State Securities Regulators Urge Congress to Provide Greater Resources to Fight Investment Fraud

Ropp: “State securities regulators have the determination, willpower and experience to pursue perpetrators of financial crime.”

WASHINGTON (March 20, 2009) – Drawing from their experience on the front lines of investor protection, two state securities regulators offered the House Financial Services Committee concrete proposals to enhance the states’ ability to pursue and prosecute perpetrators of financial crimes.

Delaware Securities Commissioner James Ropp and Massachusetts Secretary of the Commonwealth William Galvin appeared before the House Financial Services Committee on Friday, March 20. The hearing, led by Committee Chairman Barney Frank (D-MA), brought together federal and state securities regulators and law enforcement officials to discuss the enforcement of investor protection laws at the federal and state levels.

Testifying on behalf of the North American Securities Administrators Association (NASAA), Commissioner Ropp urged Congress to support the valuable contributions of state securities regulators through federal grants. “State securities regulators have the determination, willpower and experience to pursue perpetrators of financial crime,” Ropp said. “We’ve learned how to accomplish more with less. However, there’s little doubt that additional resources would enhance our ability to uncover and prosecute securities fraud during this economic downturn, which has resulted in vulnerable investors looking to recover their losses.”

Ropp also suggested deputizing state securities attorneys to serve as special prosecutors for complex securities cases; allowing states to review securities offerings currently exempt from state oversight under Rule 506 of Regulation D; including representatives from the state banking, insurance and securities regulatory agencies on the President's Working Group on Financial Markets; toughening civil and criminal penalties for those who commit financial crimes, especially those who target senior investors; and increasing opportunities for victims of fraud to seek private actions.

Ropp, who serves as the chair of NASAA's Enforcement Section, also outlined the states' impressive enforcement record. As the closest regulator to investors, state securities regulators are often first to identify new investment scams and to bring enforcement actions to halt and remedy a wide variety of investment-related violations.

"During our three most recent reporting periods, covering a period between 2004 and 2007, state securities regulators conducted more than 8,300 enforcement actions, which led to $178 million in monetary fines and penalties and more than $1.8 billion ordered returned to investors," Ropp said. "And, we are responsible for sending fraudsters away for a total of more than 2,700 years in prison."

Secretary Galvin, the top securities official in Massachusetts, urged the committee to "give the states the tools we need to maintain and enhance our ability to regulate effectively and protect investors." Galvin also asked Congress to require that brokerages be in a fiduciary relationship to their individual retail customers. Under current law, broker-dealer firms deal with their customers on an arm's-length basis, subject to an obligation of fair dealing. This means that customers cannot rely on their brokers to meet fiduciary obligations of loyalty, care and competence. In contrast to brokers, investment advisers work solely for their customers and have an acknowledged fiduciary duty to them.

“The Securities Division has seen examples of brokerages dealing unfairly and improperly with customers. Unfortunately, we have also witnessed customers who recover little or nothing for their losses due to the pro-industry arbitration system, and due to the fact that brokers are not considered fiduciaries. This system must be changed,” Galvin testified.

The complete testimony and additional information on the strong investor protection efforts of state securities regulators are available on the NASAA website.

NASAA is the oldest international organization devoted to investor protection. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada and Mexico.

DOWNLOADS

Ropp Testimony >> download
Galvin Testimony >> download
Chart: States at the Forefront of Investor Protection >> download

For more information:
Bob Webster, Director of Communications
202-737-0900