Licensing Update & Advisory Committee Meeting

Anne M. Followell
Licensing Chief
Ohio Division of Securities
The Ohio Department of Commerce is focused on equipping businesses and protecting consumers. Commerce has seven operating Divisions. Commerce provides regulation for 28 industries. Our goal is to keep Ohioan’s safe, sound and secure.
Topics

- Introductions
- Licensing Staff & Stats
- Examination Program Update
- Administrative Actions
- FINRA Exam Restructuring
- Senior Exploitation Legislation

- Cybersecurity Update
- Investment Adviser Guide Updates
- Renewals
- Outreach & Ohio Securities Bulletin
- New Business and Questions
<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dealers</td>
<td>1,987</td>
<td>down 1.8%</td>
</tr>
<tr>
<td>Salespeople</td>
<td>186,752</td>
<td>up 2.9%</td>
</tr>
<tr>
<td>Investment Advisers (State)</td>
<td>865</td>
<td>up 3.3%</td>
</tr>
<tr>
<td>Investment Advisers (NF)</td>
<td>1,967</td>
<td>up 4.1%</td>
</tr>
<tr>
<td>Investment Adviser Representatives</td>
<td>19,490</td>
<td>up 2.2%</td>
</tr>
<tr>
<td>Investment Officers</td>
<td>_______98</td>
<td>down 4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>211,159</strong></td>
<td><strong>up 2.8%</strong></td>
</tr>
</tbody>
</table>

**Licensing Staff** – In House (6); Field Examiners (5)
10 Year Trends
Examination Program Update

- **FY Stats (July 1, 2017 – June 30, 2018):**
  - On-site Examinations (IA, BD, Issuer, For-Cause) – 282
  - IA Pre-licensing Examinations – 61

- **Common Examination Deficiencies:**
  - Financial Disclosure Reporting
  - Annual Updating Amendment (due 90 days after close of fiscal year – typically due March 31st)
Examination Program Update

- Common Examination Deficiencies (continued):
  - Form ADV Part 1 - Items 5(D) and 5(K)

K. Separately Managed Account Clients

(1) Do you have regulatory assets under management attributable to clients other than those listed in Item 5.D.(3)(d)-(f) (separately managed account clients)?

*If yes, complete Section 5.K.(1) of Schedule D.*
Schedule D, Item 5.K.(1)

- Mutual Funds & ETFs – Should be listed under “Securities Issued by Registered Investment Companies or Business Development Companies”
  - NOT “Other” or “Exchange-Traded Equity Securities”
- Options – Should be listed under “Derivatives”
  - NOT “Other”

Schedule D, Item 5.K.(3)

- Advisers are not updating this with the Custodians they use for Separately Managed Accounts
Final Orders -

- Order 17-035, In re: WRK Investments, LLC & Ryan Kitson – Final Order Suspending IA and IAR Licenses & Consent Agreement
- Order 18-007, In re: Membermap LLC & Steven French – Final Order Cease & Desist & Consent Agreement
- Order 18-018, In re: Gary Rathbun & Douglas Miller - Final Order Revoking IAR Licenses
Administrative Actions (July 2017-2018)

Pending -

- Order 18-010, In re: DL Yoho Investment Advisors & Daniel Yoho
- Order 18-021, In re: Advanced Strategies Agency & Garry N. Savage, Sr.
- Order 18-012, In re: Garry N. Savage, Jr.
- Order 18-022, In re: Fairhope Advisors & Robert Riccardi
- Order 18-028, In re: SageGuard Wealth Management & Raymond Erker
FINRA Exam Restructuring, effective 10/1/2018

- FINRA Regulatory Notice 17-30
- Created the SIE (Securities Industry Examination)
- Revised Representative Level Qualification Exams
- Eliminates duplicate testing
- SIE = fundamental securities-related knowledge (basic products, structure & function of industry, regulatory agencies, and prohibited practices)
- Revised Representative Level Qualification Exams = day-to-day activities, responsibilities, and job junctions
<table>
<thead>
<tr>
<th>Registration Category (and CRD System Designation)</th>
<th>Current Examination(s) (prior to October 1, 2018)</th>
<th>Future Examination(s) (on or after October 1, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Company and Variable Contracts Products Representative (IR)</td>
<td>Series 6 (100 questions)</td>
<td>SIE (75 questions) + Revised Series 6 (50 questions)</td>
</tr>
<tr>
<td>General Securities Representative (GS)</td>
<td>Series 7 (250 questions)</td>
<td>SIE (75 questions) + Revised Series 7 (125 questions)</td>
</tr>
<tr>
<td>Direct Participation Programs Representative (DR)</td>
<td>Series 22 (100 questions)</td>
<td>SIE (75 questions) + Revised Series 22 (50 questions)</td>
</tr>
<tr>
<td>Securities Trader (TD)</td>
<td>Series 57 (125 questions)</td>
<td>SIE (75 questions) + Revised Series 57 (50 questions)</td>
</tr>
<tr>
<td>Investment Banking Representative (IB)</td>
<td>Series 79 (175 questions)</td>
<td>SIE (75 questions) + Revised Series 79 (75 questions)</td>
</tr>
<tr>
<td>Private Securities Offerings Representative (PR)</td>
<td>Series 82 (100 questions)</td>
<td>SIE (75 questions) + Revised Series 82 (50 questions)</td>
</tr>
<tr>
<td>Research Analyst (RS)</td>
<td>Series 7 (250 questions) + Series 86 (Part I: Analysis) (100 questions) + Series 87 (Part II: Regulatory Administration and Best Practices) (50 questions)</td>
<td>SIE (75 questions) + Revised Series 86 (Part I: Analysis) (100 questions) + Revised Series 87 (Part II: Regulatory Administration and Best Practices) (50 questions)</td>
</tr>
<tr>
<td>Operations Professional (OS)</td>
<td>Series 99 (100 questions)</td>
<td>SIE (75 questions) + Revised Series 99 (50 questions)</td>
</tr>
</tbody>
</table>
Senior Exploitation Legislation - Am. Sub HB 49

- **New Mandatory Reporters** – Ohio’s Adult Protective Services laws were amended as part of Ohio’s biennium operating budget bill (Am. Sub. HB 49)
- Certain individuals who have “reasonable cause to believe” that an adult is being abused, neglected, or exploited shall immediately report the suspected abuse, neglect, or exploitation to the county department of job and family services.
- The list of mandatory reporters now includes “an investment adviser, as defined in section 1707.01 of the Revised Code;” and “a financial planner accredited by a national accreditation agency” among other professionals.
Senior Exploitation Legislation - Am. Sub. HB 49 (continued)

- Such reports may be oral or in writing.
- Provides for civil and criminal immunity for the reporter, unless the person has acted in bad faith or with malicious purpose.

Understanding Elder Abuse: A Guide for Financial Services Professionals:

http://www.odjfs.state.oh.us/forms/num/JFS08095/pdf/

- Implementation date September 29, 2018.
Senior Exploitation Legislation - Sub. SB 158 (pending)

- Legislation introduced (Senator Wilson) in May 2017 to “combat elder fraud and exploitation.”
- Criminal offenders committing certain crimes involving theft, deception, identity theft and forgery against elderly persons will be ordered to pay full restitution to their victims and face a fine of up to $50,000.
- Expands the list of mandatory reporters under Am. Sub. HB 49 to include: investment adviser representatives, securities dealers, and salespersons.
- Requires collaboration across several state agencies and professional organizations to develop best practices and standards for preventing elder fraud and financial exploitation.
Cybersecurity Update

Regulatory Action
- SEC Order No. 3-18840, *In re: Voya Financial Advisors* (9/26/18)

Ohio “Data Protection Act” (SB 220)
- Effective November 2, 2018 (copy included in materials)
- Encourages businesses to voluntarily adopt cybersecurity practices to protect consumer data; scalable based on size, complexity, nature, cost, & resources

NASAA Cybersecurity Checklist for Investment Advisers
- Copy included in materials
Investment Adviser & IAR Handbook

- Annual Updates - 4th Quarter of Each Calendar Year
- Soft copies available on our website, hard copies available by mail or from Division examiners

Renewals – 2019 Renewal Program Deadlines

- October 22\textsuperscript{rd} – Firms may begin to submit post-dated Forms U5 and BR Closing/Withdrawal (dated 12/31/18)

- November 1\textsuperscript{st} – Firms may begin to submit post-dated Forms BDW and ADV-W (dated 12/31/18)

- **November 12\textsuperscript{th}** – Preliminary renewal statements will be available through E-Bill.

- **December 17\textsuperscript{th}** – Deadline for receipt of Preliminary Renewal payments.

- December 27\textsuperscript{th} – Last Day to submit form filings prior to year-end.

- January 2\textsuperscript{nd} – Web CRD and IARD re-open. Firms that “Failed to Renew” on time and were systematically termed on 12/31/18, may begin the process of re-applying in Ohio.
Ohio Securities Bulletin & Outreach

- Not receiving the quarterly Ohio Securities Bulletin? Subscribe today!

- Outreach Opportunities
  - Industry Events
  - Small/Study Group Meetings
  - Anticipated 2019: Elder Abuse Educational Meetings

Safe. Sound. Secure
New Business & Questions
Adjournment

Anne.Followell@com.ohio.gov

614-728-2840