



Occupational Licensing Board Review Testimony Division of Securities, Ohio Department of Commerce

House State & Local Government Committee October 9, 2019

Chair Wiggam, Vice Chair Ginter, Ranking Member Kelly, and members of the House State and Local Government Committee, my name is Andrea Seidt and I am the Commissioner of the Division of Securities at the Ohio Department of Commerce. Thank you for the opportunity to provide information on the licensing responsibilities of the Division.

The Division of Securities' ("Division") mission is to administer and enforce the Ohio Securities Act in order to protect Ohio's investors while promoting capital formation. The Division seeks to achieve these goals by making Ohio a welcome home for securities professionals and other market participants; providing fair access to capital, especially for start-ups and other small companies seeking to create jobs and grow their business; and preserving the wealth and capital of Ohio families and businesses through smart policy, education, examination, and enforcement.

The Division's authority is set forth in the Ohio Securities Act, housed in Chapter 1707 of the Ohio Revised Code, and its associated rules, set forth in section 1301, subchapter 6, of the Ohio Administrative Code. The Ohio Securities Act has required the licensure of firms and professionals engaged in the securities markets for over a hundred years (since 1913). In the licensing area, the statute and rules cover three primary areas: (1) the qualifications and competencies required for those firms and professionals; (2) the compliance obligations for ongoing licensure; and (3) the bases for discipline when the rules are violated.

As you can see from the schedule today, there are 6 securities license types available in Ohio. Those include licenses for: (1) broker-dealer firms [1,950]; (2) the salespersons that work at those broker-dealer firms [193,553]; (3) investment adviser firms [863 state; 2,035 notice filed]; (4) investment adviser representatives that work at those investment adviser firms [20,065]; (5) state retirement system investment officers who direct investments for Ohio's state-run pension funds [98]; and (6) the investment officer who directs investments for the Bureau of Workers Compensation [only 1]. Altogether, the Division oversees the activities of over 215,000 financial professionals and firms working on behalf of Ohio investors.

The Division's licensee population has grown 13% in the past 5 years and over 32% in the past 10. The Division reviews the competency and disciplinary history of *all applicants* prior to registration, using standardized forms and a national database shared by all state and federal regulators for the brokerage and investment adviser industry. The Division prioritizes its examination resources on on-site examinations of state-registered investment advisers, where the Division is the sole regulator. The Division does a limited set of targeted on-site examinations and questionnaires for broker-dealer firms, to complement the oversight provided by our federal regulatory partners (the SEC and FINRA). The Division's exam team also conducts for-cause

reviews for any licensee when there is suspicion of fraud or criminal wrongdoing. Violations are forwarded onto the Division's Enforcement section for further investigation and prosecution. In Fiscal Year 2019, Division field examiners conducted a total of 368 licensee examinations.

The Division's licensing requirements are very similar to those in place and followed by other states. Generally speaking, all license types require a combination of the following elements: completion of an application form, payment of the application fee, proof of minimum competency, completion of a background check, and compliance with relevant conduct and practice standards under the Ohio Securities Act and rules promulgated thereunder. So long as the applicant meets all of the criteria, they are issued a license allowing them to serve Ohio's investing public. Last year, the Division approved 98.7% of all salesperson and investment adviser representative applications. It is probably also worth noting that Ohio licensing fees for securities firms and individuals are amongst the lowest one-third to one-half of state licensing fees in the country.

In addition to its licensure activities, the Division is the only state authority responsible for: regulating the sale of securities products in Ohio [*more than 7,800 registration and exemption filings last year*]; investigating securities crimes and violations of the Ohio Securities Act; and providing direct investor education and outreach to facilitate informed investing practices and prevent fraud and abuse.

When Ohio securities laws are violated, the Division can pursue administrative, civil, and criminal sanctions. Last year, the Division's Enforcement Section referred and assisted in the criminal prosecution of 17 individuals who scammed millions of dollars away from Ohio investors. During the same time period, the Division's criminal investigations resulted in five convictions resulting in more than 32 years of jail time and restitution awards to victims totaling more than \$1.8 million. For the ninth straight year, the Division has maintained a 100% success rate for convictions after indictment or bill of information. On the administrative front, the Division initiated 18 administrative actions, 9 against current or former licensees. The Division initiated no civil actions last year.

While the Division works hard to achieve criminal justice for victims, it would much rather prevent fraud than prosecute it. For this reason, the Division has a small Investor Education and Outreach program, which connected with more than 4,800 Ohioans at 34 events last year. We spoke to seniors, social workers, adult protective services staff, church groups, social clubs, as well as to members of the law enforcement community to help them identify, prevent, and stop fraud in our communities.

The Division's ability to ensure the basic competence of securities-market participants and monitor compliance with securities regulations through occupational licensure serves a meaningful, defined public interest. The licensee population and products, practices, and schemes are constantly in flux, meaning it is more important than ever that Ohio investors have trust and confidence that the securities firms and professionals with whom they do business are regulated at both the national and state levels. State securities regulators, like the Division, are the closest regulators to the local communities, small businesses, and the investing public and still serve a critical role in ensuring the integrity of the financial markets.

In closing, I ask you to please support the continued occupational licensure under the Ohio Division of Securities. We believe we can continue to regulate our licensees in a fair and effective manner while maintaining high standards of public protection.

Mr. Chairman and members of the committee, thank you for the opportunity to present information on the Division, and I would be happy to answer any questions you may have.