

# SENATE BILL REPORT

## SHB 1219

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As Reported By Senate Committee On:  
Financial Services, Insurance & Housing, March 27, 2003

**Title:** An act relating to violations connected with the offer, sale, or purchase of securities.

**Brief Description:** Addressing violations connected with the offer, sale, or purchase of securities.

**Sponsors:** House Committee on Financial Institutions & Insurance (originally sponsored by Representatives Schual-Berke, Benson, Anderson, Upthegrove, Rockefeller and Simpson; by request of Governor Locke).

**Brief History:**

**Committee Activity:** Financial Services, Insurance & Housing: 3/27/03 [DPA].

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### SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

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**Majority Report:** Do pass as amended.

Signed by Senators Benton, Chair; Winsley, Vice Chair; Keiser and Prentice.

**Staff:** Joanne Conrad (786-7472)

**Background:** In the past five years, the fraud caseload of the Securities Division of the Department of Financial Institutions has increased substantially, from \$64 million to \$390 million. Complaints from investors have more than doubled in less than 10 years. Securities Act violations tend to be complex to investigate and prosecute, and can involve considerable state resources.

**Summary of Amended Bill:** A special "Securities Prosecution Fund" is established at the Department of Financial Institutions (DFI). Fines and undistributed funds from orders of disgorgement and restitution are placed in the fund, and used to pay for the costs of preparation and prosecution of state Securities Act violations. If the fund balance exceeds \$350,000, any additional money is placed in the existing Financial Services Regulation Fund, until the balance drops below \$350,000.

Shredding or otherwise destroying evidence is a Class B felony. The current statute of limitations is five years after the alleged violation. In addition, a new statute allows a claim to be brought three years after the discovery of the violation.

Fines for violations are increased from \$5,000 to \$10,000 for each act or omission. In addition, licensees can be charged for the expense of investigation, hearing, or court proceeding. Fines of up to \$25,000 may be authorized for those who knowingly or recklessly violate an administrative order. Courts may also order civil penalties, restitution, and disgorgement for civil violations of the Securities Act.

**Amended Bill Compared to Substitute Bill:** A provision allowing prosecutors to request a DFI attorney to assist in the prosecution of securities violations or serve as a special prosecutor is removed.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** This bill provides important consumer protection and meaningful penalties.

**Testimony Against:** None.

**Testified:** Carol Jolly, Governor's Office (pro); Deb Bortner, DFI (pro).