



**OFFICE OF THE
SECRETARY OF STATE**

ERIN M. HOUSTON
Deputy Secretary for Securities

August 12, 2022

Honorable Assemblyman Steve Yeager, Chair
Legislative Commission
In care of Brenda Erdoes
Director, Legislative Counsel Bureau
401 S. Carson Street
Carson City, NV 89701-4747

Dear Chair Yeager:

Pursuant NRS 90.785, the Securities Administrator of the Secretary of State is required to submit a biannual report to the Director of the Legislative Counsel Bureau for transmittal to the Legislative Commission detailing the following:

- 1) A summary of states that have adopted a Model Rule, regulation, or like provision adopted by the North American Securities Administrators Association within the five years immediately preceding the publication of the report;
- 2) A summary of the states that did not adopt a Model Rule, regulation, exemption or like provision of the North American Securities Administrators Association within the five years immediately preceding the publication of the instant report along with a reason for which each state did not adopt any such Model Rule, regulation, exemption or like provision;
- 3) A determination of whether the Division has the resources necessary to achieve its objectives; and
- 4) Any recommendations for legislation relating to the protection of investors in this State.

NASAA Model Rules

The North American Securities Administrators Association (NASAA) is a conglomeration of state and provincial securities regulators in the United States, Canada and Mexico. Together, the members of NASAA formulate and promulgate various "Model Rules" concerning the regulation of securities for implementation by its members, the purpose of which is to encourage uniformity of securities regulation across North America.

Since August 2017, there have been six major NASAA Model Rules adopted by NASAA members, along with accompanying conforming updates to existing Model Rules. Those Model Rules are as follows: Model Rule for Unpaid Arbitration Awards; Model Legislation to Create a Restitution Assistance Fund for Victims of Securities Violations; Model Whistleblower Award and Protections Act; Model Rule On Investment Adviser Representative Continuing Education; Investment Adviser Information Security and Privacy Rule, and the Model Rule to Provide a Transactional Exemption for Registration for Transactions in Securities of Issuers That Comply with Ongoing Reporting Requirements Under Tier 2 of Regulation A.

A chart detailing each aforementioned rule is attached hereto. The attached chart also details whether each US state and the District of Columbia has adopted the listed rule. For the most part, the chart simply states "yes" or "no" as to whether a state has adopted a specific rule. Please note that while the list describing which Model Rules were

adopted by each state is comprehensive, there is very limited data as to why the states have not yet or have affirmatively chosen NOT to adopt different Model Rules. NASAA does not collect this information from the states. The undersigned has contacted representatives from each state and has included all information provided from the states as to the decision to adopt various Model Rules in the attached chart.

As for Nevada, the Securities Division is in the rule-making process and recently conducted a workshop on an extensive revision to Chapter 90 (LCB File No. R018-21RP1) of the Nevada Administrative Code. Those revisions formally adopt the language of several NASAA Model Rules that had previously been adopted only by reference. The revised proposed regulations are attached hereto.

Of the Model Rules dating from August 2017, the Division's draft of revised regulations adopts the NASAA Model Rule to Provide a Transactional Exemption from Registration for Transactions in Securities of Issuers That Comply with Ongoing Reporting Requirements Under Tier 2 of Regulation A, the Investment Adviser Information Security & Privacy Rule, and the Model Rule on Investment Adviser Continuing Education.

We believe that the Division should and intends to adopt the Model Rule for Unpaid Arbitration, which can be accomplished without establishing a new funding source from the state General Fund or elsewhere. However, while the Division would also like to adopt the Model Legislation to Create Restitution Assistance, no funding exists to do so as the Rule provides for restitution payments to be paid to victims of securities fraud. This funding could be established by carving out a small percentage of proceeds from the fees and penalties collected by the Division, which are currently directed into the state General Fund. The Model Whistleblower Award similarly requires funding not available to the Division.

Division Resources

The Securities Division is currently comprised of twenty-three (23) position, three (3) of which are currently vacant. The Deputy Secretary of State for Securities/Securities Administrator is responsible for enforcing the provisions found in Nevada Revised Statutes (NRS) Chapters 90 and 91 and serves as the hearing officer for cases brought by the Division's Chief of Enforcement. The Chief Compliance Investigator reports directly to the Chief of Enforcement and manages a team of five (5) Compliance/Audit Investigators. The Compliance/Audit Investigators conduct both random and for-cause examinations of investment advisers and broker-dealers located in the State of Nevada. They also conduct non-criminal investigations into violations of the NRS Chapter 90.

The Registration and Licensing team is comprised of the Registration and Licensing Examiner, along with two (2) Administrative Assistants.

The Criminal Investigations team is comprised of a Chief Criminal Investigator along with six (6) Criminal Investigators.

The Division requires additional high-level assistance with our investigations. Specifically, there is a need for a forensic accountant. The vast majority of our investigations deal with tracing large amounts of money that have been moved across various accounts into different, sometimes overseas, locations. A forensic accountant will have the expertise to follow a money trail and provide a report detailing key transactions. Many other similarly sized states have one or more forensic accountants on staff. The Clark County District Attorney employs a forensic accountant who is utilized for their large fraud cases. To our knowledge, the Division is the only state agency that deals exclusively with major complex financial crimes. We are at a disadvantage without accounting expertise such as that offered by a forensic accountant.

Recommendations for Legislation Relating to the Protection of Investors in this State

As mentioned above, we recommend adopting NASAA Model Legislation to Create Restitution Assistance. This would require funding which could be accomplished by allotting a portion of the penalties and fees received by the Division for a Restitution Fund.

As for staff funding, it is vital that the Division be able to hire or contract with a forensic accountant to better investigate both civil and criminal cases and prepare for trial when recommended prosecution of criminal violations of the Act occur.

The Division would also benefit from an additional attorney to assist with prosecuting the Division's civil and administrative cases and also to represent the Division at Financial Industry Regulatory Authority (FINRA) expungement hearings. FINRA recently promulgated new rules that would allow state securities regulators to attend and participate in the same. See SR-FINRA-2022-024. The Division currently receives approximately five (5) notices each week.

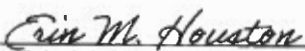
Lastly, Nevada investors would be better protected if the Criminal Investigators employed by the Division were able to devote more of their time to securities fraud investigations vis a vis investigations into allegations of elections fraud. As the legislature is undoubtedly aware, the amount of elections investigations has increased dramatically since the 2020 election cycle. As the criminal investigators housed within the Securities Division are also responsible for investigating allegations of elections fraud, the result is that far less time can be devoted to securities fraud investigations. This leaves Nevada investors more vulnerable to those who would violate the state and federal securities laws. It is our belief that additional investigators should be hired to assist with the large volume of election violation allegations.

On average, the Division generates approximately \$30 million per year in licensing and inspection fees. Those funds are deposited directly into the state General Fund. This amount does not include monies received by the Division for fines and penalties. Those numbers are \$191,179.24 ytd for FY 23, \$404,179.24 for FY 22, \$104,730.00 for FY 21, and \$90,898.71 for FY 20 which are also deposited into the General Fund. Given this, the Division needs greater resources than are currently provided by the state budget.

Do not hesitate to contact me should you have any questions or concerns.

Respectfully,

Barbara K. Cegavske
Secretary of State


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Securities Administrator/
Deputy Secretary of State for Securities

cc: Scott W. Anderson, Chief Deputy Secretary of State

Jurisdiction	Model Rule for Unpaid Arbitration	Model Legislation to Create Resitution Assistance Fund	Model Whistleblower Award	Model Rule on Investment Adviser Continuing Education	IA Information Security & Privacy (May 2019)	Other Infosec/Privacy
Alabama	No. Possibly by 2023.	No	No	No. Possibly by 2023.	No	No
Alaska	No	No	No	No	No	No
Arizona	No	No	No	No	No	No
Arkansas	No	No	No	Yes, effective 8/1/22	Yes	No
California	No	No	No	No, but in progress, will likely take over a year to fully adopt and implement	No	No
Colorado	No	No	No	No, but in progress	No	No
Connecticut	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
Delaware	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
Dist. of Col.	No, but will consider	No (haven't had time to consider)	No (haven't had time to consider)	Yes, effective date Jan 1, 2023	Yes	No
Florida	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
Georgia	No (will consider next session)	No (will consider next session)	No (will consider next session)	No (will consider next session)	No	No
Hawai'i	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
Idaho	No (will consider in 2024)	No (will consider in 2024)	No (will consider in 2024)	No (will consider in 2024)	No	No
Illinois	No (No reason provided)	No (No reason provided)	No (No reason provided)	No (No reason provided)	No	Yes
Indiana	No	Yes, predates NASAA model rule and award is capped	Yes, predates NASAA model rule but updated to more closely resemble	No	No	No
Iowa	No	No	No	No	No	No
Kansas	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	Yes
Kentucky	In process of amending but Not final	No	No	Adopted by statute -- Jan 1 2023	No	No
Louisiana	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
Maine	No	Yes	No	No	No	Yes
Maryland	No (waiting until 2024)	No (waiting until 2024)	No (waiting until 2024)	Yes	No	No
Massachusetts	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	Yes
Michigan	No	No	No	adopted, will enforce as of Jan 1 2023	No	No
Minnesota	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
Mississippi	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
Missouri	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
Montana	No	Yes	No	No	proposed	No
Nebraska	No, requires funding	No, requires funding	No, requires funding	No, requires funding	Yes	No
Nevada	No, but considering and intend to adopt	No, requires funding	No, requires funding	Yes, in progress	Yes	No
New Hampshire	No	No	No	No	No	Yes
New Jersey	No	No	No	No	No	No
New Mexico	No	No	No	No	No	No
New York	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
North Carolina	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
North Dakota	No but considering and intend to adopt	No	No	Not but intend to adopt by legislation	No	No
Ohio	No, still considering	Yes, predates NASAA model rule	No, still considering	No, still considering	No	No
Oklahoma	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	Yes	No
Oregon	No (considering Jan 23)	No (considering Jan 23)	No (considering Jan 23)	No (considering Jan 23)	No	No
Pennsylvania	No	No	No	No but in process	No	No
Rhode Island	No	No	No	Not yet, do plan to promulgate soon	No	No
South Carolina	No	No	No	Yes, adopting by order by Jan 1, 2023	Yes	No
South Dakota	No	No	No	No	No	No
Tennessee	No	No	No	No but in process	No	No
Texas	No	No	No	No	No	No
Utah	No (evaluating)	No (evaluating)	No (but similar law already existed in Utah)	No (evaluating)	No	No
Vermont	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	Yes
Virginia	No (under discussion)	No (under discussion)	No (under discussion)	Not yet final, in process	Yes	No
Washington	No	No (will attempt during next legislative session)	No (will attempt during next legislative session)	No	No	Yes
West Virginia	No response to inquiry	No response to inquiry	No response to inquiry	No response to inquiry	No	No
Wisconsin	No	No	No	Yes	No	No
Wyoming	No	No	No	No	No	No

IA Recordkeeping (last amended May 2019) Alt 1 (long form)	IA Recordkeeping (last amended May 2019) Alt 2 (incorporates SEC Rule 204-2 by reference)	Other IA Recordkeeping	IA Unethical/Prohibited Business Practices (last amended May 2019)	Other IA Unethical Practices	Reg A Tier 2 Secondary Trading Exemption (May 2019) Option 1 (exemption subject to compliance with federal requirements)	Reg A Tier 2 Secondary Trading Exemption (May 2019) Option 2 (long form for states without manual exemption similar to sec. 202(2) in USA2002)	Other Reg A Tier 2 Secondary Exemption
Yes	No	No	Yes	No	No	No	No
Yes	No	No	Yes	No	No	No	No
No	No	Yes	No	Yes	No	No	No
Yes	No	No	Yes	Yes	No	No	No
Yes	No	No	Yes	No	No	No	No
Yes	No	No	Yes	No	No	No	No
No	No	Yes	Yes	No	No	No	No
Yes	No	No	Yes	No	No	No	No
Yes	Yes	Yes	Yes	Yes	No	No	No
No	Yes	No	Yes	No	No	No	No
No	No	Yes	Yes	No	No	No	No
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No	No	Yes	No	Yes	No	No	No
No	No	Yes	No	No	No	No	No
Yes	No	No	Yes	No	No	No	No
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