

June 2025

Leverage the State-Federal Partnership that Fosters Innovation and Mitigates Fraud in Our Capital Markets

- *The state-federal regulatory partnership in securities regulation has long benefited from the human capital, physical infrastructure, and statutory authorities of state governments.*
- *Congress must preserve this partnership and the basic, essential tools that state governments use to prevent and mitigate fraud. These tools are (1) our general anti-fraud authorities and associated investigative powers, (2) our regular examination and enforcement authorities over state-registered entities, and (3) our registration, licensing, and regulation authorities over entities and individuals registered with one or more state securities regulators.*

The High Stakes of Congress' Decision

Failing to include the states as fraud fighters would be a decision with net-negative, significant consequences for Americans in all corners of this great country. The majority of our enforcement work originates from complaints submitted by the public or referrals made by other agencies, including the U.S. Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), and the Commodity Futures Trading Commission. In 2023, we received approximately 8,000 tips and complaints, a significant increase from the numbers reported in 2022 and 2021. We also received approximately 1,500 referrals from other agencies and institutions. The largest source of these referrals (608) came from the SEC or FINRA, an increase of more than 40% from the prior year.¹ We tentatively expect to publish our 2025 Enforcement Report in Fall 2025. In the meantime, illustrative examples of recent fraud cases are set forth in the attached table.

Ways to Preserve the Basic, Essential Tools that the States Use to Fight Fraud

Congress can preserve these basic, essential tools by working closely with NASAA and its members to make clear the relationship of any legislation to state securities laws and to expressly preserve state securities authorities. Often, NASAA proactively prepares technical comments to address the preservation of state authority. [Access NASAA's letter dated May 29, 2025 to Congress regarding the CLARITY Act.](#)

In short, we need certain tools to prevent and mitigate fraud in our securities markets. The tools are (1) general anti-fraud authorities and associated investment powers, (2) regular examination and enforcement authorities over state-registered entities, and (3) registration, licensing, and regulation authorities over entities and individuals registered with one or more state securities regulators.

Presently, a core purpose of the state securities laws is to establish mechanisms for enforcement, particularly to prevent and address fraud and similar misconduct. The Uniform Securities Acts provide for administrative enforcement as well as the filing of civil or criminal court actions by

¹ See NASAA, [NASAA 2024 Enforcement Report](#) (Oct. 22, 2024), at 3.

state regulators and law enforcement authorities. The Uniform Securities Acts also encourage cooperation among law enforcement authorities in different states. States can, and often do, bring multijurisdictional enforcement actions.²

A state also can require an SEC-registered broker or dealer doing business in the state to register with it. Separately, states register and regulate broker-dealers that are exempt from SEC registration such as where a broker's business is conducted entirely within a single state. Regardless of the entity's registration with the SEC versus the state or both, states require the associated persons of the entity to register with the state.³ Passing one or more uniform qualification examinations is normally a prerequisite for being licensed by a state before the broker-dealer agent can work with investors.⁴

States also have authority to regulate broker-dealer conduct. Generally, states can regulate the conduct of SEC-registered brokers-dealers so long as the state's regulations do not conflict with the regulatory standards set by the SEC or FINRA. Separately, states regulate broker-dealers that are exempt from SEC registration. To foster uniformity, many states incorporate FINRA rules, thereby making FINRA rule violations actionable by the state.

A state also can require certain investment advisers to register with it. The regulation of investment advisory firms is divided between the SEC and state securities regulators. Initially, the states received authority to oversee firms with up to \$25 million in assets under management ("AUM"). The SEC received authority over firms with more than \$25 million in AUM, with some exceptions.⁵ In 2010, Congress increased the states' responsibility, transferring to them oversight of mid-sized investment advisers—those with AUM between \$25 million and \$100 million.

Notably, the regulation of investment advisory professionals is not divided between the SEC and state securities regulators. Rather, the states alone license or register and regulate supervised persons of both SEC-registered and state-registered investment advisers. Passing one or more uniform qualification examinations is normally a prerequisite for being licensed by a state before an investment adviser representative can work with investors.⁶

End the SEC-CFTC Jurisdictional Debates by Placing Investment Contract Assets Under the Oversight of Securities Regulators

Congress could – and should – end or at least limit these time-consuming debates over jurisdictional lines by giving the exclusive federal oversight of investment contract assets to the SEC and leveraging the existing SEC- and state-registered intermediaries and systems, which can already accommodate products without an underlying physical or tangible asset.

² See Zachary T. Knepper and A. Valerie Mirko, Securities Regulation, in [State Attorneys General Powers and Responsibilities](#), 4th ed. (2019) at 12.

³ See *id.* at 11.

⁴ See NASAA, [Exams](#).

⁵ See NASAA, [NASAA Releases Final IA Switch Report](#) (May 20, 2013).

⁶ See NASAA, *supra* note 4.

Uniting regulations of both the initial offering (sometimes called an initial coin offering) and the cash and spot markets for investment contract assets under a single federal agency (here, the SEC) would have many benefits. The federal government would keep up more easily with technological developments in our securities markets. The federal government would conserve market and regulatory resources and minimize confusion by using the regulatory infrastructure of the SEC and state securities regulators rather than creating new infrastructure at the CFTC. The CFTC would still play a well-earned, critical role in innovation.

Key Points

- *Our record demonstrates the good work we have done and the value we bring to the state-federal regulation of the capital markets.*
- *We ask that the federal government, at minimum, keep the states in the business of fraud prevention and mitigation. We have no reason to believe our federal partners would come close to making up the difference if state securities regulators were denied the opportunity to help harmed investors.*

Illustrative, Recent Examples of State Securities Regulators Fighting Fraud in the Securities Markets

State	Respondent(s)	Summary of Allegations	Types of Alleged Violation(s)
AL	dbexkyc.com et al.	Respondents, including a purported digital asset trading platform and an individual, acted as an unlicensed dealer and agent, and platform employed a device, scheme, or artifice to defraud in connection with the offer and sale of unregistered securities in the form of a digital asset investment plan.	Product registration, Licensing, Fraud
AL	www.probitus.com et al.	Respondents, including a purported digital asset trading platform and its owner, employed a device, scheme, or artifice to defraud investors in connection with the offer and sale of unregistered securities in the form of a digital asset investment plan. The investor was under the impression that the respondent website was associated with a prominent multinational investment management company.	Product registration, Fraud
AL	tradexnationlimited.com ("Tradex Nation")	Respondent, a purported digital asset trading platform, employed a device, scheme, or artifice to defraud in connection with the offer and sale of securities in the form of a digital asset investment plan.	Fraud
AR	cryptoheap.com ("CryptoHeap")	Respondent, a purported cryptocurrency staking platform, made false or misleading statements in connection with the sale of unregistered securities in the form of virtual currency.	Product registration, Licensing, Fraud
AR	Golden Mine	Respondent, a purported investment platform, made false or misleading representations and engaged in an act, practice, or course of business that operates or would operate as a fraud or deceit in connection with the sale of unregistered securities in the form of digital asset investment plans. The alleged fraud includes claims to be partnered with well-known technology companies.	Product registration, Fraud

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State	Respondent(s)	Summary of Allegations	Types of Alleged Violation(s)
MI	<u>DBEX-COIN.NET</u>	Respondent, an online cryptocurrency investing platform, offered and sold unregistered, non-exempt investment contract securities. Respondent misled investors about respondent's registration as a money service business and the profits investors could expect.	Product registration, Fraud
MT	<u>GYT Trading, Inc. et al.</u>	Respondents employed a device, scheme, or artifice to defraud an investor in connection with the solicitation of purported digital asset investments on a website mimicking a European regulated stock exchange.	Fraud
TN	<u>AtomicHubPro.com et al.</u>	Respondents acted as unregistered broker-dealers and investment advisers and engaged in fraud in connection with the offer and sale of unregistered securities. An 85-year-old Tennessean invested \$33,000 in the scheme, and respondents charged him with a fraudulent loan of \$50,000.	Product registration, Licensing, Fraud
TX	<u>The Apertum Foundation et al.</u>	Respondents, including, among others, the subjects of an existing enforcement action, acted as unlicensed dealers. Subjects of existing enforcement action and others acted as unlicensed dealers and agents and engaged in fraud in connection with the marketing of an unregistered security.	Product registration, Licensing, Fraud
TX	<u>Tesla Inc. Ltd. et al.</u>	Respondents acted as unregistered dealers and agents and engaged in fraud in connection with the offer and sale of unregistered securities in the form of digital asset-related investments. The alleged fraud includes the impersonation of two well-known Texas companies.	Product registration, Licensing, Fraud
TX	<u>Trage Technologies Limited et al.</u>	Respondents acted as unlicensed dealers and agents and engaged in fraud in connection with the offer and sale of unregistered securities in the form of digital asset arbitrage investments.	Product registration, Licensing, Fraud

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WI	<u>Ascendancy Investment Education Foundation et al.</u>	Respondents, including online providers of investment advice, education, and a purported cryptocurrency exchange, acted as unlicensed investment advisers, offered and sold unregistered securities, and provided fictitious account information and imposed large fees when the investor tried to withdraw his funds.	Product registration, Licensing, Fraud
WI	<u>Athenaplace Finance Ltd. et al.</u>	Respondents, including a purported Chinese digital asset investment company, acted as unlicensed investment advisers and engaged in fraud in connection with the offer and sale of securities in the form of digital asset investment plans.	Licensing, Fraud