

SENATE BILL REPORT

SB 5208

AS REPORTED BY COMMITTEE ON WAYS & MEANS, MARCH 8, 1993

Brief Description: Strengthening securities enforcement powers of the director of licensing.

SPONSORS: Senators Prentice, Moore, Wojahn, Fraser, Pelz, McAuliffe, Vognild and Winsley

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Amondson, Cantu, Fraser, McAuliffe, Sutherland, and Vognild.

Staff: Benson Porter (786-7470)

Hearing Dates: January 28, 1993; February 8, 1993

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rinehart, Chairman; Spanel, Vice Chairman; Bauer, Bluechel, Cantu, Gaspard, Hargrove, Hochstatter, Jesernig, McDonald, Moyer, Niemi, Pelz, Quigley, Roach, L. Smith, Snyder, Sutherland, Talmadge, West, Williams, and Wojahn.

Staff: Martin Chaw (786-7715)

Hearing Dates: March 8, 1993

BACKGROUND:

Under the Securities Act of Washington, all securities broker-dealers, salespersons, investment advisers, and investment adviser salespersons must meet registration requirements in order to conduct business. However, this registration may be suspended, revoked, or denied by the Director of the Department of Licensing in certain enumerated situations. For example, the director may take any of these actions if the director finds the person has willfully violated a provision of the act or has engaged in dishonest or unethical practices in the securities or investment commodities business. In addition, the director can suspend, revoke, or deny the registration for those who fail to supervise reasonably a salesperson or an investment advisor salesperson.

In light of reported accounts of fraudulent practices involving securities sales, support has been expressed for

increased regulatory authority over those who fail to reasonably supervise securities sales.

SUMMARY:

The enforcement powers of the Director of the Department of Licensing are modified with regard to the securities industry.

The director is authorized to censure or fine the securities company, or its officer, director, or partner for violations of enumerated provisions. In addition, 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 when certain procedures are established and the person discharges 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 issuing the order. The fine cannot be imposed until after notice and opportunity for hearing.

Appropriation: none

Revenue: yes

Fiscal Note: available

TESTIMONY FOR (Labor & Commerce):

Enhanced enforcement authority to the state securities regulator will provide additional tools with which to sanction violators of the securities code. Clarification of the supervisory responsibilities of registrants under the securities code will aid these persons in satisfying their responsibilities.

TESTIMONY AGAINST (Labor & Commerce): None

TESTIFIED (Labor & Commerce): PRO: Mark Greenberg, Securities Industry Assn.; Mike Stevenson, Securities Division; Fredrick Huebner; Jim Kerr, Dain Bosworth; Rod Hagenbach, Merrill Lynch; Walt Corneille, International Association of Financial Planners

TESTIMONY FOR (Ways & Means):

Industry supports the bill. Some controls should be implemented to address questionable securities practices.

TESTIMONY AGAINST (Ways & Means):

Industry does not oppose the bill but does oppose the estimated fiscal impact. There appears to be no need for additional staff to implement the provisions of this bill.

TESTIFIED (Ways & Means): Mark Greenberg, SIA; Walt Corneille,
IAFP