

FINAL BILL REPORT

SSB 5195

C 470 L 93

SYNOPSIS AS ENACTED

Brief Description: Regulating excessive securities transactions.

SPONSORS: Senate Committee on Labor & Commerce (originally sponsored by Senator Moore)

SENATE COMMITTEE ON LABOR & COMMERCE

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

HOUSE COMMITTEE ON APPROPRIATIONS

BACKGROUND:

Regulations adopted pursuant to Washington's Securities Act prohibit excessive securities transactions (e.g., securities churning). Churning is generally defined as the purchase or sale of securities for a customer's account that is excessive in light of the account's character and that is made because of the securities advisor's ability to control the frequency of trades.

Currently, if a securities advisor is found guilty of churning a client's account, the securities advisor is liable for restitutionary damages including the consideration paid for the security, interest from the date of payment, costs, and reasonable attorneys' fees, less any income received on the security.

The securities laws also require all securities professionals to meet certain registration requirements in order to conduct business. A registration may be suspended, revoked, or denied by the Director of the Department of Licensing in certain enumerated situations. The director can suspend, revoke, or deny the registration for those who fail to reasonably supervise a salesperson or an investment advisor salesperson.

In light of reported accounts of churning, unsuitable investments, and fraudulent practices involving securities sales, support has been expressed for increased regulatory authority.

SUMMARY:

Excessive securities transactions and unsuitable investments are codified as unlawful activities.

The director is authorized to censure or fine the securities company, or its officer, director, or partner for violations of enumerated provisions including a failure to reasonably supervise another person. The director is authorized to limit the company's business activity in the state.

A standard for reasonable supervision is established. A person does not fail to reasonably supervise another person when certain procedures are established and the person discharged his or her duties without cause to believe there is a violation.

The director is authorized to impose a fine not to exceed \$5,000 for each act or omission constituting a basis for certain violations. The fine cannot be imposed until after notice and opportunity for hearing.

VOTES ON FINAL PASSAGE:

Senate	39	9	
House	97	0	(House amended)
Senate			(Senate refused to concur)
House			(House refused to recede)
Senate	38	9	(Senate concurred)

EFFECTIVE: July 25, 1993