

Ohio Securities Bulletin



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RULES AVAILABLE

Copies of proposed rules relating to the Ohio Securities Act, Sections 1707.14 to 1707.99, Ohio Revised Code, may be obtained from the office of the Commissioner of Securities, 13th Floor, Borden Building, 180 East Broad Street, Columbus, Ohio.

As announced in the December 30, 1977 Bulletin, the Securities Division will hold a public hearing to consider the adoption of the proposed rules.

Information on the hearing being held to consider adoption of rules relating to the Ohio Securities Act, Chapter 1707, Ohio Revised Code and copies of these rules may be obtained from the Commissioner of Securities at the address in the paragraph above. The public hearing to consider these rules is scheduled for 10:00 a.m. on April 19, 1978.

CONSUMER FINANCE REPORTS AND RENEWALS DUE

On January 10, the Division mailed license renewal applications to Ohio second mortgage companies. The Consumer Finance Section must review over eleven hundred applications. Therefore, it is imperative that each licensee return the completed application and the \$100.00 annual fee as soon as possible.

Section 1321.09 of the Ohio Revised Code states in part: "Every licensee shall on or before the fifteenth of April of each year file a report with the division giving such relevant information as the division reasonably requires concerning the business and operations, during the preceding calendar year, of each licensed place of business conducted by such licensee within the state." Reports forms were mailed out to all home offices in mid-January. The return of the completed reports is a statutory requirement for continued registration under Section 1321.55(B).

ADVERTISING

Advertising to be considered for approval by this agency should be submitted in advance (two copies). Registration

advertisements should be directed to the examiner who approved the issue. Broker-dealer ads should go to the Broker-Dealer Section for review. One copy of the proposed ad will be returned marked either "approved" or "disapproved", and the other copy will be placed in the broker's file. Although the Division is not responsible for rewriting advertisements, which in the Division's opinion, tend to mislead, we will give general suggestions which may make the ads more acceptable to the Division. "Tombstone ads" containing complete and accurate information will usually be considered acceptable to the Division.

Advertising must reflect the fact that a licensed salesman acts only in the broker's name and not in his or her own name. Salesmen licensed under the Ohio Securities Act sell only for the licensed broker-dealer who filed his application and may sell only those securities which the broker is licensed to sell. The broker employer files the salesman's application and may also cancel it. The salesman, therefore, is totally responsible to the broker-dealer.

ADDING SMALL GROUPS TO CREDIT UNIONS

It has been brought to the Division's attention that a number of credit unions are violating section 1733.05 of the Revised Code. This section deals with the inclusion of small groups into a credit union's field of membership. The law clearly states that a credit union may, with the approval of the Supervisor of Credit Unions, amend its articles of incorporation and, if appropriate, its code of regulation, or permit a group of persons to become members of the credit union if the group and the credit union have a common bond of association. This bond may be employment; geographic location of residence, property, or employment; or other organizational affiliation.

The Supervisor of Credit Unions has learned that a number of credit unions have acted on the false assumption that a credit union may add a group to its membership by simply amending its articles of incorporation.

A description of the procedures to be followed when

adding a group to a credit union should help prevent further confusion and violation of the law. First, the group must deliver a letter to the credit union requesting membership services in the credit union. This letter should include the number of employees in the group or industry involved, whether or not payroll deductions will be granted, whether the group is already being served by an existing credit union, and whether the group is eligible to be served by an existing credit union.

Next, the credit union's board of directors must approve the addition of the small group to the credit union's field of membership and request approval from the Supervisor of Credit Unions. A copy of the letter from the group to the credit union should be enclosed with the request.

Section 1733.05(D)(2) describes the considerations which the Supervisor must take into account when making his decision:

"Before such group is permitted membership in a credit union, the supervisor must approve, in writing, both the group and the credit union, taking into consideration the size of the proposed group, the description of the group as to the persons who are or may become members of such group, and the soundness, both financial and organizational, of the credit union with which such group proposes to affiliate."

Following review of the request, the Supervisor will send the credit union a letter of approval or a letter explaining and detailing the reasons for denial of the request.

CREDIT UNION RULES

New rules relating to the American Credit Union Guaranty Association Act became effective on January 1, 1978. A synopsis of these rules (1301:6-13-03, 08, 23, and 24) appeared in the August 30, 1977 issue of the Bulletin.

Each state chartered credit union will be sent a copy of the full text of the new rules. Additional copies may be obtained by writing the Supervisor of Credit Unions, Ohio Commerce Department, 180 East Broad Street, Columbus, Ohio 43215.

BROKER-DEALER EXAMINATIONS

The Securities Division helps ensure that licensed broker-dealers comply with Ohio law by conducting examinations of their operating procedures and record-keeping. These examinations are used to determine the broker-dealer's net worth (Rule 1301:6-3-15(E)), whether the licensee has kept adequate books and records (Rule 1301:5-15(F)), and if the licensee has complied with the requirements for filing an audited financial statement (Rule 1301:6-5-15(I)). Examiners check that all salesmen are licensed with the Securities Division and that no sales were made prior to the date of issuance of the license (1707.16 and 1707.331, Ohio Revised Code). Division staff also inspect records to make sure that all sales material is kept in a separate file for a period of at least three years from the date of last use (Rule 1301:6-3-15(A)).

A number of different procedures are followed in discovering the information necessary to determine compliance. Examiners use the licensee's accounting records to obtain a trial balance and then adjust the assets (Rule 1301:6-3-15(J)). They also review the available books and records. If a financial statement cannot be prepared from the records by the examiner, the records are not adequate. A general ledger and a journal of cash receipts and disbursements are deemed the minimum records required for compliance with Rule 1301:6-3-15(F). Examiners must obtain copies of audited financial statements or confirm the broker-dealer's engagement with an independent accountant. They look for sales prior to licensing by reviewing cash receipts and disbursement journals. Finally, the sales material file is reviewed for compliance with Rule 1301:6-3-15(A).

STATE OF OHIO v. EDWARD W. TOVEY, 5-0 INC.

On February 21, 1978 Edward V. Tovey, president of 5-0 Inc., pled nolo contendere in the Cuyahoga County Court of Common Pleas to five violations of the Ohio Securities Act. These violations involved the sale, without a dealer's license, of unregistered securities (1707.44(A) and 1707.44(C)(1)). Judge David T. Matia accepted the plea and then found the defendant guilty on all five counts.

In consideration of Mr. Tovey's plea, the Prosecution Attorney agreed to drop the other 52 counts against Mr. Tovey. Judge Matea has ordered that a pre-sentencing investigative report on Mr. Tovey be prepared.

STATISTICS – January and February, 1978

BROKER-DEALER SECTION

<u>Applications Received</u>	Jan.	Feb.
Form 15	6	18
Form 331-A	3	4
Form 16 (original)	110	140
Form 16 (reissue)	176	87
Form 331-B (original)	6	16
Form 331-B (reissue)	9	3

Licenses Issued

Form 15	14	6
Form 331-A	1	1
Form 16 (original)	199	61
Form 16 (reissue)	425	193
Form 331-B (original)	8	4
Form 331-B (reissue)	12	7

Licenses Denied

Form 15	2	0
Form 331-A	0	0
Form 16 (original)	11	63
Form 16 (reissue)	0	47
Form 331-B (original)	2	0
Form 331-B (reissue)	0	5

CONSUMER FINANCE SECTION

<u>Applications Received</u>	Jan.	Feb.
Small Loan	3	6
Second Mortgage	1	7
Insurance Premium Finance	1	1
Pawnbroker	0	1

Licenses Issued

Small Loan	7	2
Second Mortgage	5	0
Insurance Premium Finance	0	1
Pawnbroker	0	1

Licenses Denied

Small Loan	0	0
Second Mortgage	0	0
Insurance Premium Finance	0	0
Pawnbroker	1	1

CREDIT UNION SECTION

Credit Unions Ordered into Liquidation	1	0
Hearings Held	1	0
Mergers Pending	37	35
Mergers Granted	1	5
New Charters Pending	1	0
New Charters Granted	1	0
Examination Fees	\$4,060.94	\$1,644.72
Xerox Fees	247.50	88.75
Supervisory Fees	27,587.11	\$364,910.74

ENFORCEMENT SECTION

Inquiries

Received or Assigned	104	183
Terminated or Closed	110	185
Active Cases Pending at the end of the Month	50	46
Administrative Activities		
Cease and Desist Orders	0	0
Subpoenas	5	10
Hearings: 23	1	6
Investigative Interviews and Court Appearances	1	5

EXAMINATION SECTION

Credit Union		
Number	19	45
Assets	\$22,310,360	76,959,230
Consumer Finance		
Small Loan	66	95
Second Mortgage	52	78
Pawnbroker	4	3

Broker-Dealer	8	6
3-O's and 6's	4	3
9's	4	1
Other Securities	1	0

REGISTRATION SECTION

<u>Applications Received</u>	Jan.	Feb.
2(B)	27	35
3-O	510	667
5(A)	1	2
6(A)(1) & 6(A)(2)	150	204
6(A)(3)	23	33
6(A)(4)	3	7
Form 9's		
Interstate Corporate	11	11
Stock Option & Purchase Plan	0	4
Intrastate Corporate	0	3
Investment Companies	15	44
R.E.I.T.	0	0
Real Estate Ltd. Partnerships	8	14
Cattle Funds	0	0
Other non-corporate	1	2
Oil & Gas Offerings	10	24
Form 33's	9	7
Form 39's	6	14

Certificates and Orders Issued

2(B)	13	42
3-O	457	669
5(A)	2	2
6(A)(1) & 6(A)(2)	94	164
6(A)(3)	18	33
6(A)(4)	1	8
Form 9's		
Interstate Corporate	8	10
Stock Option & Purchase Plan	1	5
Intrastate Corporate	1	0
Investment Companies	15	20
R.E.I.T.	0	0
Real Estate Ltd. Partnerships	9	9
Cattle Funds	0	0
Other non-corporate	2	3
Oil & Gas Offerings	17	10
Form 33's	0	4
Form 39's	3	1

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BROKER-DEALER SECTION

<u>Applications Received</u>	
Form 15	121
Form 331-A	20
Form 16	2,553
Form 331-B	174

Broker-Dealer Section (cont.)

Licenses Issued

Form 15	125
Form 331-A	26
Form 16	2,728
Form 331-B	121

Licenses Cancelled

Form 15	37
Form 331-A	5
Form 16	1,497
Form 331-B	58

REGISTRATION SECTION

Applications Received

2(B)	622
3-O	7,244
5(A)	20
6(A)(1) & 6(A)(2)	2,471
6(A)(3)	443
6(A)(4)	90
Form 9's	
Interstate Corporate	288
Stock Option & Purchase Plan	64
Intrastate Corporate	37
Investment Companies	409
R.E.I.T.	4
Real Estate Ltd. Partnerships	175
Cattle Funds	5
Other non-corporate	15
Oil & Gas Offerings	307
39's	220

Certificates Issued

2(B)	552
3-O	7,498
5(A)	22
6(A)(1) & 6(A)(2)	2,222
6(A)(3)	444
6(A)(4)	87
Form 9's	
Interstate Corporate	225
Stock Option & Purchase Plan	65
Intrastate Corporate	9
Investment Companies	479
R.E.I.T.	0
Real Estate Ltd. Partnerships	165
Cattle Funds	3
Other non-corporate	1
Oil & Gas Offerings	303
39's	181

ENFORCEMENT SECTION

Inquiries Received	1,164
Complaints Received	135
Complaints Closed	178

Court Actions	6
Prosecutions Recommended	18
In-Depth Investigative Interviews	371
Subpoenas Issued	50
Referrals to Attorney General	7
Referrals to S.E.C.	8

*For 1st 2 weeks in December, figure indicates complaints and inquiries closed.

CONSUMER FINANCE SECTION

Licenses Issued

Small Loan	130
Second Mortgage	129
Premium Finance	7
Pawnbroker	6

Licenses Cancelled

Small Loan	27
Second Mortgage	14
Premium Finance	0
Pawnbroker	4

Licenses Suspended

Small Loan	0
Second Mortgage	0
Premium Finance	0
Pawnbroker	0

EXAMINATIONS SECTION

Broker-Dealer	186
Form 6	100
Form 9	101
Other Registrations	45
Credit Union	688
Small Loan	1,425
Second Mortgage	1,116
Premium Finance	13
Pawnbroker	62
*Compliance Examinations	2,616
*Compliance examinations--small loan, second mortgage, premium finance, and pawnbroker examinations.	

CREDIT UNION SECTION

Suspensions	3
Hearings	4
Mergers	13
New Charters	4
Examination Fees	\$51,155.30
Xerox Fees	2,998.85
Supervisory Fees	440,171.59
CU-2 Fees	6,370.00

TOTAL INCOME TO GENERAL REVENUE FUND

\$1,611,735.00

CREDIT UNIONS ADOPT VISA PROGRAMS

Some state chartered credit unions have notified the Credit Union Section that they have begun participating in VISA-ZBA (zero balance account) and VISA, ISA, Inc. After reviewing the law and the VISA program, the Division has decided to take no action at this time regarding these proposed programs. This is in no way to be interpreted as the Division's approval of the program.

It is the position of the Credit Union Section that prior to the implementation of any new program or venture by a credit union, that the Credit Union Section be placed on notice and be given an opportunity to review the proposed programs and determine whether or not we wish to take any action.

**STATE OF OHIO
DEPARTMENT OF COMMERCE
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