



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

Senate Transportation, Commerce and Workforce Committee June 10, 2020

Chair McColley, Vice Chair Johnson, Ranking Member Antonio, and members of the Senate Transportation, Commerce and Workforce Committee, my name is Andrea Seidt and I am Ohio's Securities Commissioner at the Ohio Department of Commerce. Thank you for the opportunity to talk with you about the licensing function at the Division of Securities.

The Department of Commerce recently updated its mission statement to "promoting prosperity by protecting what matters most." The Division of Securities advances this mission by promoting capital formation and investor protection. Our licensing function is a critical component to achieving both of these objectives. Businesses across Ohio rely every day on investments to operate and grow. The Division's licensees are the ones who help those businesses find investors and help our Ohio investors back businesses they believe in.

Our investment professionals are the keys to business prosperity in the state. Through our licensing function, the Division enforces the competency and ethical standards for this group of professionals. We make sure they are up to the task and can be trusted to safely and successfully handle the life savings of their business and family clients. A wrong or incompetent move can have disastrous impacts on an investor at any point, but in times of economic distress, it is even more important for these professionals to protect clients as they weather the storm.

Financial storms are what led to the Division's creation in the first place. The Ohio Securities Act was enacted over a hundred years (in 1913) in response to financial schemes and stock market frauds spanning the entire United States. There were no licensing requirements back then, any fly by night character could peddle investments, which is exactly what they did. A lot of good people lost a lot of good money. To stop that nonsense, the Division of Securities was created and licensing and registration standards imposed.

In the licensing area, the statute and companion rules made sure three things happened: (1) that the people and firms handling investments are qualified and competent to do so; (2) that those people and firms adhered to clear compliance do's and don'ts in safekeeping and servicing client assets; and (3) that there are consequences in the form of disciplinary sanctions when those people and firms skirt the law and do their clients wrong.

Roll forward to today, the Division oversees six securities license types 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.

Our licensee population is thriving. Our total population has grown 13% in the past 5 years and over 32% in the past 10. Ohio is a great place for our licensees to do business, consistently ranking in the top 5-10 of states for the number of broker-dealer and investment adviser offices available to investors. Ohio is also a cost-effective place for them to do business. Our licensing fees are amongst the lowest one-third to one-half of state licensing fees in the country.

With so many investment professionals out there in the mix, regulatory gatekeeping and screening is a must. My Licensing team 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. So, if one of our licensees is booted out of another state for misappropriating client assets, we will know about it immediately and can take swift administrative action here to protect our Ohio investors.

There is a lot of uniformity amongst the states in this way and Ohio's licensing requirements are very similar to those in place and followed by other states. To get licensed, an applicant generally has to do five things:

- complete an application form, which is the exact same standardized form used in all states
- pay the application fee, which I mentioned is lower in Ohio than most other states,
- prove minimum competency, which means passing one of the licensing exams that are also standardized tests across the country,
- complete a background check, and
- commit to the conduct and practice standards set by the Ohio Securities Act and companion rules.

So long as applicants meet all of the criteria, they are issued a license allowing them to serve Ohio's investing public. Most applicants have no problems. Last year, the Division approved 98.7% of all salesperson and investment adviser representative applications. If there is one section in my Division that I have received nothing but consistent customer service praise during my 12-year tenure, it is our Licensing Section. Our team of administrative professionals, examiners, and attorneys know what they are doing and do it exceedingly well every day.

In addition to our licensing 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, we can pursue administrative, civil, and criminal sanctions. Last year, our 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 we work hard to achieve criminal justice for victims, we 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. If you ever need us to come speak in your community, please let me know.

I strongly believe the Division's ability to ensure the basic competence of securities-market participants and monitor compliance through occupational licensure serves a meaningful, defined public interest. Our 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 in our Ohio securities firms and professionals.

In closing, I ask you to please support the Division as it continues to work towards its statutory mandates under Chapter 1707 of the Ohio Revised Code. 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.