

Quarterly Update Submitted to the
Senate Committee on Business and Commerce
By the Texas State Securities Board
April 15, 2014

Implementation of Recent Legislation and Rulemaking

At a meeting on January 14, 2014, the State Securities Board adopted new rules to implement Senate Bill 162, passed in the 83rd Legislative Session, providing additional procedures for military spouses, military service members, and military veterans seeking registration as securities dealers, registered agents, investment advisers, and investment adviser representatives in Texas. The new rules took effect on March 1, 2014.

Enforcement

Since the beginning of this year, there have been several excellent examples of the continuing cooperative efforts of the State Securities Board and prosecutors in Texas to ensure that promoters of fraudulent investment schemes are held accountable for their conduct. The role of the Agency in this process has remained the same for many years -- to conduct investigations as efficiently as possible, act as a trusted resource in gathering and analyzing evidence, provide summary and expert testimony, and provide legal assistance as needed at trial or on appeal. In January, following an investigation by the Agency, an individual in Hood County was sentenced to an 85-year prison term for the fraudulent sale of stock and promissory notes to elderly investors in that area. The same week, an individual in Collin County was sentenced to a 10-year prison term for the fraudulent sale of oil and gas interests to the public. Also in January, a Dallas promoter was sentenced to a 30-year federal prison term for conspiracy and securities fraud. The following month, an individual in Harris County was sentenced to a 15-year prison term for the fraudulent sale of investments in "secured debt obligations," and a federal indictment was issued in Houston, charging two individuals with securities fraud in connection with the sale of bogus investments in shipping containers.

Industry and Public Outreach

The State Securities Board recently issued the *Texas Regulatory Review*, an electronic bulletin for registered securities dealers and investment advisers designed to increase awareness of common deficiencies found during onsite examinations, highlight regulatory changes or areas of special interest, and assist in the maintenance of overall regulatory compliance. Agency staff members recently participated in discussion panels at several industry forums in the state to answer questions submitted by participants and to gain a greater insight into industry views regarding the regulatory environment. The Agency is also presently in the process of developing an online disclosure guide for small businesses that will assist these firms in conducting securities offerings. In March, the Agency issued an update to the *Texas Investor Guide*, providing information on basic investing, avoiding fraud, and other helpful resources and made the *Guide* widely available on the investor education section of its website at <http://www.texasinvestored.org/>.

Agency Performance

The State Securities Board met or exceeded its performance targets for the second quarter of the year. With respect to the Agency's examination program, last year the staff examined approximately one-half of all investment adviser firms that had switched from federal to state registration as a result of the federal Dodd-Frank Wall Street Reform and Consumer Protection Act. This year the Agency is on track to examine the remaining number of these firms to ensure that all are in compliance with the law. There are now approximately 1,370 firms subject to the Agency's oversight and examination process. Resource limitations have made it imperative that the Agency pursue its examination program in the most efficient and effective manner possible. Overall, the goal remains for a frequency rate for examinations to be once every four years.