

STATE OF OHIO



180 East Broad Street
Columbus, Ohio 43215

ohio securities bulletin

JAMES A. RHODES
Governor

J. GORDON PELTIER
Director of Commerce

JAMES F. HURD
Commissioner of Securities

AUGUST 30, 1977

ANNOUNCEMENTS

Clark W. Wideman has been appointed Assistant Commissioner of Securities by Director of Commerce J. Gordon Peltier. He will serve as Acting Commissioner while Commissioner James Hurd is on medical leave. Wideman also serves as Legal Counsel for the Commerce Department. He attended Ohio State University and Capital University Law School and was formerly a Deputy Assistant to the Governor.

Robert Collins will act as temporary supervisor of the Consumer Finance Section during Robert Fickell's hospitalization. Collins, an examiner, has been with the Securities Division for over eight years, and before that he worked for eighteen years in the consumer finance industry. He will also continue to process applications for foreign real estate registrations.

Robert Lindwall has transferred from the Enforcement Section to the Registration Section where one of his new colleagues will be William Henry, an attorney on that section's staff. Lindwall has served as a Referee for the Board of Review for the Ohio Bureau of Employment Services. He had previously held the position of Assistant General Counsel and Assistant Vice President of the Kissell Company, a subsidiary of the Pittsburgh National Corporation. Henry spent several years in private practice and also worked in the City Attorney's office for five years.

Richard Slavin, examiner, is now a member of the Enforcement Section. Slavin, who has been with the Division for five years, has recently completed law school at the University of Akron, and he took the Ohio bar exam in July.

In early 1977, all rules of the Division of Securities were renumbered, reorganized, and refiled pursuant to the provisions of Am. Sub. House Bill 317.

Copies of the revised, renumbered rules will soon be available from the Division of Securities, at the same price as the rules now being distributed. Until the new copies are available, a cross-reference table showing the old and new numbers for all Division rules will be enclosed with each set of rules.

SECTIONS

BROKER-DEALER

In the early Roman army, freemen of the lowest draftable rank were called accensi. Too poor to supply themselves with arms or even uniforms, the accensi reported for service in whatever clothing they had, marched at the rear of the column, did odd jobs around the camp, and in battle formed behind the infantry where they waited for someone in the forward ranks to be cut down. They then picked up the swords and shields of the fallen and joined the battle.

Something like that is happening in the securities industry today. The "accensi" made up of a rag-tag army of real estate speculators, oil plungers, and insurance advisors have attempted to take their place within the ranks of the regular legions that make up the securities industry.

Accompanied by their legal counsel, they approach the Division believing that the licensing process is a mere bureaucratic formality, a "complication" to their future plans.

The Broker-Dealer Section is concerned that these applicants don't appear to realize that they incur specific legal responsibilities when they apply for and receive their broker-dealer licenses. For example, a broker-dealer is re-

quired to notify the Division of any changes in the information upon which the decision to grant the license was based (Administrative Rule 1301:6-3-15). In addition, each broker-dealer must file with the Division a minimum of two financial reports per year; one audited, and both certified true and correct by an authorized corporate official.

It is essential that each licensee maintain books and records which enable the Division to determine at all times the financial condition of the broker-dealer and which fully disclose all the transactions entered into by the dealer (1301:6-3-15). These records must be kept current and available for inspection as long as the license remains in effect — whether or not securities have been sold.

ENFORCEMENT

A reminder: The Division receives many requests for copies of information. We are making every effort to respond promptly to these requests. However, time is lost when we must request letters of intent in compliance with Rule 1301:6-1-04. For clarification, the Rule has been extracted and printed below. It will expedite matters greatly if each request includes the interest the writer has in the matter, and the purpose for which the information is needed.

Also, as we stated in the April 30, 1977 Bulletin, our copying charge is twenty-five cents a page with a minimum charge of one dollar. Payment for copies should be made in advance.

INSPECTION OF RECORDS 1301:6-1-04 (formerly COs-1-08(D))

“Applications and other papers voluntarily filed with the Division shall be open to inspection as hereafter provided, during the regular business hours of the Division, except for unreasonable or improper purposes. Information obtained by the Division through an investigation shall be available for inspection only by persons directly interested therein. Any person who desires to make an inspection of Division applications, filings or reports shall apply to the Commissioner, or his designate, for permission to make such inspection. Any application for inspection of information in the files of the Division must be made in writing, verified by oath of the applicant, setting forth the purpose for which inspection is desired and, in the case of an application for inspection of information obtained through an investigation, a further statement as to the interest of the applicant.”

CREDIT UNION

The Division of Securities conducted a public hearing on September 15, 1977, for the purpose of promulgating rules pursuant to Chapter 119, and 1761, of the Revised Code. Chapter 1761, governs the American Credit Union Guaranty Association.

At the hearing, the Commerce Department suggested certain changes in the rules as originally proposed. These suggested changes were the result of a meeting between representatives of the Commerce Department and the American Credit Union Guaranty Association.

At the September hearing, the Association asked for additional time to review the proposed rules as amended. Another hearing for the promulgation of rules was scheduled for November 10.

A synopsis of the rules to be considered at this hearing appears below. Any person wishing to testify at the hearing is requested to contact the Supervisor of Credit Unions, Division of Securities, Ohio Department of Commerce, 180 East Broad Street, Columbus, Ohio 43215, in writing, prior to November 7, 1977.

1301:6-13-03 Purchase of Assets of Member Credit Unions

This proposed rule would require that certain information be supplied to the Supervisor with respect to the purchase of assets from members by the Association. It would require notification to the Supervisor within ten days after any such purchase. Further, this rule would enable the Supervisor to require a reserve for any such assets purchased. It also requires the Association to notify the Supervisor of any loan granted to a member by the Association.

1301:6-13-08 Membership in the American Credit Union Guaranty Association

This proposed rule would require that written notification be given to the Supervisor prior to the termination of the membership of a member. The Association would be required to notify the Supervisor of a credit union's application for insurance. This proposed rule would also require that certain information be supplied to the Supervisor by the Association with respect to a foreign credit union's application for insurance and continued insurability.

1301:6-13-23 Financial Statements to be filed with Supervisor of Credit Unions

This proposed rule would establish guidelines pertaining to the Association's filing with the Supervisor of the financial statement to be distributed to the membership prior to the annual meeting.

1301:6-13-24 Preservation of Records

This proposed rule would establish a schedule of records' retention for the association.

At the time of the hearing, any person affected by the proposed rules may appear and be heard in person, by his attorney, or both, may present his position, arguments, or contentions, orally or in writing, offer and examine witnesses, and present evidence tending to show that the proposed rules will be unreasonable or unlawful. Any person wishing to testify at the hearing is requested to contact the Supervisor of Credit Unions, Division of Securities, Ohio

Department of Commerce, 180 East Broad Street, Columbus, Ohio 43215, in writing, prior to November 7, 1977.

Robert Cassidy, Supervisor of the Credit Union Section, and three examiners on the Commerce staff attended a September 7-9 intergovernmental conference in Washington, D. C. The conference, sponsored by the National Credit Union Administration, dealt with such topics as examination procedures, consumer regulations, and share insurance.

SUSPENSION OF NORMAL OPERATIONS:

Peabody Galion Employees Credit Union on July 5, 1977

MERGERS APPROVED:

Erie Lackawanna Employees Federal Credit Union
with
Nycoll Employees Credit Union on July 7, 1977

Neon Personnel Investors Federal Credit Union
with
Utelco Employees Credit Union on August 19, 1977

Bauer Employees Federal Credit Union
with
International Harvester Employees Credit Union on
August 23, 1977

CHARTERS ISSUED:

Martins Ferry Hospital Employees Credit Union on
July 7, 1977

PENDING LEGISLATION

House Bill 356

The second committee hearing on H. B. 356 was held on September 20. The bill was voted out of committee, and on September 27, the bill was amended and passed in the house by a vote of 90 to 0.

This bill would create a Division of Credit Unions and a Division of Consumer Finance within the Ohio Department of Commerce. In addition, it would create rotary funds for both of the new Divisions. Small credit unions, which now find the examination fees especially burdensome, would benefit from H. B. 356 which abolishes all such fees. The bill would help state chartered credit unions achieve parity with federal credit unions. The Superintendent of Credit Unions would be granted authority to initiate rules and regulations to allow the state credit unions certain privileges already afforded federal credit unions.

House Bill 339

The proposed Ohio Investors Protection Act was introduced into the House of Representatives on March 1, 1977. This bill is designed to get the small investor back into the securities market by restoring his or her faith in the integrity of the securities market.

One way to help build investor confidence is to work to eliminate the conflict of interest problems inherent in affiliated party transactions. These are transactions in which a publicly owned company engages in business transactions with directors or officers of that company, or another company in which the directors or officers have an interest. An analysis by the Commerce Department of major financial disasters in Ohio revealed that many affiliated party transactions resulted in the financial ruin of the public company and losses to the public shareholders. In the past few years, the Department has seen the collapse of two real estate empires. These two groups of companies have accounted for losses exceeding \$50,000,000 by approximately 16,000 Ohio investors. In both instances, the companies were riddled with affiliated party transactions. To help eliminate this problem, H. B. 339 would consider affiliated party transactions as being on grossly unfair terms unless the issuer could meet the burden of proving the fairness of the transaction.

Another step to protect investors is to revise the Statute of Limitations so that investors, when they learn they have been defrauded, would have more time after the date of purchase to use the civil liability provisions of the Ohio Securities Act.

This bill also makes some housekeeping changes in the Ohio Securities Act and makes registration easier in some cases. Registration by coordination is introduced into Ohio law to ease some of the problems of registration when there is also a registration with the SEC.

House Bill 339 was referred to the House Insurance, Utilities, and Financial Institutions Committee and has had two hearings.

The Division is working to promote a compromise through which some of the features of H. B. 339 would be incorporated into S. B. 139 which amends several sections of the Ohio Securities Act. The S. B. 139 amendments would, among other things, increase the number and types of exemptions and substantially alter existing liability provisions.

If such a compromise is reached, S. B. 139 is expected to pass both houses; and a revised bill, dealing with other issues which were addressed in H. B. 339, will be submitted to the next session of the Ohio General Assembly.

STATISTICS

Statistics Summarizing the Division's Activities for July and August

ENFORCEMENT SECTION	July	August
Inquiries Received	107	111
Complaints Received	10	8
Complaints Closed	11	7
Broker/Dealer Suspensions	0	0
Salesman Suspensions	0	0

ENFORCEMENT SECTION (Cont.)	July	August
Salesman License Revocations	0	0
Salesman License Refusals	0	1
Registration Suspensions	1	0
Hearings Held	3	2
Court Actions	1	0
Prosecutions Recommended	0	3
In-Depth Investigative Interviews	18	10
Subpoenas Issued	1	3
Matters Referred to the Attorney General	1	1
Matters Referred to SEC	0	0

CONSUMER FINANCE SECTION

Licenses Issued

Small Loan	9	7
Second Mortgage	8	24
Premium Finance	2	0
Pawnbroker	1	0

Licenses Cancelled

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

Licenses Suspended

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

CREDIT UNION SECTION

Suspensions	1	0
Hearings	0	0
Mergers	1	2
New Charters	1	0
Examination Fees	5,459.82	4,805.80
Xerox Fees	326.50	190.00
Supervisory Fees	0	0
CU-1 Fees	10.00	0

BROKER/DEALER SECTION

Applications Received

Securities Broker/Dealer (Form 15)	13	7
Foreign Real Estate Broker/Dealer (Form 331A)	1	0
Securities Salesman (Form 16)	217	229
Foreign Real Estate Salesman (Form 331-B)	21	28

BROKER/DEALER SECTION (Cont.)

<u>Licenses Issued</u>	July	August
Securities Broker/Dealer	11	4
Foreign Real Estate Broker/Dealer	1	1
Securities Salesman	230	167
Foreign Real Estate Salesman	1	13
<u>Licenses Cancelled</u>		
Securities Broker/Dealer	4	4
Foreign Real Estate Broker/Dealer	1	0
Securities Salesman	115	85
Foreign Real Estate Salesman	6	8

EXAMINATION SECTION

Broker/Dealer Examinations	15	16
<u>Registration Examinations</u>		
Form 6	7	9
Form 9	5	2
Other	5	0
Credit Union Examinations	71	53
Small Loan Examinations	140	124
Second Mortgage Examinations	108	99
Premium Finance Examinations	0	0
Pawnbroker Examinations	5	10
*Compliance Examinations	253	233

*Total of Small Loan, Second Mortgage, Premium Finance, and Pawnbroker Examinations

REGISTRATION SECTION

	<u>Applications Received</u>	
2(B)	58	47
3-0	732	592
5(A)	1	1
6(A)(1) & 6(A)(2)	258	180
6(A)(3)	45	26
6(A)(4)	12	9
Interstate Corporate	25	23
Stock Option & Purchase Plan	8	3
Intrastate Corporate	1	0
Investment Companies	35	27
R. E. I. T.	0	0
Real Estate Limited Partnerships	18	13
Cattle Funds	0	0
Other Non-Corporate	2	0
Oil & Gas Offerings	30	22
Form 39	23	16

REGISTRATION SECTION (Cont.)

	Certificates and Orders Issued	
	July	August
2(B)	55	38
3-0	761	584
5(A)	2	0
6(A)(1) & 6(A)(2)	221	137
6(A)(3)	43	22
6(A)(4)	8	7
Interstate Corporate	13	11
Stock Option & Purchase Plan	4	12
Intrastate Corporate	0	0
Investment Companies	64	31
R. E. I. T.	0	0
Real Estate Limited Partnerships	12	13
Cattle Funds	0	0
Other Non-Corporate	0	0
Oil & Gas Offerings	26	24
Form 39	19	11

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