



COMMISSION NEWS

ARIZONA CORPORATION COMMISSION, 1200 W. WASHINGTON, PHOENIX, AZ 85007

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CONTACT: Mark Sendrow (602) 542-0643

CORPORATION COMMISSION OPPOSES SECURITIES INDUSTRY PROPOSAL TO WEAKEN STATE INVESTOR PROTECTIONS

The Arizona Corporation Commission has announced its opposition to federal legislation offered by the Securities Industry Association ("SIA") in the United States Senate. The SIA is the industry group that represents brokerage companies and stockbrokers. The SIA proposals that would become part of the Securities Markets Enhancement Act of 1999 ("SMEA") would restrict the Commission's ability to protect Arizona investors.

The Commission, through its Securities Division, currently licenses persons who sell securities to Arizona residents. Many stockbrokers ply their trade from other states, but must nonetheless be registered with the Commission. The registration requirement allows the Commission to protect Arizona citizens from rogue brokers.

Under the SIA proposals, Arizona could only license stockbrokers who maintain offices within the state and could not license out-of-state stockbrokers who sell securities to Arizona citizens. The proposal, if adopted, would interfere with the Commission's traditional power to protect Arizona investors.

In opposing the SIA proposals, Securities Division Director Mark Sendrow observed that "As the local cop on the investment beat, the Commission uses its traditional licensing authority to screen broker applications and regulate stockbrokers, more than 90% of whom call potential investors from out-of-state. While the vast majority of stockbrokers are honest and ethical, this licensing authority is an essential tool in protecting state investors from bad brokers and cold calling stock salesman peddling junk securities."

Chairman Carl Kunasek noted that the "American securities markets are fair, open and transparent and have the confidence of investors and are the envy of the financial world. These conditions result from the nation's 60-year old complementary regulatory system of state, industry and federal oversight and enforcement. The SIA proposal would go a long way towards tearing down that structure."

According to Commissioner Jim Irvin, "The Commission, along with other state securities regulators, has worked to create a new regulatory landscape in cooperation with the Securities and Exchange Commission and the National Association of Securities Dealers." Commissioner William A. Mundell stressed that "The states work closely with the Securities and Exchange Commission to protect

individual investors and promote fair markets.”

If the SIA proposals become law, it is likely that the Commission would be limited to licensing only those stockbrokers who have a place of business in Arizona. As already noted, many more out-of-state than in-state stockbrokers sell to Arizona citizens. The SIA approach would set off a "race to the bottom" with rogue brokers and bad firms migrating to states with weak laws and limited regulatory resources, where they could prey on investors nationwide. If Arizona is unable to keep bad brokers and firms out we could see a resurgence of boiler room operators who defrauded so many investors in years past.

The Commission has exercised its licensing authority to protect Arizona residents. In 1997 and 1998 the efforts of the Commission's Securities Division kept 235 brokers, with records of misconduct, from being licensed in Arizona. Of these 235 brokers, 223 were located in other states. Under the SIA proposal, the Commission would not have been able to prohibit the out-of-state brokers from selling securities to Arizona residents. Examples of applicants the Commission has screened include:

- A broker, residing in New Jersey, had six disciplinary incidents all involving unauthorized trading. In three of the incidents, his firm had to rescind trades involving approximately \$94,000. One of the incidents involved a transaction made by the broker after being notified that the client had died. At the time of his application to Arizona, the broker had two disciplinary proceedings pending.
- A Florida broker had a record of twenty-four disciplinary incidents including thirteen involving adjudicated or settled complaints involving unauthorized transactions, unsuitability, churning, and misrepresentation. These complaints resulted in settlements totaling approximately \$151,000.
- A New York broker applied for registration in Arizona with a record of thirteen disciplinary incidents involving unauthorized transactions, failure to follow instructions, misrepresentation, omission of facts, churning and unsuitability. Settlements of four of these complaints totaled approximately \$80,000. At the time of the application, complaints relating to several of the incidents were still pending.