NASAA 2017

Enforcement Report

Based on 2016 Data

NASAA

Introduction

The North American Securities Administrators Association (NASAA) is an international association of all state, provincial and territorial securities regulators in the United States, Canada and Mexico. NASAA members have protected Main Street investors from fraud for more than 100 years.

Annually, NASAA conducts an enforcement survey of its U.S. members.[1] (Canadian NASAA members participate in a different enforcement survey; an overview is provided on page 11.) It then analyzes the data and identifies trends. The data, statistics, and trends included in this report give a general overview of state enforcement efforts for the 2016 fiscal or calendar year. Undoubtedly, however, this report undercounts many statistics since it does not include enforcement statistics from every jurisdiction on each survey question posed.

While securities markets are global, securities are sold locally by professionals who are licensed in every state where they conduct business. Our nation's unique complementary system of state, federal, and industry regulation helps to ensure fair markets for all investors. In enforcing our state securities laws, NASAA U.S. members seek not only to sanction those who damage the integrity of our markets or cause harm to investors, but to also deter future financial misconduct. Credible deterrence involves several key elements: a strong legal framework with clear repercussions for misconduct; mechanisms and systems to detect and investigate misconduct; and decisive action and sanctioning against those that violate the law.

Despite the exceptional work of NASAA members, securities fraud still poses a significant and real risk to investors. With the continued pressure on investors to turn to riskier asset classes in order to generate reasonable rates of return, the growing complexity of financial products, the evolving technology behind the securities markets, and the increasing frequency of investment scams (many of which target our most vulnerable seniors), vigilance by regulators is essential.

Sincerely,

Keith Woodwell
NASAA 2016-2017 Enforcement Section Chair
Director, Utah Division of Securities

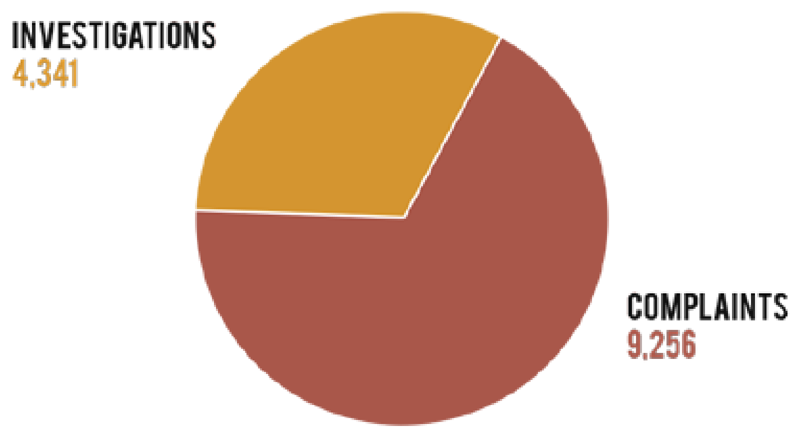
2016-2017 NASAA Enforcement Section:
Keith Woodwell , Utah, Chair
Joseph Rotunda, Texas, Vice-chair
Jesse Devine, New York
Jake van der Laan, New Brunswick
Gregory Strong , Delaware
Jason Roy, Manitoba

[1] *The survey requests that each NASAA U.S. member provide statistics using that member's most recent full reporting year. Some members collect and report data on a calendar basis, while other members collect and report data on a fiscal year basis. This report is based on data collected from 50 NASAA U.S. members.*

Enforcement Overview

The basic enforcement statistics from this year's enforcement survey demonstrate that NASAA members continue to play a critical role in protecting investors and holding securities law violators responsible for the damage that they cause to individual investors specifically and to the integrity of our capital markets in general. As this report demonstrates, NASAA members are well-prepared and equipped to meet this critical need and to aggressively protect the integrity of our markets and investors from fraud.

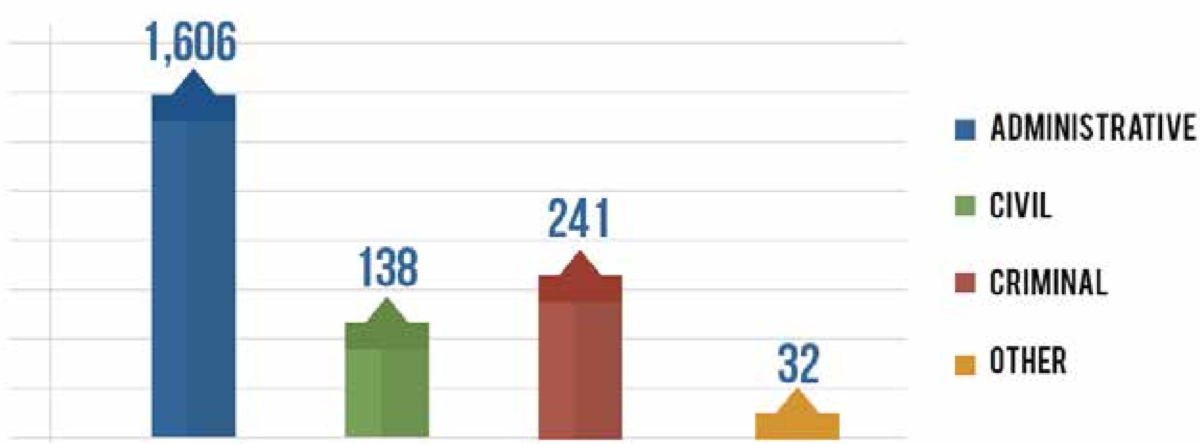
COMPLAINTS AND INVESTIGATIONS



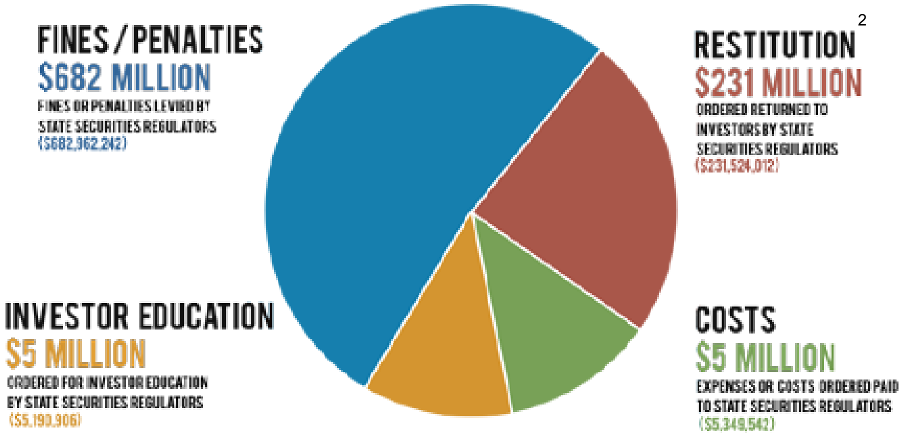
INVESTIGATIONS & ACTIONS

The chart above reflects the number of complaints received and investigations conducted. These formal investigations are supplemented by extensive efforts to informally resolve complaints and referrals. Because investigations differ widely in their complexity and in the number of respondents and victims involved, the amount of time required to conduct an investigation can range from a few weeks to multiple years.

ENFORCEMENT ACTIONS BROUGHT



MONETARY RELIEF OBTAINED



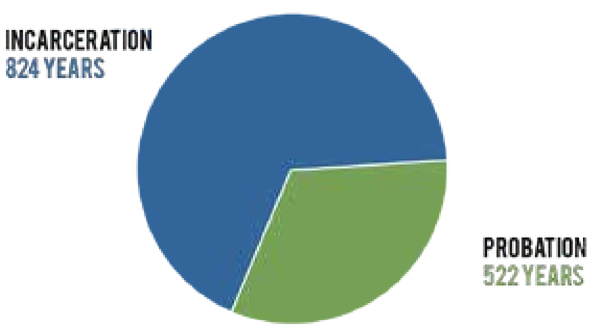
RELIEF OBTAINED

The sanctions imposed by NASAA U.S. members for securities law violations include bans on future activity, bans from trading securities, financial penalties and prison sentences.

The sanctions imposed by state securities regulators can vary considerably from year-to-year, depending on the nature of the cases pursued.

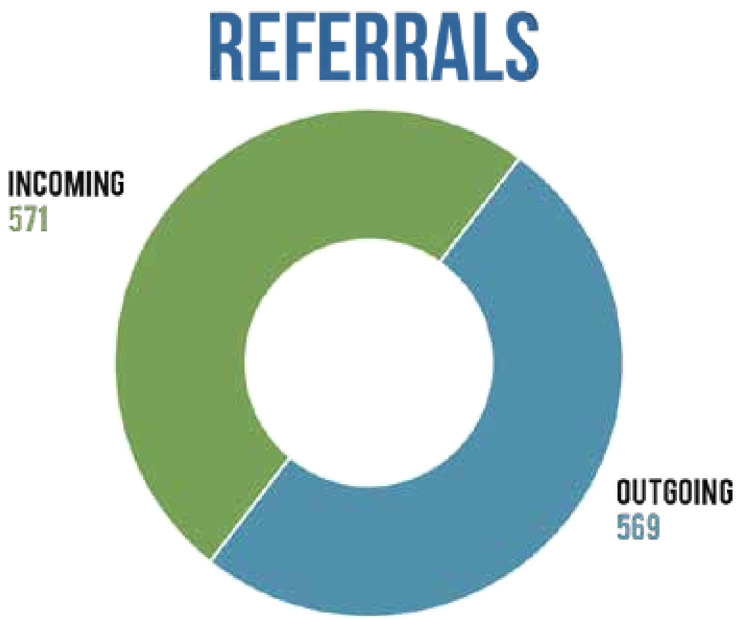
In addition to monetary sanctions, jurisdictions reported a continued high level of specific and general deterrence by imposing criminal sanctions.

CRIMINAL RELIEF OBTAINED



[2] *This figure represents restitution reported by NASAA U.S. member jurisdictions. Not all jurisdictions provided a restitution amount. This figure does not account for unilateral and unreported returns to investors, or rescission offers by firms or investigative targets.*

Enforcement Coordination Among Regulators



State securities regulators continued to coordinate their enforcement efforts with other agencies to maximize their collective ability to protect the investing public. For example, over the preceding year, information reported by state securities regulators indicates that they and the U.S. Securities and Exchange Commission shared intelligence about 164 cases. U.S. NASAA members also shared referrals on potential enforcement matters with FINRA in about 148 cases.

Additionally, state securities regulators and law enforcement agencies, such as the Federal Bureau of Investigation, the Internal Revenue Service and federal and state prosecutorial authorities, exchanged key evidence relating to 354 cases. This cooperative approach to enforcement ensures that regulators stay one step ahead of the increasingly sophisticated and complex investment schemes perpetrated by con men, crooks, and criminals. Most states also have regular coordination meetings with other state and federal regulators to avoid duplication of efforts and increase efficiency by working together.

From the Files . . .

State securities regulators leverage their specialized skills and expertise by jointly working investigations with other law enforcement agencies. For example, the Texas State Securities Board routinely conducts joint investigations of suspected securities fraud with the Federal Bureau of Investigation.

These joint investigations have resulted in the prosecution of a number of defendants who have either admitted or been proven to have stolen money from the investing public. A recent joint investigation led by a financial examiner employed by the Texas State Securities Board and agents employed by the Federal Bureau of

Investigation and Internal Revenue Service resulted in the prosecution of William Allen Risinger in United States District Court in Austin, Texas.

As described in court filings, Risinger allegedly organized RHM Exploration to raise money for oil and gas ventures, including the exploration and development of oil and gas properties. Shortly after the organization of this limited liability company, RHM Exploration raised around $4.5 million from the sale of investments that purportedly allowed investors to participate in revenue generated from the operation of oil and gas wells.

Risinger **received funds tendered by investors but reportedly failed to properly use their funds to work the oil and gas wells. Instead, he used their money for his own personal benefit and for the benefit of his family, to maintain a ponzi scheme** in which the returns paid to earlier investors actually constituted funds provided by later investors and to make "lulling payments" to some investors that were designed to falsely assure them that their investments remained sound. Risinger ultimately pleaded guilty to one count of wire fraud and one count of money laundering.

After pleading guilty, Risinger, a 44-year-old Texan at the time of the plea, was released on bond pending the sentencing proceeding. He was, however, arrested several months later for violating the terms of his bond by traveling to Las Vegas, Nevada.

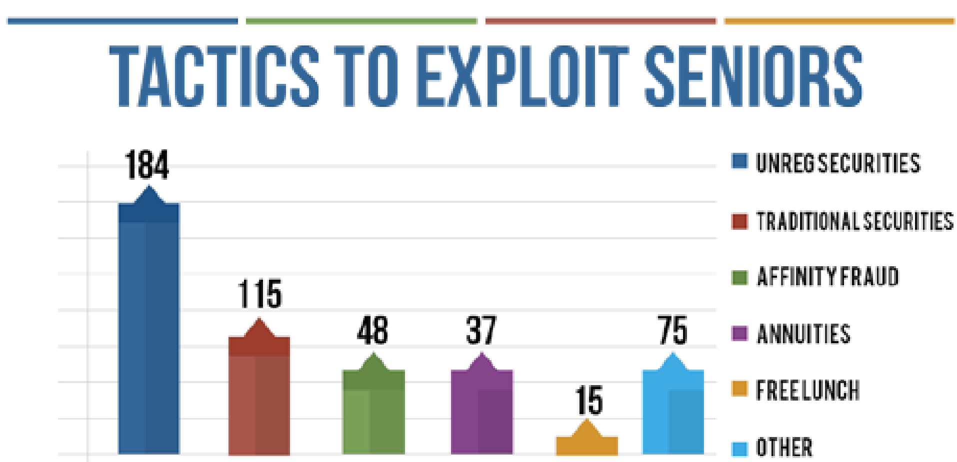
Not long after being arrested, he was sentenced to serve 160 months in federal prison and ordered to pay a money judgment of more than $3.7 million to the victims. Testimony at the sentencing proceeding revealed that Risinger lost an additional $500,000 while gambling in Las Vegas during the short period of time immediately before and after his plea.

Continued Exploitation of Vulnerable Senior Investors

Senior investor protection continues to be a primary focus at NASAA and in member jurisdictions. Legislation based in part on the NASAA Model Act to Protect Vulnerable Adults from Financial Exploitation has been passed in 13 jurisdictions and introduced in several other jurisdictions.

In addition to taking concrete steps to more effectively identify senior financial exploitation, which is significantly underreported, NASAA members continue to bring successful enforcement actions against those attempting to take advantage of our most vulnerable citizens.

NASAA U.S. member jurisdictions reported bringing formal enforcement actions involving more than 1,000 senior victims in 2016 demonstrating an unwavering commitment to protecting senior investors. Those actions, and the investigations that led to those actions, involved a wide range of products or sales tactics. Investigations of senior financial exploitation most often involve unregistered securities offerings.



From the Files . . .

The Wisconsin Department of Financial Institutions, Division of Securities entered Summary and Final Orders in 2016 finding that a former registered broker-dealer agent, James Nickels, violated the Wisconsin securities laws when he engaged in a $4 million promissory note scheme through an entity he created called The Fiscal Concierge. Nickels sold these bogus notes to at least 37 investors, many of whom were seniors, based on representations that the money would be used to grow and expand Fiscal Concierge. In the end, the investment funds raised were used to pay for Nickels' personal expenses and to pay back earlier investors.

Fiscal Concierge marketed itself as a bill pay service provider, which would use access to a customer's checking account to make timely payments of any bills the customer contracted Fiscal Concierge to handle. In marketing materials provided to some investors, Fiscal Concierge was described as a small business that had successfully faced down challenges to market its "proprietary software," represented that Fiscal Concierge had little competition for its services, and that it was poised to become "recognized as a national leader in bill paying." The marketing materials also represented to investors that Fiscal Concierge was "bonded " and had never missed an interest or principal payment to any note holder.

Nickels failed to disclose certain key facts to investors. First, in 2006, just before he started the Fiscal Concierge, Nickels entered into an agreement with the Division whereby his registration as a broker dealer was suspended and he agreed not to re-enter the securities business in Wisconsin in any capacity. Second, he failed to disclose other regulatory actions taken against him by the Illinois Securities Department.

Nickels also told investors and prospective investors that Fiscal Concierge was doing well financially and establishing key relationships and partnerships with other agencies and organizations within and outside Wisconsin which would offer the services of Fiscal Concierge to prospective clients and help expand the business.

Division staff analysis of Fiscal Concierge's bank records and business records showed otherwise. The company was never a profitable business at any time, and Nickels and Fiscal Concierge have never been able to make principal or interest payments to earlier investors without an infusion of additional money from another investor or investors. Fiscal Concierge's average annual revenue for its bill pay service from 2010 to 2015 was about $7,800, yet its average annual expenses were in excess of $450,000. In addition to Fiscal Concierge's purported business expenditures, Nickels misappropriated over $700,000 of investor funds between 2011 and 2015 from Fiscal Concierge (averaging $170,000 annually) for his own personal use and expenses, including mortgage payments on his primary residence and car payments for himself and family members. All expenses, including Nickels' withdrawals for his personal use, were paid from the proceeds of the Fiscal Concierge promissory notes offered and sold by Nickels and his associates.

From May 1, 2007 through June 2016, Nickels and Fiscal Concierge offered and sold promissory notes totaling approximately $4 million to at least 35 Wisconsin residents and two out of state residents. None of the promissory notes issued by Fiscal Concierge were registered with the Division. The promissory note terms promised investors annual returns, paid in monthly installments, of at least eight percent for the duration of one year. The notes could be renewed annually at the investor's discretion. At least 10 of the investors in this scheme were 65 years of age when they were offered and sold promissory notes issued by Fiscal Concierge. Seven of those investors, who collectively invested more than $1,000,000, have passed away since 2007. Two of the surviving investors, born in January 1928 and September 1933, had been family friends of Nickels for more than 25 years.

Nickels and his entities were charged with violating the Wisconsin Securities Act in multiple ways, including by committing Securities Fraud and Selling Unregistered Securities. As a result, Nickels and the other respondents were ordered to cease and desist from any further violations of the Wisconsin securities laws, to pay restitution to each investor, and to pay civil penalties.

Investor Threats Stemming from Emerging Financial Technologies

NASAA members continue to note the increasing use of the internet and technology to create and execute investment scams.

Binary Options

Canadian NASAA members, in particular, noted a significant increase in scams based on binary options. Binary options are essentially a bet on the value of an asset (like a commodity, stock or currency) minutes or hours after the option is bought. They are promoted and sold online.

In 2016, NASAA U.S. members reported 36 investigations and enforcement actions involving binary options. Also, close to 1,000 Canadian investors came forward and reported millions of dollars in losses. In response, Canadian NASAA members formed the "Binary Options Task Force," which pursued a multi-vector strategy, targeting all the various enablers and facilitators of the binary options ecosystem, seeking to disrupt and prevent these scams' ability to target Canadians. This strategy resulted in a marked reduction in the number of binary options operations targeting Canadians, as well as a reduction in the amount of binary options advertising to Canadians. The strategy also included an aggressive public education campaign including the launch of the *binaryoptionsfraud.ca* website.

The campaign generated more than 500 news articles with 160 million impressions nationwide. As a whole it generated the equivalent of more than $3 million in earned media.

Cryptocurrency Trading

NASAA members are noting the arrival of a new form of speculation: "cryptocurrency" trading, which they believe is likely to pose a significant risk to investors. Cryptocurrencies purport to store value in a distributed digital ledger, and are currently very popular as a means of raising capital for very early stage startups (usually referred to as an "Initial Coin Offering" or ICO). NASAA members are closely watching this emerging market.

From the Files . . .

In December 2016, Edmonton, Alberta, businessman Frederick Turbide discovered the binary options firm he had been investing in for months was, in fact, a scam.

The husband and father of four was **defrauded of $300,000 online** by 23Traders.com. Believing he had lost his business, his home, and his family's future, Mr. Turbide took his own life.

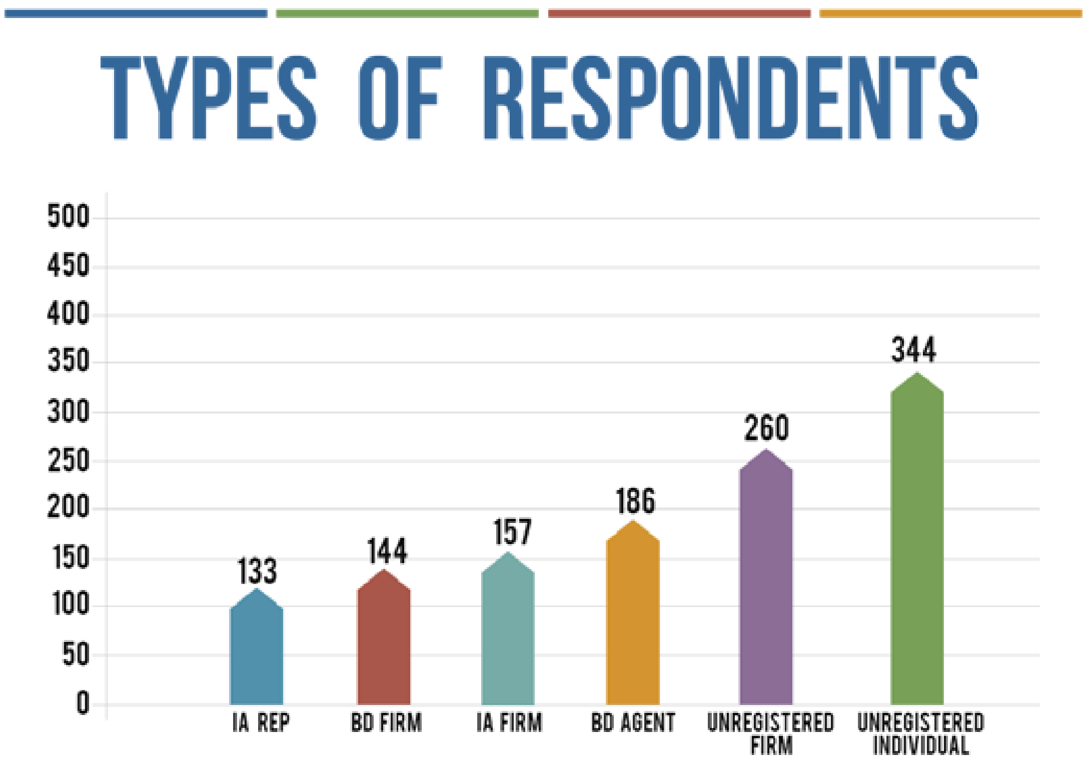
Mr. Turbide's wife, Maria Chaves-Turbide, and their son, Tomas Ferreira, decided to share their story, so that no other family would have to suffer the same tragedy.

The Turbide Family agreed to work alongside Canadian securities regulators during Fraud Prevention Month to caution the public on the risks of binary options fraud.

Their impactful statements played an important part in making sure the campaign message was heard. "I want to see these people shut down," said Chaves-Turbide, "I want this scam closed." Since January 2017, their story has been reported by media across Canada and internationally.

The website of 23Traders.com is no longer operative.

Increased Focus on Bad Actors in the Licensed Securities Industry



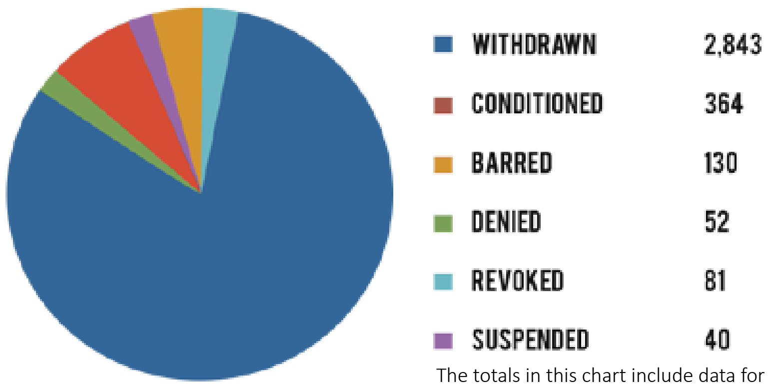
For the second consecutive year, NASAA's U.S. members brought more enforcement actions against registered individuals and firms in the securities industry (broker-dealers, investment advisors, and their agents and representatives) than against unregistered individuals and firms. In 2016, NASAA's U.S. members took enforcement actions against 620 registered individuals and firms, as opposed to 604 unregistered individuals and firms.

State securities regulators took decisive action to prevent bad actors from operating in the securities industry, and to limit the activity of licensees and registrants. In 2016, NASAA's U.S. members revoked, barred, suspended, or prohibited the licenses/registrations of more than 250 individuals and firms, and denied or conditioned the licenses/registrations of more than 400 others.

In addition, more than 2,800 license/registration requests were withdrawn as a result of state action or attention. While not always the case, many license/registration requests are withdrawn as a state is preparing to take action to deny, suspend or revoke a license/registration.

NASAA U.S. members in 2016 reported a significant increase in investigations of investment adviser (IA) firms and representatives. State securities regulators reported 700 investigations involving IA firms and representatives, a 31 percent increase year-over-year. This increase may be due, in part, to heightened state interest in individuals and firms who have transitioned from broker-dealer registration to investment adviser registration in recent years.

LICENSE SANCTIONS



The totals in this chart include data for individuals and firms in both enforcement and non-enforcement actions.

From the Files . . .

A recent case from Virginia illustrates the type of actions many state jurisdictions are taking to protect investors from bad actors within the industry. In February 2016, the Virginia Division of Securities and Retail Franchising obtained a civil judgment against an investment adviser and its owner for multiple violations of the Virginia Securities Act, including selling unregistered securities and breaching their fiduciary duty to investors.

Roger Odell Hudspeth was the managing member and sole registered IA representative for Dominion Investment Advisors LLC (DIA), a registered IA firm. Hudspeth's clients were primarily seniors, many of whom he recruited through free "social security seminars" for individuals at or near retirement age. As a registered IA representative, Hudspeth owed his clients a fiduciary duty of good faith and loyalty – to act in the best interests of his clients. Instead, Hudspeth took advantage of his clients by repeatedly steering them toward risky and speculative investments in unregistered securities issued by companies controlled by Hudspeth's associates.

In some cases, investors were told they would receive returns of 40-to-60 percent. Although neither Hudspeth nor DIA was licensed to buy or sell securities, Hudspeth sold or assisted in the sale of at least 10 different securities offerings to at least 58 investors between 2011 and 2015. These unregistered offerings were controlled by Hudspeth's associate Daryl Gene Bank, a former broker-dealer agent who was permanently barred by FINRA in 2010 for violations of federal securities laws.

Hudspeth misled his clients by failing to disclose, among other things: the true nature and associated risks of the investments; that 20 percent or more of the funds invested in these unregistered securities was paid out in fees and commissions, including to Hudspeth; that Hudspeth had other financial interests in the company that controlled the unregistered offerings; and that both Bank and Hudspeth had previously been sanctioned by FINRA.

After a thorough investigation by the Virginia Division of Securities, which also uncovered falsified regulatory filings and extensive books and records violations, Hudspeth and DIA consented to the entry of a civil judgment against them. The Virginia Corporation Commission revoked Hudspeth's and DIA's registrations and permanently barred them from securities-related registration in Virginia. The Commission also imposed a $1 million civil penalty, waivable in the event that Hudspeth makes restitution to his investors of at least that amount.

The U.S. Attorney for the Eastern District of Virginia is pursuing criminal charges against Hudspeth. Virginia's Division of Securities is pursuing civil proceedings against Hudspeth's associate Daryl Gene Bank.

2016 Canadian NASAA Member Enforcement Activity

Across the country, Canadian Securities Administrators' (CSA) investigation and enforcement teams work to protect the integrity of Canada's capital markets and strive for responsive, collaborative, and effective enforcement of Canadian securities laws.

In 2016, there were 109 concluded cases against 262 individuals and companies. There were 149 cases concluded through contested hearings before a tribunal, representing over half (57 percent) of all concluded matters. Court decisions under securities legislation concluded another 59 cases (22 percent), followed by 54 settlement agreements (21 percent).

Securities regulators and courts ordered total fines, administrative penalties, and voluntary payments of $62 million. Fraud represented $36.7 million of this total, followed by Illegal Distributions ($9.5 million), and Insider Trading ($607,000). Restitution and disgorgements ordered and investor compensation made (pursuant to settlement agreements) amounted to $350 million in 2016. Fraud offences represented much of this total ($44.7 million), followed by Illegal Distributions ($5 million).

There has also been an increase in CSA members' enforcement efforts in securities violations in the courts. Efforts to prosecute serious cases in the courts resulted in several significant jail terms in 2016. Canadian courts ordered jail terms for 15 individuals, ranging from 75 days to four years, for a total of over 23 years of jail time handed down to offenders.

The CSA has seen an increase in the use of non-traditional enforcement tools such as whistleblowing and no-contest settlements. Whistleblower programs implemented by the Ontario Securities Commission (OSC) and the Autorité des marchés financiers (AMF) have already shown signs of early success and have attracted several credible tips. Other CSA member jurisdictions are considering similar programs.

In the reporting year, the CSA undertook a variety of significant preventive measures, including reciprocal orders. Any order imposing sanctions, conditions, restrictions or requirements issued by another CSA regulator or securities administrative tribunal based on a finding or admission of a contravention of securities legislation is now automatically reciprocated in Alberta (since July 1, 2015), New Brunswick (June 28, 2016), Nova Scotia (May 20, 2016), and Québec (June 23, 2016). There were 63 reciprocal orders issued in 2016 against 127 individuals and companies. Other preventive measures were interim cease trade and asset freeze orders, as well as halt-trade orders (which only certain jurisdictions have legislative authority to carry out). Under the 45 interim orders and asset freeze orders issued, trading and other restrictions were placed on 120 individuals and 82 companies. In 2016, 31 freeze orders were issued relating to 93 individuals and 56 companies, including a total of $3.8 million in bank accounts.

CSA members issued numerous investor alerts to warn Canadians of the risks of Binary Options investing. As discussed previously, the CSA also created a Binary Options Task Force to combat this form of fraud.

Canadian Securities Market Statistics

Market Capitalization: $2.73 trillion | Total Issuers: 3,942 | Total Investment Fund Issuers: 3,910 | Total Registrants (firms): 3,179 | Total Registrants (individuals): 122,556 | Registered Plan Assets: $1.5 trillion | Assets Under Management: $1.4 trillion | Pension Fund Assets: $1.9 trillion | Total Financial Wealth: $3.8 trillion | Size of Exempt Market: approximately $150 billion

U.S. NASAA Member Enforcement Activity 2012-2016

Category	2012	2013	2014	2015	2016	5-Year Total
Investigations	5,865	5,302	4,853	4,112	4,341	24,473
Overall Enforcement Actions[1]	2,496	2,184	2,042	2,060	2,017	10,799
Administrative	1,925	1,740	1,634	1,593	1,606	8,498
Civil	232	183	137	151	138	841
Criminal	339	262	271	261	241	1,374
Other	*not collected*	*not collected*	*not collected*	55	32	87
Overall Criminal Relief [2]	1,708 years	2,495 years	2,122 years	1,246 years	1,346 years	8,917 years
Incarceration	1,361 years	1,816 years	1,624 years	838 years	824 years	6,463 years
Probation	347 years	679 years	498 years	408 years	522 years	2,454 years
Restitution [3]	$694 million	$494 million	$405 million	$536 million	$231 million	$2.36 billion
Fines/Penalties [4]	$115 million	$71 million	$174 million	$230 million	$682 million	$1.27 billion
Overall License Sanctions [5]	4,300	3,657	3,585	4,265	3,510	19,317
Withdrawn	3,564	2,498	2,857	3,380	2,843	15,142
Denied/Revoked/ Suspended/ Conditioned/Barred	736	1,159	728	885	657	4,165

Notes: 1) Includes administrative, civil, criminal and other actions. 2) Includes prison time sentenced and probation. 3) Money ordered returned to investors by state securities regulators. 4) The method for reporting fines/penalties data was modified beginning with the data collected in 2016. 5.) Includes individual and firm licenses withdrawn, conditioned, barred, denied, revoked or suspended as a result of state action or attention.

NASAA

Organized in 1919, the North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. NASAA is a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

In the United States, NASAA is the voice of state securities agencies responsible for efficient capital formation and grass-roots investor protection. Their fundamental mission is protecting investors who purchase securities or investment advice, and their jurisdiction extends to a wide variety of issuers and intermediaries who offer and sell securities to the public. NASAA members license firms and their agents, investigate violations of state and provincial law, file enforcement actions when appropriate, and educate the public about investment fraud. Through the association, NASAA members also participate in multi-state enforcement actions and information sharing.

For more information, visit: www.nasaa.org

NASAA