to serve and protect investors in the year ahead.

NASAA's Board for Directors for 2019-2020 includes:

- President-elect Lisa Hopkins of West Virginia;
- Past President Mike Pieciak of Vermont;
- Treasurer Andrew Hartnett of Iowa;
- Secretary Claire McHenry of Nebraska;
- Bill Beatty of Washington;
- Kevin Hoyt of New Brunswick;
- Travis Iles of Texas; and
- Tanya Solov of Illinois.

I look forward to working with each of these leaders, as well as those who will lead our sections in the year ahead, including:

- Leslie Van Buskirk of Wisconsin, Broker-Dealer;
- Melanie Lubin of Maryland, Corporation Finance;
- Joe Borg of Alabama, Enforcement;
- Alex Glass of Indiana, Investment Adviser; and
- Lynne Egan of Montana, Investor Education.

I am confident that the Sections will continue their strong work under the leadership of these committed chairs. NASAA also would not be as effective without the dedicated efforts and exceptional work of the team in its Washington, D.C. office led by Executive Director Joey Brady.

NASAA recently released its annual enforcement report. Enforcement actions taken by state and provincial securities regulators send a strong message to those working in the financial industry that we take seriously the need for compliance with state and provincial securities laws.



Christopher Gerold, Chief of the New Jersey Bureau of Securities (left), receives the gavel from outgoing President Michael Pieciak of Vermont to begin his one-year term as NASAA's president.

I appreciate that most investment professionals are ethical, hard-working people who want to do the right thing for their clients whether they are helping young people and families prepare for their financial futures or working with pre-retirees and seniors to help them enjoy a financially secure and dignified retirement.

Having experience both in the industry and as a securities regulator, I understand that no one wants bad apples working in their shops. I urge the industry to continue strengthening your compliance and supervision efforts, because the things you do matter. Investors must have confidence in you in order to have confidence our markets. If they do, they will continue to invest, and our economy will continue to prosper.

We all have a common mission – working to help and protect investors. We might have different ideas on how we get there, but I want you to know that I have an open door policy and continue to look forward to hearing from you on how we can work together to help investors.

Throughout my term as NASAA's president I will represent and advance the strong, united voice of the association, not that of any single jurisdiction— including my own. I am committed to see that NASAA remains a vibrant and successful organization that engages all members, especially newly appointed administrators, to ensure that our deep bench takes NASAA into its next 100 years knowing that what we do matters.

NASAA Urges Congress to Refrain From Further Expanding Private Securities Markets

In testimony before a House subcommittee in September, NASAA urged Congress to take no further action to expand the nation's private securities markets until a more careful study of the impact on public markets and investor protection can be conducted.

"NASAA is concerned that our current regulatory regime has gone too far in favoring private capital raising over public markets," testified Michael Pieciak, immediate past president of NASAA and Vermont's Commissioner of Financial Regulation.

Pieciak's testimony came during a September 11 hearing called to assess the impact the growth in private markets has had on public markets and retail investors. The hearing was conducted by the House Subcommittee on Capital Markets, Securities, and Investment.

"We are deeply concerned over the lack of information about private markets that now dwarf the public markets in size, leaving policymakers without the data necessary to facilitate informed policymaking," Pieciak testified. "We urge Congress to go no further in expanding or adding new exemptions until a more careful study of the impact on public markets and investor protection can be undertaken."

Pieciak noted that public markets historically have been a significant source of capital and liquidity for growing companies and their shareholders, but the distinctions between public and private markets have been gradually diminishing.

"While Congress has previously enacted and continues to propose legislation with the intent of helping small businesses access capital by lowering barriers in several areas of the securities laws, the unintended effect is that it has incentivized companies to stay private," he said. "Now is the time for Congress to reverse these effects by removing incentives for companies to stay private for long periods of time."

Pieciak told the subcommittee that NASAA strongly supports measures that would provide the necessary data, including two bills subject at the hearing.

Specifically, Pieciak said NASAA supports the "Private Securities Transparency and Reform Act," which would establish additional requirements for issuers offering securities in reliance on Regulation D. The bill would mandate filing of Form D before the date of the first sale in an offering conducted under SEC Rule 506(b), and filing before the earlier of the date of the first sale or the date of the first use of general solicitation for an offering conducted under SEC Rule 506(c).

"Requiring a Form D to be pre-filed with the SEC would provide regulators more information and help investors make more informed decisions," Pieciak testified.

He also said NASAA supports untitled draft legislation that would require the SEC to submit a report to Congress about securities exempted from registration under the Securities Act before finalizing reforms that would create new registration exemptions or expand current exemptions.

This bill would ensure that key information – such as investor types, expected offering sizes, and impacts on regulatory efforts and the public market – is collected so that the very federal agency charged with policing the market can understand, prior to any rule adoption, how the creation of or changes to an exempt offering will impact other exempt offerings and the private and public marketplace overall.

"This is important considering that the SEC currently lacks key information on its existing private offering framework," Pieciak said. "Congress and the SEC should not continue to expand it blindly."

NASAA Offers Resources for Millennials

In recognition of World Investor Week, NASAA joined the SEC and FINRA in a joint investor advisory that included the announcement of a new NASAA initiative to provide investor awareness materials designed specifically for Millennials, who have surpassed Baby Boomers as the largest generation in the United States.

NASAA's online Millennial Money Mission includes resources to help educate Millennials on the importance of saving and investing and how to make sure they avoid common investment schemes. Comprising nearly a quarter of the nation's population, Millennials also make up nearly two-fifths of all working-age Americans – those saving and investing to build retirement nest eggs. "It is critically important that the Millennial generation has the fundamental financial foundation necessary to invest safely and make the best financial decisions for themselves and their families," said Christopher Gerold, NASAA President and Chief of the New Jersey Bureau of Securities. Visit the Investor Education section of NASAA's website for more information.



2019 Annual Meeting

100 Years of Investor Protection: Annual Meeting Commemorates NASAA's Centennial Anniversary



Texas State Securities Commissioner Travis Iles opens the 2019 Annual Meeting by welcoming NASAA members and securities industry professionals to Austin, Texas.



Ohio Securities Commissioner Andrea Seidt and SEC Investor Advocate Rick Fleming discuss recent SEC regulatory initiatives.



Author and personal finance expert Ric Edelman provides insights into how technology and science will reshape saving, investing and planning for the future at NASAA's Investor Education Forum during the Annual Meeting.



Alabama Securities Commission General Counsel Amanda Senn (left) discusses a landmark 1993 Wall Street settlement with members of the task force that investigated and negotiated the settlement (from right: Wayne Klein, former Idaho Securities Commissioner; Matt Neubert, Executive Director of the Arizona Corporation Commission; and Nancy Smith, former New Mexico Securities Commissioner) and Kurt Eichenwald, the award-winning New York Times reporter who covered the case and chronicled it in his book, "Serpent on the Rock."

NASAA Investment Adviser Section leadership (including from left 2019-2020 Section Chair and Indiana Securities Commissioner Alex Glass; Section Vice Chair Linda Cena of the Michigan Corporation, Securities and Commercial Licensing Bureau; and Ohio Securities Commissioner and 2018-2019 Section Chair Andrea Seidt) discuss issues of interest to state-regulated investment advisers at the IA Section Forum.



2019 Annual Meeting



Vermont Commissioner of Financial Regulation and then-NASAA President Michael Pieciak (left) and Robert Cook, Chief Executive Officer and President of the Financial Industry Regulatory Authority (FINRA) hold a fireside chat to discuss the collaborative efforts between state securities regulators and FINRA as well as current issues in securities regulation.



Lisa Hopkins, West Virginia Senior Deputy Commissioner of Securities and NASAA President-elect delivers remarks at the Presidential Luncheon.



Sharon Kelly (left) of Quebec's Autorité des Marchés Financiers and chair of NASAA's International Committee, leads a discussion in cross-border regulatory issues with Laura Belloni, Secretary General of the Canadian Securities Administrators and José Quesada, Vice President of Mexico's Comisión Nacional Bancaria Y De Valores.



Vermont Commissioner of Financial Regulation and NASAA Past President Michael Pieciak addresses the Presidential Luncheon with an overview of the activities and accomplishments during his term in office.



New Jersey Securities Bureau Chief and NASAA President Christopher Gerold presents outgoing President Michael Pieciak of Vermont with NASAA's highest honor, the Blue Sky Cube, for his leadership of the association.



NASAA President Christopher Gerold of New Jersey delivers his inaugural address at the Presidential Luncheon.

NASAA 2019 Enforcement Report Highlights

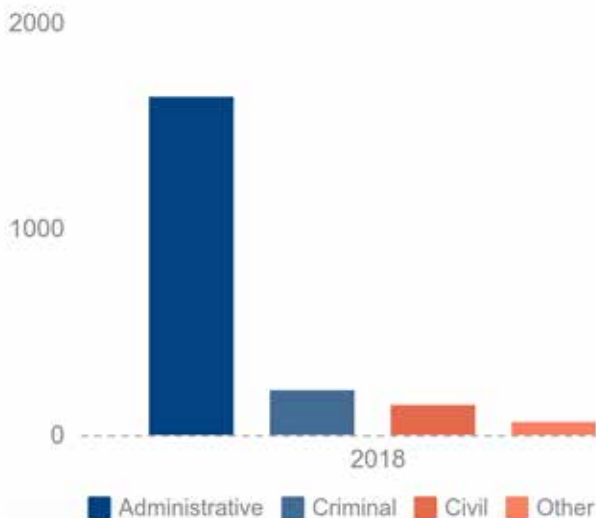
Based on 2018 Data*



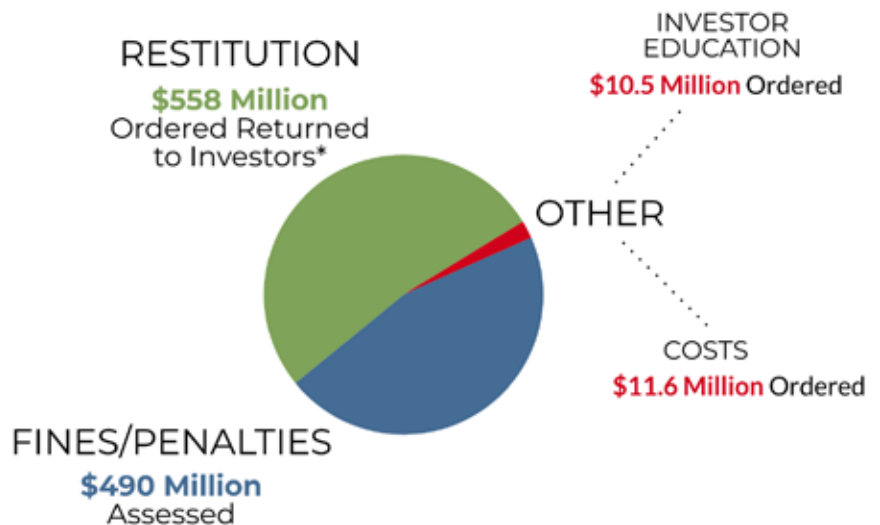
“This report shows that NASAA members are on the frontlines of investor protection,” said Christopher Gerold, NASAA President and Chief of the New Jersey Bureau of Securities. “State and provincial securities regulators stand ready to aggressively protect investors from fraud and police the integrity of our capital markets well into the 21st century.”

* NASAA annually conducts an enforcement survey of its U.S. members, analyzes the data and identifies trends. This year, 50 U.S. jurisdictions responded to the survey. Visit www.nasaa.org for the full report.

Enforcement Actions



Monetary Relief



State Investment Adviser Exams Find Rising Cybersecurity Concerns

State securities regulators are concerned that deficiencies related to cybersecurity are rising among state-registered investment advisers.

“Cybersecurity is a priority for state securities examiners. Smaller companies are the low hanging fruit for cybercriminals and when you consider that more than three-fourths of the nearly 18,000 state-registered investment advisers are 1- to 2-person shops, it

is clear how important cybersecurity should be for these small businesses as well,” said Christopher Gerold, NASAA President and Chief of the New Jersey Bureau of Securities.

In their examinations of state-registered investment advisers in 41 U.S. jurisdictions between January and June 2019, state examiners found deficiencies relating to cybersecurity in more than one-quarter (26%) of their examinations, up from 23% during the last series of coordinated examinations in 2017.

The top five cybersecurity-related deficiencies included: no testing of cybersecurity vulnerability, lack of procedures regarding securing or limiting access to devices, lack of procedures related to internet connectivity, weak or infrequent password update procedures, and no or inadequate cybersecurity insurance.

“We encourage state-registered investment advisers to review their cybersecurity practices to ensure compliance and to take advantage of the free cybersecurity checklist offered by NASAA to help gauge their cybersecurity preparedness,” said Andrea Seidt, past chair of NASAA’s Investment Adviser Section and Ohio Securities Commissioner.



The NASAA Cybersecurity Checklist for Investment Advisers includes 89 assessment areas to help state-registered investment advisers identify, protect, and detect cybersecurity vulnerabilities and respond to a cyber event.

Overall, the incidence of deficiencies in just about every category except cybersecurity has decreased since 2015. “Industry is

making headway in its compliance to state securities laws,” Gerold said.

Ranked by percentage of deficiencies found in the 1,078 coordinated state examinations this year, books and records (59%) continued to be the most problematic compliance area for state-regulated investment advisers, followed by registration (49%), contracts (44%), cybersecurity (26%), and fee-related matters (21%). This sample data from state securities examiners is collected every two years and reported voluntarily to NASAA’s Investment Adviser Operations Project Group.

State securities regulators generally have regulatory oversight responsibility for investment advisers with assets under management of \$100 million or less. Of the asset-managing investment advisers included in this year’s coordinated examinations, 67% had assets under management between \$30 million and \$100 million and 33% had assets under management of less than \$30 million.

The examination report and cybersecurity checklist is available on the Investment Adviser section of the NASAA website at www.nasaa.org/industry-resources/investment-advisers.

About NASAA

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.

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NASAA Honors Significant Accomplishments of Members at Annual Meeting Ceremonies

At its Annual Meeting in Austin, Texas, NASAA presented several awards to recognize the accomplishments of current and former NASAA members who have volunteered their service to help advance the association's goals.

"There is a tremendous army of volunteers in NASAA member agencies throughout North America who often go unrecognized despite their countless hours serving on NASAA committees, project groups and task forces. I am pleased to honor the accomplishments of several of these unsung heroes with NASAA service awards, and they are just the tip of the iceberg," said Christopher Gerold, NASAA President and Chief of the New Jersey Bureau of Securities.

NASAA Past President Michael Pieciak, Commissioner of the Vermont Department of Financial Regulation, received the association's highest honor, the Blue Sky Cube, for his leadership and dedication to investor protection.

The service of three veteran securities regulators was recognized with NASAA's Lifetime Achievement Award: Matt Neubert, Executive Director of the Arizona Corporation Commission; Irving Faught, recently retired Oklahoma Securities Commissioner; and Gerald Rome, recently retired Colorado Securities Commissioner.

NASAA's Outstanding Service Award was presented to Shonita Bossier, former Kentucky Securities Director; Frank Borger-Gilligan, former Tennessee Assistant Commissioner for Securities; and Donald Murray, former Manitoba Securities Commissioner.

Distinguished Service Awards were presented to Mark Eisenmann, Advanced Examiner with the Wisconsin Division of Securities; Carolyn Mendelson, former Assistant Counsel with the Pennsylvania Department of Banking and Securities; and Andrea Seidt, Ohio Securities Commissioner.

NASAA Lifetime Achievement Awards

September 2019

Austin, Texas



Former Colorado Securities Commissioner Gerald Rome addresses the audience after receiving NASAA's Lifetime Achievement Award.



Former Oklahoma Securities Commissioner Irving Faught addresses the audience after receiving NASAA's Lifetime Achievement Award.



Arizona Corporation Commission Executive Director Matt Neubert receives NASAA's Lifetime Achievement Award.