

State of North Carolina
Department of the Secretary of State

ELAINE F. MARSHALL
SECRETARY OF STATE

Memorandum

Date: December 18, 2013

To: Joint Legislative Commission on Governmental Operations
Fiscal Research Division, North Carolina General Assembly

From: David S. Massey
Deputy Securities Administrator
North Carolina Securities Division
Department of the Secretary of State

Re: Investor Protection and Education Trust Fund
Report for Fiscal Year ending June 30, 2013

Pursuant to N.C.G.S. § 147-54.5(f), the Department of the Secretary of State respectfully submits this report on the expenditures from the Investor Protection and Education Trust Fund (hereinafter, "Fund") for the fiscal year ending June 30, 2013. This report includes a required update regarding the effectiveness of investor awareness education efforts by the Department of the Secretary of State.

The Securities Division of the North Carolina Department of the Secretary of State was created to protect the investing public and to enhance legitimate capital formation through its administration of a program designed to combat fraudulent practices in the solicitation of investment capital and to encourage sound investments as well as promote a legitimate competitive business climate. The Securities Division enforces the North Carolina Securities Act, the North Carolina Investment Advisers Act, and the Commodities Act.

Specifically, the Division analyzes investment-related complaints received from the public and from the business community, responds to inquiries about investment transactions, conducts investigations and initiates enforcement actions appropriate to protect investors and the public from fraudulent securities activities. In this regard, the Division is responsible for registering both investment products and investment professionals, and for conducting reviews of the background and the business practices of these registrants. As part of its enforcement responsibilities, the Division investigates allegations of fraudulent activity committed in connection with transactions in investment securities. Historically, this has included conducting undercover investigations targeting Ponzi schemes, as well as taking a lead in a multi-state investigation into fraudulent sales practices committed during the marketing of auction rate securities.

Directly connected to the Division's enforcement responsibility is its Investor Protection and Education Outreach Program. The activities, programs and materials of this function are funded through the Investor Protection and Education Trust Fund.

The primary purpose of the Fund is to protect the investing public from those who would do them financial harm, and to educate the investing public on actions they can undertake or resources they can utilize to become better informed investors and avoid becoming victims of investment fraud. A secondary goal of the fund is to foster a climate wherein the investing public effectively has access to quality business information that enables these investors to identify legitimate investment opportunities. This investor capacity leads to the business community in North Carolina more readily having less expensive financial capital formation costs and, in addition to, the investors accumulating additional wealth to finance their retirement years or their other activities.

The Investor Education Program has developed a robust outreach effort devoted to educating the investing public about securities fraud and providing them with unbiased information about investing and about investment professionals. This program has included in-person presentations to many different groups of potential investors including senior citizens, women, military personnel, and members of different civic, ethnic, religious and professional organizations. **Between March 2006 and June 30, 2013, the Investor Education Program has conducted 626 different presentations to thousands of people in all 100 counties of North Carolina.** In addition, the Investor Education Program provides an extensive library of resources that it makes available to the public free of charge, and is constantly updating this library as new resources are acquired to respond to new, emerging threats targeted at investors. During FY 2013, the Investor Education Program conducted a voluntary survey of 1110 people who attended at least one investor education presentation. Over 500 attendees responded. Ninety-five percent of respondents rated the presenter as either “Excellent” or “Very Good”. Almost ninety-nine percent said they would recommend the presentation to others.

Another way the Investor Education Program educates the general public about securities fraud and trends in securities regulations is through the publication and distribution of an electronic newsletter (see attachment). The newsletter, which is typically produced monthly and averages more than ten pages per issue, is distributed to a listserv composed of people who have voluntarily requested to be kept informed of investor alerts and tips as well as the ongoing enforcement and regulatory activities of the NC Securities Division. The number of recipients has grown steadily, from just over 3000 in 2009 to over 4800 in 2013.

The Securities Division’s “investor protection” responsibility relates to and is coordinated with its law enforcement duties and activities conducted pursuant to N.C.G.S. Chapters 78A, 78C and 78D. The Department utilizes the Trust Fund to provide training and education about securities, securities fraud and ways to avoid financial abuse or exploitation to a number of constituencies: investment professionals directly regulated by the Division (brokers and investment advisers); the law enforcement community (police and sheriffs’ departments and district attorneys’ associations); and providers of professional services to the investing public (attorneys, accountants, medical professionals and adult service providers).

Providing training and education to these various groups of professionals through live or recorded or other electronic means serves as a force multiplier for the Securities Division. Building capacity within these groups serves to better protect the investing public from securities fraud and financial exploitation. By increasing awareness among these various groups that securities fraud is a statutory crime and that the Department, generally, and the Securities Division, specifically, are the subject matter experts on these types of crimes, we are able to extend our reach into local communities, giving us the potential to identify, investigate and stop these crimes much earlier, thereby minimizing victim losses and maximizing victim recoveries.

Through this educational program, the Division promotes greater awareness of investment fraud among members of the general investing public, especially those demographic populations that are

frequently targeted by vulnerable to fraudulent investment schemes (i.e. senior citizens, members of the armed forces, faith-based organizations); provides on-going compliance assistance to licensed investment professionals regulated by the Division in the conduct of their lawful business activities; promotes local capital formation for business growth activities; and partners with other law enforcement agencies by providing on-going education, consultation and assistance with regard to securities fraud investigations their jurisdictions may undertake.

During Fiscal Year 2013 through the activities undertaken through the Fund, more than 7,150 North Carolina investors received direct, in-person education and training. Furthermore, over 41,000 investor education brochures were distributed statewide. Financial support and shared expertise were also given to other public education efforts in the State, such as the first-of-its-kind elder fraud conference co-sponsored by the Department and the NC Conference of District Attorneys.

Through outreach activities supported by the Fund, the Division has provided education to small businesses and entrepreneurs through the Small Business Center Network of the North Carolina community college system, as well as in concert with sister agencies like the North Carolina Department of Revenue and the North Carolina Industrial Commission.

Investor Protection and Education Trust Fund Expenditures for FY 2013

During the 2013 fiscal year, expenditures from the Fund totaled \$227,852.08. This amount was comprised of the following components:

- A. Payments totaling \$150,748.63 to conceive, coordinate and execute all of the Department's investor education outreach activities and initiatives. During FY 2013, such initiatives included (but were not limited to):
 1. Conceiving and implementing a series of investor protection presentations for civic and professional organizations. During FY 2013, the Securities Division provided investor education presentations at a total of 143 events in 57 different cities spanning 43 different counties, and presented to 7,150 people. As compared to FY 2012, this represents increases of 9% and 7.7%, respectively, in the number of events conducted and people served. These activities were directed at demographic groups identified as very vulnerable to investment fraud, including senior citizens, members of the armed services, women, and faith-based organizations, as well as to groups whose interests are naturally aligned with the Fund's mission including law enforcement agencies, business groups of varying sizes, medical professionals, and other organizations of professional working adults.
 2. Responding to constituent queries and requests for information, meeting with interested constituents and constituent groups about investor education and protection activities, and researching investor education/protection topics for articles, letters and speeches. During FY 2013, the Securities Division distributed more than 41,000 pieces of investor education materials, a 27.5% increase over the number sent out in FY 2012. Although this number does not, for example, include materials picked up during the NC State Fair, it does include pieces distributed as a result of requests from the general public, pieces distributed to attendees of investor education events, and pieces mailed or delivered to military family services officials at military bases around the state. Along with the sponsorship of an investor education program aimed at members of the North Carolina National Guard, the Securities Division's distribution of investor education/protection

materials to military family services officials contributes to the effort to make North Carolina a more military-friendly state.

3. Developing the capacity to respond effectively to changes in federal and/or state securities law and to communicate these changes to the relevant interested parties

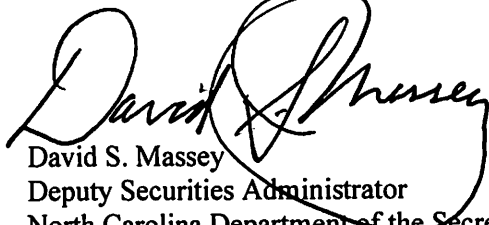
- a) Enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”) required registered investment advisers with assets under management (AUM) of between \$25 million and \$100 million to “switch” from federal to state regulatory oversight. This switch substantially increased the size and scope of the Division’s workload. It greatly increased the number of firms and representatives the Division is responsible for monitoring. Furthermore, the increase in the AUM threshold for state registration increased the level of complexity of the cases being reviewed. To help address some of these issues, the Division has used resources from the IPET Fund during the past three fiscal years to conduct an aggressive educational outreach program aimed at registered investment advisers. This program not only seeks to improve lines of communication between the Division and the investment advisory community, it promotes greater professionalism and encourages ethical behavior within the community while ensuring the highest level of protection for investors.
- b) The enactment of Dodd-Frank and the more recent federal Jumpstart Our Business Startups Act (“JOBS Act”) fundamentally changes the way securities issuers or promoters may solicit investors. For the first time since the 1930’s, issuers are now able to market their securities offerings over the Internet via crowd funding portals. They are also able to broadly advertise private placement securities offerings. As a result, the Division has anticipated the need to educate not only business startups and investors about these changes, but also the network of state, local and private organizations that support and promote small business mentorship and job creation.

Future goals of the Fund include developing relationships with the state’s law schools whereby North Carolina law students will be trained in:

1. Crafting effective and appropriate capital formation strategies; recognizing inappropriate and ineffective capital formation strategies, including hazards and scams in the investing environment; and the latest developments in federal and state securities law. Students will also assist in the development of targeted educational materials and programs for members of the public, small businesses and potential investors;
 2. Developing client skills for assisting and counseling small businesses; and,
 3. Volunteering a specific number of hours each year post-graduation to pro bono work in North Carolina on securities-related issues for small investors or businesses.
4. Expanding the “in-house” ability to offer training seminars via the Internet. This will improve the Division’s ability to support business activities and facilitate capital formation within the state by better delivering educational content to investors, the professional community and entities with similar interests and goals.
 5. Taking active participation in the activities of such organizations as the North Carolina Financial Literacy Council, the North Carolina Senior Consumer Fraud Task Force, the Jump\$tart Coalition, and the North American Securities Administrators Association.
 6. Assisting the Secretary with investor education and capital formation presentations.

B. Payments totaling \$77,103.45 were made to various vendors for equipment maintenance, office supplies, printing and shipping costs of various investor education publications.

This concludes the FY 2013 IPET activity report. Please contact me if the Department can provide further information.

A handwritten signature in black ink, appearing to read "David S. Massey", is written over the printed name and title.

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APPENDIX – EXAMPLES OF INVESTOR EDUCATION PROGRAM INITIATIVES

Securities 101 for Law Enforcement Officers initiative

Beginning in FY 2011, the Investor Education Program piloted an outreach program designed to make local law enforcement agencies more familiar with investment fraud crimes and the ways the NC Department of the Secretary of State Securities Division could assist local law enforcement agencies with the investigation and development of such cases. This outreach program was piloted at the sheriff's offices of Transylvania and Cleveland Counties and the Raleigh Police Department. Such presentations continued to be conducted by the Division's Investor Education coordinators and its Special Agent-in-Charge. During the last month of FY 2012, the Division updated its local law enforcement contact list and sent letters to approximately 300 law enforcement officers around the state informing them of our training program. As a result of the responses to this effort, we calendared 7 on-site sessions during FY 2013.

“Elder Fraud: A Multi-Jurisdictional Approach to Justice”

During FY 2013, the Department joined the NC Conference of District Attorneys in co-sponsoring a training conference entitled, “Elder Fraud: A Multi-Disciplinary Approach to Justice”. This two-day, first-of-its-kind multidisciplinary course offered 180 prosecutors, victim witness legal assistants, law enforcement officers, Adult Protective Services staff, senior advocates, and other allied professionals an intense training regime regarding the investigation and prosecution of elder abuse. The conference addressed the common misconceptions that often hinder the successful prosecution of such crimes, offered practical tools for overcoming these barriers, and assisted in understanding the dynamics of working with elder victims. The conference addressed all areas of elder abuse including both physical abuse and fraud. The Securities Division provided several speakers who gave presentations on securities fraud during the general session as well as in two separate breakout sessions. Attendees whose job functions require them received continuing education credits for participating in this conference.

Elder Investment Fraud and Financial Exploitation (EIFFE) Prevention Program

Beginning in FY 2011, the Investor Education Program sponsored the North Carolina presentation of the Elder Investment Fraud and Financial Exploitation (EIFFE) Prevention Program, a national investor education initiative developed by the Baylor College of Medicine. The EIFFE program is specifically designed to train medical professionals to be more aware of the signs of investment fraud and financial abuse of elderly patients, so that such patients (or their caregivers) could be referred to Adult Protective Services, to the Secretary of State's Securities Division, or to other local law enforcement or community-based service agencies. The Division has partnered with the UNC School of Medicine and has presented training seminars to the spring 2011 conference of the NC Academy of Family Physicians, a special seminar presented in March 2012 at the J. Paul Sticht Center on Aging at Wake Forest Baptist Hospital, and a seminar at the Mountain Area Health Education Center (MAHEC) in Asheville in November 2012. Approximately 250 people attended these events. Medical professionals who attended these seminars were able to receive one hour of AMA PRA Category 1™ education credit. During FY 2013, smaller presentations were also given on this topic to various interest groups. Another such training session is being planned for FY 2014 at the Southeast Area Health Education Center (SEAHEC) in Wilmington. Additional information about this event will be detailed in the FY 2014 IPET Activity Report.

Investment Adviser Workshop Initiative

Beginning in FY 2011, and continuing through FY 2012 and into FY 2013, the Investor Education Program conceived and developed an educational outreach initiative in partnership with the NC Securities Division's Enforcement Section designed to help professionals in the investment advisory profession better understand the requirements of the NC Securities and Investment Advisers Acts and their

associated regulations. Between September 2010 and September 2013, thirteen workshops have been conducted in various locations around the state, attracting approximately 447 investment advisers or their representatives. In addition to providing their clients better advice and money management, another benefit of this educational initiative was to establish a more open working relationship with investment advisers located in North Carolina and regulated by the Division. By conducting such training workshops, the Division is promoting a higher level of professionalism within the regulated investment advisory services community, thereby ensuring the state's investors are served by ethical and competent investment professionals. The comments from those advisers who attended showed their appreciation for the Division's efforts to support and assist owners of small businesses in North Carolina. Reaction to the Division's educational outreach program by the investment advisory community has been overwhelmingly positive. Historically, 388 workshop attendees, representing 77% of all attendees, have completed customer service surveys. All 388 attendees said that they would recommend the workshop to other advisers and rated the "value" of the information provided as being either "Excellent" (88%) or "Good" (12%). Comments have ranged from "Excellent job by all. Great idea! Looking forward to my exam!" to "Would like to see these workshops as often as possible."

Investor Education in Your Workplace® Program

Beginning in FY 2011 and continuing through FY 2014, the Investor Education Program has sponsored the Investor Education in Your Workplace® Program in association with the NC Credit Union League. This nationally recognized program provides unbiased instruction in personal finance and investing fundamentals to employees of participating employers. There is no cost to the employee or to the employer, other than allowing the participating employee to take the 10-part online course of instruction. Three sessions have been offered in North Carolina since Spring 2011. During that time, 2,583 employees representing 67 different organizations have participated in this program, completing a combined 17,869 hours of investor education coursework. During each of the three sessions, participants nationally have experienced, on average, improvements in their knowledge of financial concepts of between 29% to 39%. During FY 2013, the program was offered to credit union employees, to private employers and to members of the North Carolina National Guard.