NASAA 2019
Enforcement Report

Based on 2018 Data

NASAA

Introduction

NASAA at 100: What's Old is New Again


THE UNITED OIL CO.
OF TEXAS AND LOUISIANA
OIL STOCK FOR SALE
DRILLERS OIL COMPANY
ONLY A FEW DAYS LEFT TO BUY
ENTERPRISE
OIL COMPANY
STOCK
AT TEN CENTS A SHARE
Another Gusher
WILL SOON BE FLOWING
Gober Oil Company
OF BEAUMONT, TEXAS
Capital Stock - - - - $500,000
SEABOARD OIL CO.
50 CENTS PER SHARE
Frank R. Malone Finance Company
BEAUMONT
Brokerage and Oil Co.
Hercules Oil Co.
The Eureka Oil Co.
CAPITAL STOCK $150,000

"Another Gusher will soon be flowing."

"The company owns clear unencumbered title to eighty acres of the best proved oil lands in the world, and is as sure to get oil as the stars shine."

"Should only one of these properties produce a gusher . . . the returns will be many times the capital stock of the Company. So that we claim this Company presents one of the best propositions to investors in this field."[1]

These are all statements that you would expect to hear describing an oil and gas offering. It may surprise you to know that these statements are not from current offerings in the oil and gas area but are from offerings a hundred years ago.

In 1917, the U.S. Supreme Court recognized that states had the right to pass reasonable state securities regulations, even if they affected interstate markets. Justice McKenna wrote for the Court, "the purpose being to protect the public against the imposition of unsubstantial schemes and the securities based upon them. Whatever prohibition there is is a means to the same purpose, made necessary, it may be supposed, by the persistence of evil and its insidious forms and the experience of the inadequacy of penalties or other repressive measures. The name that is given to the law indicates the evil at which it is aimed – that is, to use the language of a cited case, 'speculative schemes which have no more basis than so many feet of blue sky; ' or, as stated by counsel in another case, ' to stop the sale of stock in fly-by-night concerns, visionary oil wells, distant gold mines, and other like fraudulent exploitations."[2]

The More Things Change The More They Stay The Same

What's so different about scams that occurred over 100 years ago and those that we deal with on a daily basis?

Fictious Businesses

Whitaker Wright (1900) – put prestigious names on the boards of directors of his companies resulting in investing in his companies by the public. On paper, his companies were solvent in reality the companies were lending money to one another to balance the books. When discovered the shares collapsed leaving investors penniless.

Barry Minkow (1986) – Minkow took his company, ZZZZ Best, an industrial rug cleaning firm, public with a stock valuation of $200 million. ZZZZ Best did not exist and was funded through credit card thefts.

Ken Lay (2001) –In 2000, Enron claimed revenues of nearly $101 billion. In 2001, it came to light that Enron's finances were fiction and used creative accounting.

[1] *Dallas Morning News, April 18, 1901.*

[2] *Hall v. Geiger Jones Co., 242 U.S. 539 (1917); Caldwell v. Sioux Falls Stockyards Co., 242 U.S. 559 (1917); Merrick v. N.W. Halsey & Co.,242 U.S. 568 (1917).*

Ponzi Schemes

Charles Ponzi (1920) – purchased postal coupons for a discount and sold them abroad for full price. Ponzi represented 50% returns in 45 days. Ponzi paid early investors with later investors' funds. Lost nearly $10 million.

Bernie Madoff (2008) – Madoff ran an $18 billion Ponzi scheme.

Robert H. Shapiro (Woodbridge Group of Companies LLC)(2015)– Shapiro ran various Woodbridge Funds that made hard-money loans secured by commercial property. Shapiro and his Woodbridge entities raised $1.8 billion. Woodbridge was a Ponzi scheme that resulted in actions brought by multiple state securities regulators and the SEC, along with ongoing criminal prosecutions.

Juan Miguel Lopez (2018) – Lopez raised about $4.9 million involving the sale of business contracts to fund small business loans. Lopez promised investors, most of whom are Hispanic, various companies would pay between 3% and 8% return when in fact he was operating a Ponzi scheme.

Others

Ivan Boesky (1986) – Boesky's amassed a fortune of more than $200 million by betting on corporate takeovers. He was convicted of insider trading.

Bitconnect (2018) – Cryptocurrency lending program whose market capitalization was over $2.6 billion at the time when the Texas State Securities Board and the North Carolina Secretary of State, Securities Division issued cease and desist orders to the company. Bitconnect shuttered, citing the two orders.

Timothy Lloyd Booth (2018) – a pastor raised $23 million from mostly elderly individuals who invested in Stamedia, Inc. Booth promised a guaranteed 9% annualized return. Instead, the money was used to fund a lavish lifestyle.

Metals.com (2019) – Metals.com cold-called potential investors, mostly between 65 and 90, and advised them that their money was not safe in the hands of registered brokers or and investment advisers and urged these senior citizens to liquidate their funds to purchase precious metals investments. To date, more than $12.9 million of rescissions have been ordered by the Texas State Securities Board and Colorado Securities Division.

As these examples show, gold mining promoters are still salting the mines to impress investors. Promoters are still paying early investors with new investor money. People are still buying real estate based upon artificially inflated prices. There are still accountants out there that are willing to inflate a companies' books and records.

As you look at the history of securities fraud, and peel the transactions down to the basics, the frauds all operate the same. Promoters have the next new project – get in at the start, a secret process, inside information, no risk – high returns, or special skills all of which will make huge profits for those investors willing to take a chance.

In the last hundred years, scams may not have changed much— tell investors what they want to hear to convince them to part with their money—but the communications with investors sure have. In the past, communication about potential investments was in person, through newspaper advertisements, or through the mail. Investors had time to think through their investment decisions. Today, everything is electronic allowing for instantaneous responses, andfunds are transferred with a push of the button—there is no "cooling off" period now. If it sounds too good to be true, it probably is.

Regulators must keep up with the times, and as this report demonstrates, NASAA members stand ready to aggressively protect investors from fraud and police the integrity of our capital markets well into the 21st century.

Enforcement Overview

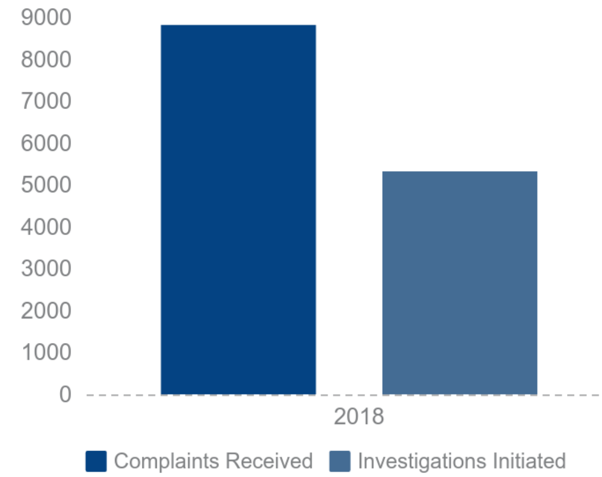
The results from this year's enforcement survey once again reiterate the critical role that NASAA's U.S. members continue to play in protecting investors and holding securities law violators accountable for the damage that they cause to individual investors specifically and to the integrity of our capital markets in general.

COMPLAINTS & INVESTIGATIONS

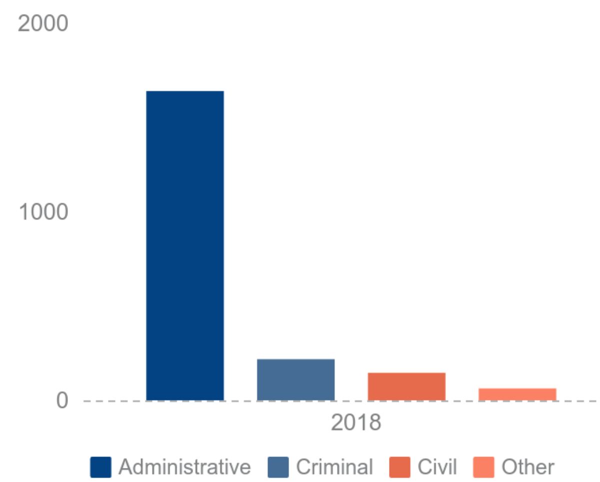
8,814 Complaints Recieved
5,320 Investigations Initiated

The statistics above reflect the number of complaints received and investigations initiated. These formal investigations are supplemented by extensive efforts to informally resolve complaints and referrals. As such, investigations differ widely in their complexity and in the number of respondents and victims involved, the amount of time required to conduct an investigation can range from a few weeks to multiple years.

COMPLAINTS & INVESTIGATIONS



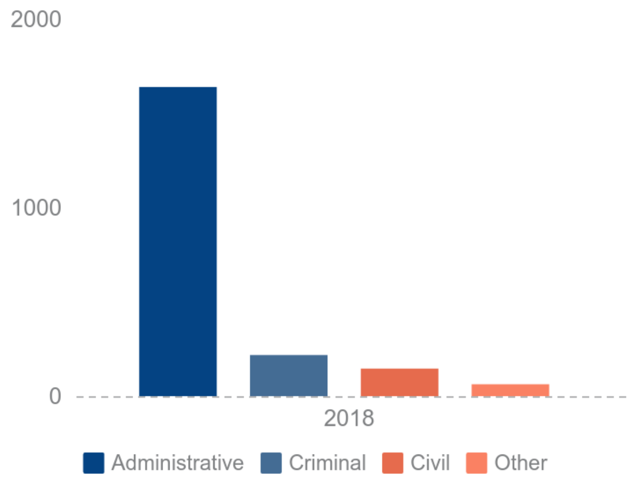
ENFORCEMENT ACTIONS



ENFORCEMENT ACTIONS

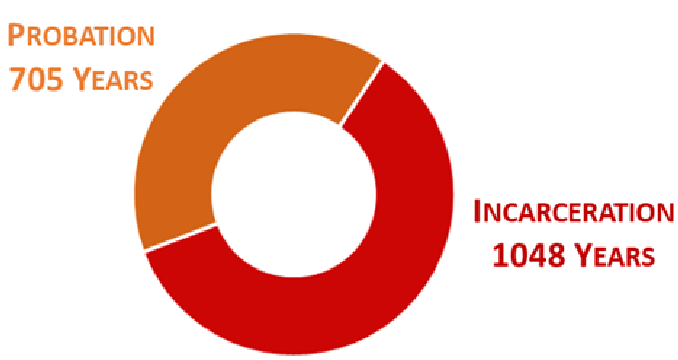
1,640 Administrative
218 Criminal
146 Civil
63 Other

MORE THAN $1 BILLION IN MONETARY RELIEF ORDERED



** This figure represents restitution reported by NASAA U.S. member jurisdictions. Not all jurisdictions provided a restitution amount. This figure does not account for unilateral and unreported returns to investors, or rescission offers by firms or investigation targets.*

CRIMINAL RELIEF



RELIEF ORDERED

The sanctions imposed by state securities regulators can vary considerably from year to year, depending on the nature of the cases pursued. In addition to monetary restitution to investors, common types of sanctions include fines and penalties, criminal sentences, and restrictions or prohibitions on participation in the securities industry.

MONETARY RELIEF

$558 million ordered returned to investors.*

$490 million assessed in fines/penalties

$11.6 million ordered for costs

$10.5 million ordered for investor education

CRIMINAL RELIEF

1,753 total years of criminal relief

1,048 years of incarceration

705 years of probation

Licensing Activity

For the 2018 survey year, NASAA's U.S. members reported that their enforcement actions targeted registered and unregistered actors in equal numbers. States reported taking action against 639 registered individuals and firms in the securities industry (broker-dealers and investment advisors), and 639 unregistered individuals and firms.

This even breakdown is consistent with the long-term trend: During the five-year period from 2014 to 2018, NASAA's U.S. members reported actions against 3,318 registered actors and 3,287 unregistered actors. The numbers of other types of respondents were also broadly consistent with long-term averages. For 2018, states reported taking action against 33 insurance agents and firms, 11 finders and solicitors and 6 financial planners.

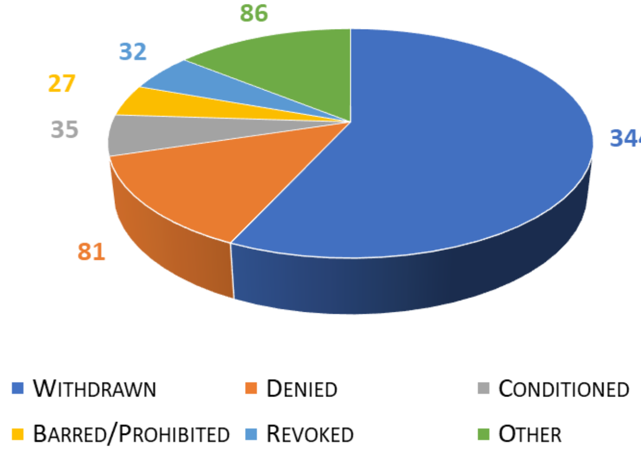
Within the licensed securities industry, NASAA's U.S. members reported a five-year high in the proportion of enforcement actions involving IA firms. For the 2018 survey year, states reported that 17% of their actions involved IA firms, more than any other category of registered actors. That share has nearly doubled since 2014, when IA firms represented only 9% of respondents.

Overall, state securities regulators continued to take strong steps to prevent bad actors from operating within the licensed securities industry, and to limit the activity of licensees and registrants. In 2018, NASAA's U.S. members imposed licensing sanctions on nearly 1,000 respondents: they revoked, barred or suspended the licenses/registrations of more than 230 individuals and firms, and denied or conditioned the licenses/registrations of more than 760 others.

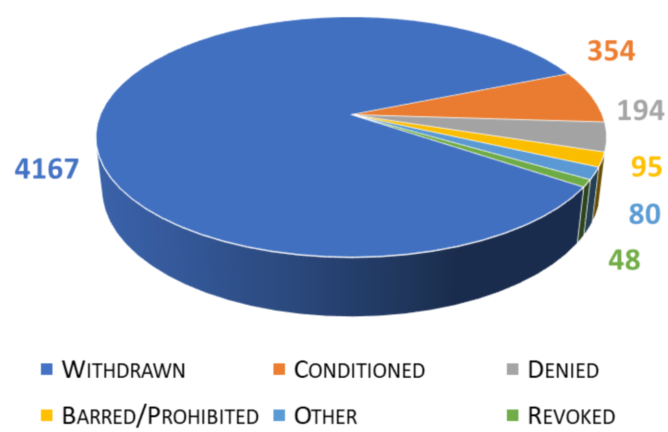
In addition, more than 4,500 license/registration requests were withdrawn as a result of state action or attention. While not always the case, many license/registration requests are withdrawn as a state is preparing to take action to deny, suspend or revoke a license/registration.

Looking ahead, NASAA's U.S. members again reported an increase in investigations of unregistered individuals, to no fewer than 700 in the 2018 survey year. This number has risen for three consecutive years, more than doubling from 335 in 2015. Given the ongoing state enforcement efforts against fraudulent activity involving cryptocurrencies, it would not be surprising to see a sustained high level of investigations and actions against unregistered individuals and firms in the coming years.

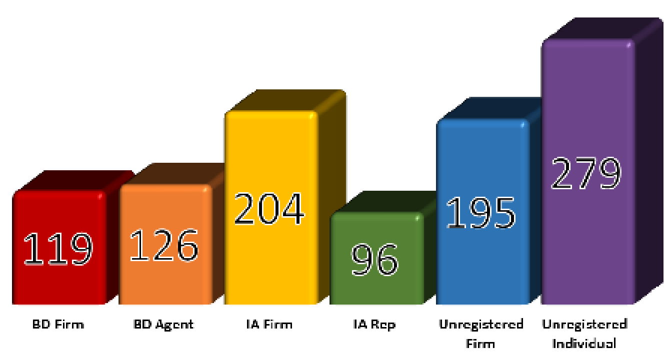
LICENSING SANCTIONS FIRMS



LICENSING SANCTIONS INDIVIDUALS



PARTIES NAMED IN ENFORCEMENT ACTIONS



Enforcement Coordination

State and provincial securities regulators coordinate their enforcement efforts to maximize their collective ability to protect the investing public. This cooperative approach to enforcement ensures that NASAA members can leverage their resources for enhanced efficiency and investor protection by working together.

From the Files . . .

OPERATION CRYPTOSWEEP

Bad actors continue their attempts to capitalize on widespread interest in cryptocurrencies and blockchain technology. In April 2018, NASAA recognized the need to protect investors by organizing an international task force consisting of more than 40 state and provincial securities regulators. The task force initiated Operation Cryptosweep, a coordinated series of investigations and enforcement actions brought against promoters of illegal and fraudulent cryptocurrency investment schemes. The results are compelling, as task force members have opened more than 330 inquiries and investigations and brought more than 85 enforcement actions relating to ICOs and cryptocurrencies.

MULTISTATE INVESTIGATION & SETTLEMENT

The Woodbridge Group of Companies, controlled by Robert Shapiro, sold securities throughout the United States and raised approximately $1.2 billion. Woodbridge purported to be a hard-money lender that made loans to third parties securities by real estate. Woodbridge's main securities product were notes with a term of approximately one year that were purportedly secured by an assignment of a security interest in real estate. Woodbridge was, instead, a Ponzi scheme that lent little money to third parties and instead lent money to companies controlled by Shapiro that purchased property but never paid interest to Woodbridge. With little loan interest income, Woodbridge made principal and interest payments to its investors using other investors' funds.

In May 2015, Massachusetts was the first jurisdiction to take action regarding Woodbridge when the company agreed to a pre-complaint consent order that found Woodbridge's main investment product was an unregistered security. In July 2015, Texas issued an emergency cease and desist order against Woodbridge and Shapiro, alleging registration violations and also alleging that they fraudulently omitted to tell investors about the Massachusetts action. Woodbridge and Shapiro agreed to a consent order in Texas in March 2016.

Arizona issued a temporary order to cease and desist in October 2016 alleging registration violations and alleging that Woodbridge and Shapiro were liable for fraudulently omitting to tell investors about the Massachusetts and Texas actions. Woodbridge and Shapiro and eventually agreed to consent orders in Arizona in November 2018 that found them liable for fraud, including the fraudulent omission of the Massachusetts and Texas actions.

Since Arizona's action in October 2016, several other states have taken action against Woodbridge, including California, Colorado, Florida, Idaho, Michigan, and Pennsylvania. Wisconsin and FINRA also took action against several Woodbridge securities sales agents.

Woodbridge petitioned for Chapter 11 bankruptcy protection in December 2017 in the District of Delaware. The company reported in a declaration filed with its bankruptcy petition that it had received information requests from approximately 25 state securities regulators. The bankruptcy court confirmed a plan of liquidation for Woodbridge in October 2018.

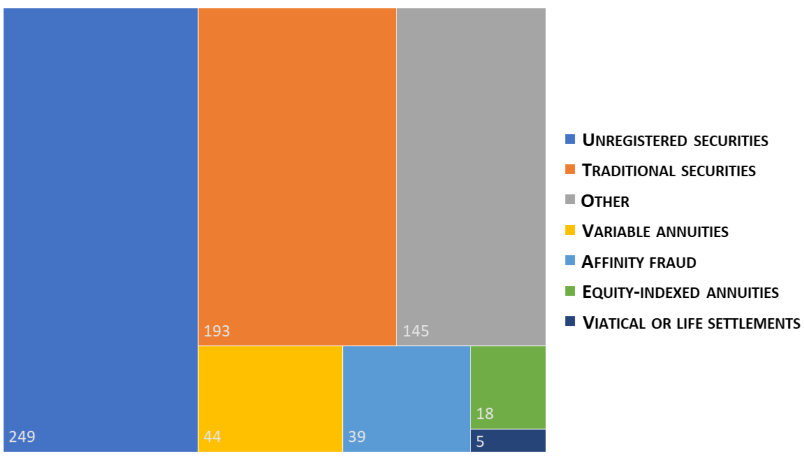
The SEC also brought a securities enforcement action against Woodbridge and Shapiro in December 2017. Woodbridge and Shapiro consented to judgments in the SEC action in December 2018. Shapiro was indicted for federal mail and wire fraud in April 2019. Shapiro plead guilty in August 2019. Sentencing is scheduled for October 2019.

Senior Investor Protection

Senior investors remain a major target of fraudsters, and NASAA member jurisdictions remain focused on this threat.

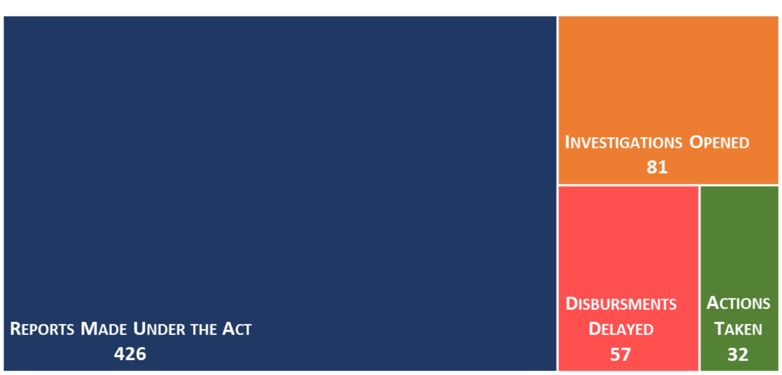
In 2018, NASAA member jurisdictions brought enforcement actions involving 758 senior victims. Regarding the chart below, "Other" schemes include, but are not limited to, internet romance scams, lottery or sweepstakes scams, Nigerian schemes, and identity theft.

Schemes and Products Used to Target Seniors



This focus has also manifested itself in model legislation. In 2016, NASAA members voted to approve the NASAA Model Act to Protect Vulnerable Adults from Financial Exploitation, which offers broker-dealer and investment adviser firms qualified immunity for delaying disbursements when the firm reasonably believed financial exploitation would result. The model act also requires financial advisors and others at broker-dealers and investment advisers to report any reasonable suspicion of even an attempt of financial exploitation.

NASAA Model Act Statistics



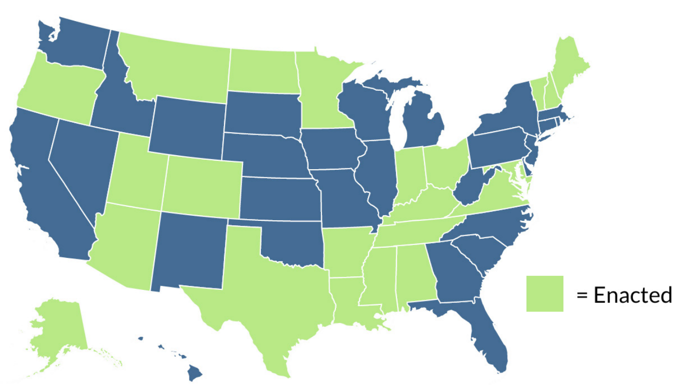
To date, 23 jurisdictions have enacted rules or legislation based on the NASAA model act, including four in 2019 (Arizona, Maine, New Hampshire and Virginia). FINRA has also implemented a rule allowing broker-dealers to delay disbursements to avoid financial exploitation.

In 2018, states received more than 400 reports from broker-dealers and investment advisers. These 400-plus reports shed light on victims of securities fraud, elder exploitation, and other seniors who need some form of assistance.

States have taken action to prevent or stop senior financial exploitation, to punish those responsible, and have also referred reports to more appropriate agencies and sometimes even sought to refer seniors to non-investigative services.

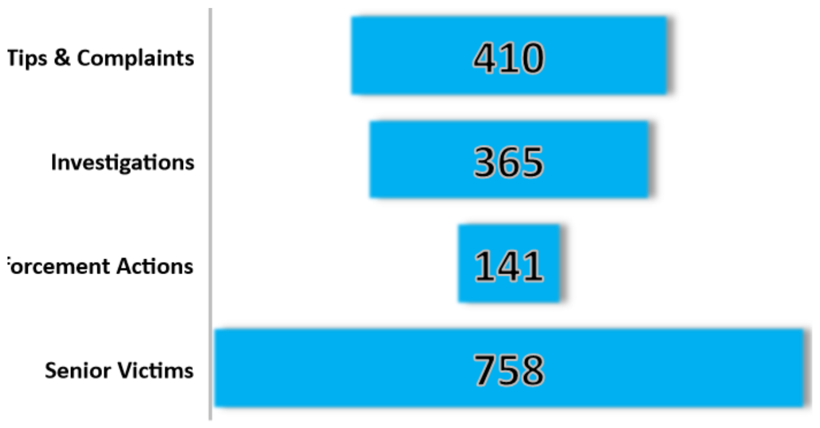
Many of the first states to enact the Model Act have seen a drastic increase in use of these statutes and the number of reports of potential financial exploitation from firms. For example, in 2018, the number of reports received in Alabama increased 225% over fiscal year 2017. Alabama's reports are on track to exceed fiscal 2018's numbers.

States That Have Enacted Legislation Based on NASAA's Model Act to Protect Vulnerable Adults From Financial Exploitation



Senior Investor Protection

Senior-Related Enforcement Activity



From the Files . . .

Shortly after Texas enacted legislation to protect seniors from financial exploitation, a registered firm contacted the Texas State Securities Board to report that metals.com, a nationwide distributor of precious metals, may have financially exploited an 80-year-old-client.

The firm explained that metals.com advised the client to liquidate her retirement accounts and transfer almost $850,000 to invest in precious metals through metals.com. The agency immediately began investigating metals.com and concluded the firm was engaging in a broad, illegal investment advisory scheme.

Texas securities regulators brought an ex parte enforcement action against metals.com to stop it from continuing to illegally render investment advice in Texas and resolved the case through an administrative order that requires metals.com to offer full rescission to more than 80 Texas investors. The Texas State Securities Board coordinated with other state regulators and other agencies, such as the Colorado Division of Securities and the Alabama Securities Commission (or other agencies that file prior to printing). Those states have since conducted their own investigations and brought enforcement actions against metals.com.

A report to the Alabama Securities Commission from an investment advisor regarding a 77-year-old Birmingham, Alabama, resident prevented $200,000 from leaving the investor's accounts.

The investor received a cold call solicitation from a representative of an oil and gas company who convinced him to invest $100,000. The elderly investor contacted his investment advisor to arrange the wire transfer. A few days later, the investor requested a second wire transfer, but this time the advisor asked a series of questions and determined there were enough red flags to warrant a report to the Alabama Securities Commission and Adult Protective Services. A hold was placed on the account, preventing another $200,000 from being lost. The Alabama Securities Commission has also filed enforcement actions against the company and its principals.

2018/19 Canadian NASAA Member Enforcement Activity

Enforcement demands a highly collaborative approach to protect Canadian investors. In addition to local enforcement actions, the CSA Enforcement Committee ("the Committee") members coordinate multijurisdictional investigations and share tools and techniques that help their staff investigate and prosecute securities law violations that cross domestic and international borders.

The Committee provides a forum for jurisdictions to share enforcement intelligence, helping to identify trends and threats as well as transfer ideas and processes among Committee members. The Committee undertakes initiatives that improve enforcement across the country through the work of the following specialized taskforces and working groups:

Enforcement Technology and Analytics Working Group
Facilitates regular, cooperative information sharing focused on the use of technology by enforcement staff, including electronic management, e-discovery, advanced analytics, surveillance and product management issues.

Investment Fraud Taskforce (Emerging Issues)
Responds to emerging investment frauds and threats with holistic and highly targeted initiatives, deploying them in a timely fashion to safeguard Canadian investors. Specific areas include binary options fraud, crypto-asset fraud, and Initial Coin Offering fraud.

Collection Practices and Strategies Working Group
Builds strategies for improving collection of monetary orders through information-sharing and facilitating increased awareness of collections actions and/or results.

Cross-Border Market Fraud Initiative ("Pump-and-Dump")
Encourages proactive approaches and solutions aimed at eradicating pump-and-dump schemes and enabling the initiative members to take action against those engaged in them – across national and international borders.

Enforcement Highlights: At a Glance

U.S. NASAA Member Enforcement Activity 2014-2018

Category	2014	2015	2016	2017	2018	5-Year Total
Investigations	4,853	4,112	4,341	4,790	5,320	23,416
Overall Enforcement Actions	2,042	2,060	2,017	2,150	2,067	12,403
Administrative	1,634	1,593	1,606	1,682	1,640	8,155
Civil	137	151	138	116	146	688
Criminal	271	261	241	255	218	1,246
Other	*not collected*	55	32	52	63	202
Overall Criminal Relief [2]	2,122 years	1,246 years	1,346 years	1,985 years	1,753 years	8,452 years
Incarceration	1,624 years	838 years	824 years	1,551 years	1,048 years	5,885 years
Probation	498 years	408 years	522 years	434 years	705 years	2,567 years
Restitution [3]	$405 million	$536 million	$231 million	$486 million	$558 million	$2.2 billion
Fines/Penalties [4]	$174 million	$230 million	$682 million	$79 million	$490 million	$1.6 billion
Overall License Sanctions [5]	3,585	4,265	3,500	4,456	5,543	21,349
Withdrawn	2,857	3,380	2,843	3,578	4,511	17,169
Denied/Revoked/ Suspended/ Conditioned/Barred	728	885	657	878	1,032	4,180

Notes: 1) Includes administrative, civil, criminal and other actions. 2) Includes prison time sentenced and probation. 3) Money ordered returned to investors by state securities regulators. 4) The method for reporting fines/penalties data was modified beginning with the data collected in 2016. 5.) Includes individual and firm licenses withdrawn, conditioned, barred, denied, revoked or suspended as a result of state action or attention.

2018-2019 NASAA Enforcement Section and Project Groups

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Wendy Coy (AZ)
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Jason Roy (MB)
A. Valerie Mirko, NASAA Liaison

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Max Brauer (MD)
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Zone 2 (Southeast) Ricky Locklar (AL)
Zone 3 (Mid-Atlantic) Marion Quirk (DE)
Zone 4 (Central) Roger Patrick (OH)
Zone 5 (South/Central) Tina Lawrence (TX)
Zone 6 (Mountain) Jonathan Block (CO)
Zone 7 (Western) Alex Calero (CA)
Zone 8 (Canadian) Jason Roy (MB)

NASAA

Organized in 1919, the North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. NASAA is a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

In the United States, NASAA is the voice of state securities agencies responsible for efficient capital formation and grass-roots investor protection. Their fundamental mission is protecting investors who purchase securities or investment advice, and their jurisdiction extends to a wide variety of issuers and intermediaries who offer and sell securities to the public. NASAA members license firms and their agents, investigate violations of state and provincial law, file enforcement actions when appropriate, and educate the public about investment fraud. Through the association, NASAA members also participate in multi-state enforcement actions and information sharing.

For more information, visit: www.nasaa.org

NASAA