



# North Carolina Department of the Secretary of State

*Hon. Elaine F. Marshall, Secretary*

## May-August 2018 SECURITIES NEWSLETTER

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**NC Securities Division  
Investor Protection  
Hotline**

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## Annual Conference Shines a Spotlight on Dangers of Elder Abuse

State and local officials as well as senior care advocates came together at Wake Technical Community College in May for the Annual Conference of the NC Partnership to Address Adult Abuse. NC Secretary of State Elaine F. Marshall addressed issues from the financial abuse of seniors to bogus online pharmacies that are putting seniors’ health at risk.



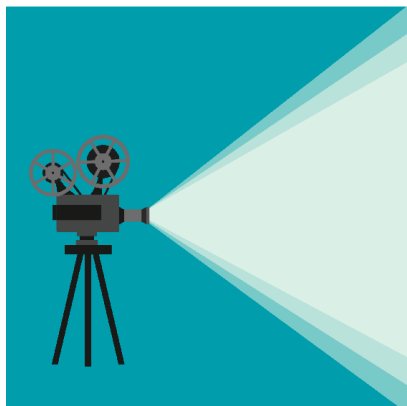
Noting the growing number of people buying their prescriptions online and the temptation to seek out lower cost prescriptions from online pharmacies outside the U.S., Secretary Marshall warned of the risk of getting dangerous counterfeit medications from bogus online pharmacies.

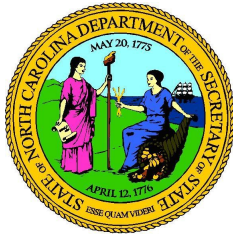
In a later breakout session, Secretary Marshall urged seniors to keep a keen eye out for investment scam artists and to never hesitate to call the NC Secretary of State’s Securities Division if they think they or a friend or relative has been approached by someone pitching an investment scam.

SOSNC Investor Education and Protection Director John Maron also touched on common investment fraud schemes, and tips to recognize and avoid them. Maron also noted new and expanded rules from the Financial Industry Regulatory Authority (FINRA) to protect seniors (see “[Trusted Contacts](#)” p. 11).

### ICYMI:

You can watch [Secretary Marshall’s](#) and [John Maron’s](#) conference presentations in their entirety on the NC Secretary of State’s [YouTube Channel](#).





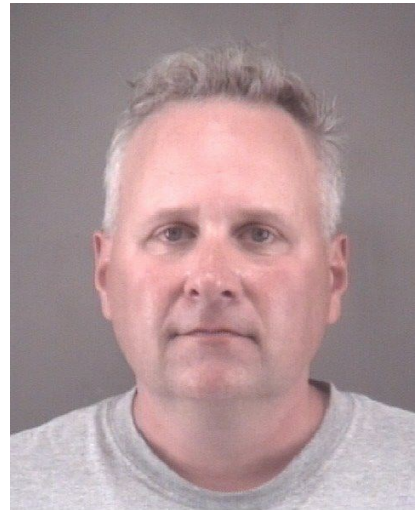
## Forsyth County Investment Adviser Charged with Fraud

Law enforcement agents with the North Carolina Secretary of State's Securities Division arrested Russell Joseph Mutter, 48, of Clemmons in May following multiple indictments related to his practices as an investment adviser.

Mutter is charged with four felony counts of investment adviser fraud, four felony counts of obtaining property by false pretenses, and four felony counts of financial exploitation of an older adult.

According to the indictments, Mutter and his company had a fiduciary responsibility to act in the best interests of his clients, many of whom were elderly residents of North Carolina. However, Mutter allegedly removed funds from his clients' accounts without their authorization and misused the client funds. According to the indictments, Mutter fraudulently obtained \$1 million from his clients in this manner.

Additionally, the indictments state that Mutter invested some of his clients' funds in high risk securities without their knowledge, despite telling his clients that he was investing their money in low-risk US Government Bonds. When these speculative investments failed, Mutter sought to hide the losses by fabricating fraudulent account statements.



**Russell Joseph Mutter**

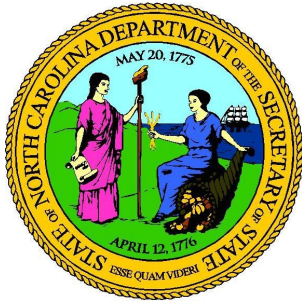
Prior to Mutter's arrest the Secretary of State's Office issued a [Cease and Desist Order](#) prohibiting him from operating RJM Financial, and a [Final Order](#) revoking his license to act as an investment adviser in North Carolina.

"This is an ongoing investigation," said NC Secretary of State Elaine F. Marshall. "We strongly urge anyone who believes they may be a victim of Mr. Mutter or RJM Financial to contact the Secretary of State's Investor Hotline at 1-800-688-4507."

Mutter is in custody in the Forsyth County Detention Center on a \$5 million secured bond.

The NC Secretary of State's Securities Division is leading this investigation, aided by the U.S. Postal Inspection Service. The Forsyth County Sheriff's Office provided assistance in the search of Mutter's home and his arrest. Forsyth County District Attorney Jim O'Neill will prosecute the case on behalf of the State.

The actions taken against Mr. Mutter and RJM Financial demonstrate the importance of cultivating strong law enforcement partnerships at the federal, state and local level. All of the agencies involved are committed to making every effort to safeguard the investing public, particularly the elderly.



## Raleigh Couple Plead Guilty to Selling Unregistered Securities

On July 30, 2018, Karen and John Palczuk, both of Raleigh, NC, pled guilty in Wake County District Court to the sale of unregistered securities.



**John Jerome Palczuk &  
Karen Elizabeth Palczuk**

This plea stems from Karen and John Palczuk's involvement in a Virgin Island limited liability company that attempted to raise money from investors in order to build villas on the islands.

According to the arrest warrants, the Palczuks sold investment contracts to North Carolina investors in amounts greater than \$100,000. This class I felony carries with it a 6-17 month sentence which has been suspended for 12 months of probation.

### CHECK BEFORE YOU WRITE ONE!

As the article above demonstrates, before you write a check to anyone pitching an investment deal, always check his or her registration first!

Federal and state securities law generally require any firm or person who is in the business of selling or promoting investment securities (e.g., investment contracts, stocks, bonds, or promissory notes, to name just a few) to be registered with the US Securities and Exchange Commission (SEC) and/or the North Carolina Department of the Secretary of State's Securities Division. Furthermore, the securities these individuals or firms promote must ALSO be registered.

Consequently, the SINGLE best thing any investor can do is to call the Securities Division at (919) 814-5400, Option 5-2 or (800) 688-4507 and speak with one of our registration agents about the promoter AND the investment product.

For more information, please visit our website at [https://www.sosnc.gov/divisions/securities/check\\_a\\_registration](https://www.sosnc.gov/divisions/securities/check_a_registration). Additional background information can be found on the SEC's website at <https://www.investor.gov/additional-resources/general-resources/glossary/registration-under-securities-act-1933>.

## First Crowdfunding Filing Under NC PACES Act

The first North Carolina company to comply with the filing requirements under the North Carolina Providing Access to Capital for Entrepreneurs and Small Business (NC PACES) Act is now seeking investors for the very first intrastate investment crowdfunding offering.

The capital raise by Raleigh-based Hush Buddy, LLC received its notice of compliance in early-June.

“State investment crowdfunding is now officially a reality in North Carolina,” Secretary of State Elaine F. Marshall said. “I hope this will assist small businesses and start-ups that face challenges accessing financial capital, and help create new jobs here in North Carolina.”

The NC General Assembly approved the NC PACES Act in 2016. The NC Secretary of State’s Office approved administrative rules for implementing the law in 2017. The rules created the North Carolina Paces Offering exemption, or NCPO. This specific exemption status allows issuers to offer securities of less than \$2 million without having to register them.

Under the NC PACES Act an issuer may use, but is not required to use, a state-registered funding portal or state-registered securities dealer to facilitate intrastate crowdfunding offerings. The Secretary of State’s Securities Division has approved both types of firms operating in this crowdfunding space. Issuers and investors are urged to contact the Securities Division at (800) 688-4507 to verify the registration status of each portal or broker-dealer.

The fact that a company qualifies for the registration exemption should not be interpreted as an endorsement by the NC Secretary of State’s Securities Division or any other securities regulator. Receiving a notice of compliance to begin the crowdfunding raise does not mean that any regulator has evaluated the validity of any of the statements contained in the offering documents or the potential risks. All crowdfunding investments place that responsibility on the investor.

The Secretary of State’s Securities Division has free resources on its website to help investors make informed decisions. Please visit [www.sosnc.gov/divisions/securities/investor\\_education\\_resources](http://www.sosnc.gov/divisions/securities/investor_education_resources).

For more information about crowdfunding, please visit the Department’s website at [www.sosnc.gov/divisions/securities/crowdfunding](http://www.sosnc.gov/divisions/securities/crowdfunding).

## First Crowdfunding Filing Using NC’s LPO Option

DIYtiny, Inc. has become the first State crowdfunding issuer to use Local Public Offering (LPO) rules to offer securities in North Carolina, and the second filing under the North Carolina Providing Access to Capital for Entrepreneurs and Small Business Act (NC PACES).

Asheville-based DIYtiny, Inc.’s filing was confirmed on June 26.

The LPO option, a special exemption for North Carolina businesses raising less than \$250,000, is designed to give issuers greater flexibility. LPOs allow issuers to advertise securities in ways that are typically prohibited. The LPO option also doesn’t require issuers to “host” the offerings on the internet.

The LPO option was designed with the concept of helping local entrepreneurs seeking to grow the economies of their communities.

The North Carolina Securities Division published administrative rules in 2017, establishing the process that companies must use to file for an exemption as a Local Public Offering for businesses interested in raising less than \$250,000 through a securities offering to North Carolina investors.

Both North Carolina businesses and investors interested in finding out more about crowdfunding are invited to visit the NC Secretary of State’s website at [www.sosnc.gov/divisions/securities/crowdfunding](http://www.sosnc.gov/divisions/securities/crowdfunding).

# SOSNC Securities SAC JC Curry Retires



SOSNC Chief Deputy Rodney Maddox (right) presenting SAC Curry (left) with his Certificate of Retirement.

NC Secretary of State Securities Division Special Agent in Charge JC Curry retired on June 29. Curry came to the Secretary of State's Office in 1992 and became Special Agent in Charge of SOSNC's Securities Division's law enforcement officers in 2008. Secretary of State Elaine Marshall thanked Curry for his decades of commitment to protecting the rights of North

Carolina's investing public.

Veteran SOSNC Securities Investigator David Rose has been named as SOSNC's new Securities Special Agent in Charge. Rose has been an Agent with SOSNC since 2006 and has also worked as a law enforcement officer with the Nashville Police Department, the Spring Hope Police Department and the Nash County Sheriff's Office.



## Sign up for Our RSS Feed!

Have you signed up for the Secretary of State's Securities Division's RSS (Really Simple Syndication) feed yet?

It's a great way to get our Securities newsletter delivered direct to your computer.

And don't forget to follow the Secretary of State's Office on social media! Just click on the icons below to go to SOSNC's social media accounts!



Cybersecurity is an issue for firms of all sizes, and a growing issue for securities regulators at all levels. NASAA is hosting a one-day roundtable in Washington, D.C. on October 15th to bring together leading experts to discuss critical cybersecurity issues for securities regulators and regulated entities. And you are invited to attend in person or online. Registration details [here](#).

### Roundtable Topics:

- Law Enforcement and Regulatory Perspectives on the Cybersecurity Threat
- Cybersecurity Preparedness: Building a Compliance Program

### Speakers include representatives from:

- State Securities Agencies
- U.S. Securities and Exchange Commission
- U.S. Department of the Treasury
- U.S. Department of Justice
- Cybersecurity Industry



## SOSNC on YouTube

If you have a North Carolina business that uses an assumed business name, check out this informative [webinar](#) on our YouTube Channel about a recent change to the NC Assumed Business Name Act.

Companies that registered their assumed name PRIOR to December 1, 2017, need to re-register their assumed names with their county register of deeds office BEFORE December 1, 2022, to continue doing business under that assumed name. Under the law, the NC Secretary of State's Office now maintains a [registry](#) of assumed business names across North Carolina.

You can also check out our library of informative "How to" videos on our YouTube Channel covering issues from how to file annual reports for LLCs and business corporations, to what to do if you've received a notice about annual reports you owe, and much more!

# Investor Bulletin: How Victims of Securities Law Violations May Recover Money

The SEC's Office of Investor Education and Advocacy (OIEA) is [informing investors](#) about how they may be able to recover money if they have been harmed by a violation of the federal securities laws.

Every year, thousands of U.S. investors lose money to fraud and other securities law violations. In some cases, harmed investors may be eligible to receive money recovered from fraudsters. A number of different processes exist to help harmed investors, including: SEC fair funds and disgorgement funds; receiverships; brokerage account customer protections; corporate bankruptcy proceedings; and private class action lawsuits.



*It is important to understand that not all harmed investors will be able to recover money. Investors who do recover money may receive substantially less than their losses. In addition, even when harmed investors are able to recover money, the process for distributing the money to harmed investors may take a long time.*

## Fair Funds and Disgorgement Funds

When the SEC brings a successful enforcement action, the court or the SEC may order a wrongdoer to disgorge (give up) the ill-gotten gains resulting from the illegal conduct. The disgorged funds may be distributed to investors who were harmed by securities law violations.

In addition, the court or the SEC may impose a monetary penalty both to punish the guilty party and to deter others from committing similar misconduct. A monetary penalty may only be distributed to investors if the court or the SEC orders that any penalty collected be placed in what is called a “fair fund” for distribution to investors who were harmed by the violation(s).

Enforcement actions can be brought in **court** or in an **administrative proceeding**.

- In **court proceedings**, documents filed in the case are generally publicly available. The court must approve an administration and distribution plan before any money can be distributed to harmed investors. Typically, a distribution agent will implement a claims process or other notification process to identify injured investors who may be eligible for distribution from a fair fund or disgorgement fund.

For a list of certain SEC court actions where a distribution of money to harmed investors is occurring or may occur (it may not be a complete list), see the SEC's webpage: [Information for Harmed Investors](#).

- In an **administrative proceeding**, the SEC publishes notice of a proposed plan of disgorgement or a proposed fair fund plan. The notice states how to obtain copies of the proposed plan and explains that anyone who desires to comment on the proposed plan may submit their views, in writing, to the SEC.

For a list of these notices, as well as a list of SEC administrative proceedings where the SEC has required a distribution of money to harmed investors, see [Distributions in Commission Administrative Proceedings: Notices and Orders Pertaining to Disgorgement and Fair Funds](#).

When a monetary penalty or disgorgement is not paid as ordered, the SEC's Division of Enforcement has an Office of Collections that uses every available method to identify, liquidate, and collect assets that can be used to satisfy the delinquent debt. These efforts may include sending a demand letter, negotiating a payment plan, filing a property lien, garnishing wages, or filing a contempt action in federal court.

## Receiverships

When the SEC brings a lawsuit in federal court, the SEC may ask the court to appoint a receiver. A receiver is a disinterested officer of the court who works to recover and to protect money and other assets that the defendant obtained in connection with the alleged securities law violation. If the defendant is found liable, the court may order that those assets be distributed to harmed investors.

For more information, read our [Investor Bulletin: 10 Things to Know About Receivers](#). For information about certain receiverships in SEC Enforcement cases (it may not be a complete list), see the SEC's webpage on [Receiverships](#).



## Brokerage Account Protection

SEC rules provide extensive protections to customers of U.S. [registered broker-dealers](#). For example, the [Customer Protection Rule](#) requires a broker-dealer to segregate a customer's securities and cash from the broker-dealer's securities and cash, with the objective of making customer assets readily available to be returned to customers if the broker-dealer goes out of business.

In addition, if your broker-dealer goes out of business and is a member of the [Securities Investor Protection Corporation \(SIPC\)](#), your cash and securities held by the brokerage firm may be protected up to \$500,000, including up to \$250,000 protection for cash in the account. You can visit SIPC's [website](#) to find out whether your broker-dealer is a [member](#) and, if your broker-dealer is in liquidation under the Securities Investor Protection Act, how you can file a claim form.

## Corporate Bankruptcy

Federal bankruptcy laws govern how companies go out of business or recover from crippling debt. The company's reorganization plan will spell out your rights as an investor, and what you can expect to receive, if anything, from the company.

For more information, read our publication, [Corporate Bankruptcy](#).

## Private Class Actions

In some cases, a private party may file a lawsuit on behalf of all harmed investors. This is separate from any enforcement action filed by the SEC. You may be eligible to participate in any recovery obtained through a class action lawsuit. Visit the website of the [Securities Class Action Clearinghouse](#) to find out whether a private class action lawsuit relating to your investment has been filed.

### ALERT

Investors who have already been victimized by fraudsters may be at risk of being taken advantage of again. For example:

- Third party asset recovery companies may solicit victims of scams, including investment frauds, with promises to file complaints with regulatory agencies and to help recover victims' money for a fee. Read [What You Should Know About Asset Recovery Companies](#).
- Government impersonators may target investors who have already been victims of fraud. Often, the impersonators will claim to help investors recover their investment-related losses for a fee. Read [Beware of Government Impersonators Targeting Fraud Victims](#).



## Initial Coin Offerings (ICOs)—What to Know Now and Time-Tested Tips for Investors

Your digital assets—those assets you have stored electronically on your computer or on the internet—take many forms: the unique logo you designed for your company, the photographs stored on your phone, and your eclectic iTunes music collections. Digital assets also include cryptocurrencies, and other crypto coins and tokens, which may be offered to you in an Initial Coin Offering, or ICO.

FINRA is issuing this [alert](#) to inform investors that investments in digital assets, such as ICO tokens and cryptocurrencies, can involve significant uncertainty, as well as risks that are different from more conventional assets like stocks or bonds. While ICOs, cryptocurrencies and the technologies that power them may hold great potential for legitimate innovations in capital raising and financial markets, it can be a challenge for investors to verify information about these products to make informed decisions. The markets for digital assets continue to display high levels of volatility, involve speculative risk and the potential for fraud. All investments come with some degree of risk, and ICOs and cryptocurrencies are no exception.

### A Quick 411 on Digital Assets

Digital assets like cryptocurrencies and ICOs continue to evolve and spark interest from Main Street investors. With billions of dollars raised in [ICO financings](#) and over 1,500 different [cryptocurrencies](#) currently available, these rapidly changing markets are tempting for investors. It is also difficult for most individual investors to make sense of these complex products.

An ICO involves the creation of a new virtual coin or token by a company looking to raise money. ICO investors typically do not get a stake in the company like you do when you purchase an equity share in an initial public offering (IPO). Most ICO issuers use [blockchain technology](#) for some part of their business to provide a particular service or product and these companies disseminate the new ICO tokens to buyers via a blockchain network.

### 7 Things to Know Now About ICOs

With retail investors using real money to invest in digital assets, here are seven things to know now about ICOs.

1. **ICOs offer little investor protection.** To date, many ICOs have been offered outside of existing regulatory systems. ICO promoters and issuers may be offering the tokens or coins to investors without typical disclosures and customer access to documents required by U.S. regulators like the Securities and Exchange Commission (SEC) that help investors make an informed investment decision. The lack of regulation increases the risk for fraudulent schemes and deceptive tactics—and leaves investors with little recourse to recover funds invested or hold parties accountable should a fraud occur. The [SEC](#) and [Commodity Futures Trading Commission \(CFTC\)](#) have released guidance and taken action against market participants that may be operating illegally or have engaged in alleged fraudulent actions with respect to ICOs and cryptocurrencies.
2. **ICO fraud is real.** Fraudsters tend to go where the money is, so it's no surprise that ICO fraud is happening, and regulatory authorities are cracking down. For example, the SEC recently [halted](#) a fraudulent ICO, alleging that the individuals and the firm promoting the ICO used websites and social media to lie about relationships with well-known and respected organizations, and included fake customer testimonials to attract investors. The SEC and criminal authorities also recently [charged](#) individuals with orchestrating a fraudulent ICO that raised millions of dollars from thousands of investors last year. The SEC alleges that these individuals offered and sold unregistered investments with fictional claims about how the



money would be used. These individuals allegedly used fake profiles of executives with impressive biographies, posted false or misleading marketing materials to the company's website, and paid celebrities to tout the ICO on social media. Here is an [example](#) of what a fraudulent ICO might look like.

3. **Online platforms that facilitate trading in ICO tokens are not registered exchanges.** And many of these platforms have a history of problems related to spoofing, insider trading and market manipulation. The SEC recently [warned](#) investors about online trading platforms that refer to themselves as “exchanges,” which might make investors think that they are regulated entities or meet the regulatory standards of a national securities exchange. However, no ICO platforms are currently registered as exchanges and the SEC has stated that it does not regulate these platforms as exchanges or review the digital assets on these platforms.
4. **Investors are losing millions to ICO theft.** One [study](#) found that \$400 million in funds raised in ICOs in 2017 was lost or stolen. In addition to stealing money and tokens, hackers also have accessed investors' personal information like addresses, phone numbers, bank details and credit card numbers. In an ICO, there are many touchpoints where something can go wrong (such as digital wallet providers), so be aware that cybersecurity vulnerabilities exist, and many of these entities might be operating internationally and without any regulatory oversight.
5. **Receipt of future tokens is not a given in an ICO.** The ability of investors to receive tokens in the future is typically contingent on certain triggering events, such as the development of a new enterprise and a related future public sale of tokens, which may not take place. Even if you do receive tokens in an ICO, they may be worth nothing or may be redeemable only for goods or services by the token issuer. Furthermore, there may be no ability to trade or exchange tokens.
6. **“SAFTs” don't make ICOs safe.** Some market participants have been using Simple Agreements for Future Tokens (or SAFTs) to offer their tokens to the public. SAFTs are investment contracts that appear to be modeled after [SAFE \(Simple Agreement for Future Equity\)](#) contracts that emerged with securities-based crowdfunding. Know that investing in a SAFT contract does not mean the offering is “safe” or compliant with applicable federal and state laws. In a SAFT, the issuer typically advertises that the token you purchase would start out as security interest (or “security token”) offered subject to the federal securities laws but then transform over time into a “utility token” that operates outside of the federal securities laws. The issuer may indicate that the coin could be used for future access, rewards or discounts for a company's products or services. No matter what a company says about the ability of a token to change characteristics from a security to a non-security, there is no guarantee that the SEC or the courts would agree with a company's assessment. A determination of whether something is a security is a facts and circumstances analysis, and titles don't change that.
7. **FOMO can inflate ICO valuations.** If you are worried that not investing in an ICO now means you are missing out on a future windfall, you are not alone. According to a recent [study](#), ICO valuations often are based on a fear of missing out (FOMO) rather than on market fundamentals, project development forecasts and the nature of tokens offered. With little information available about companies that undertake ICOs, investors are not in a strong position to make informed choices. Many ICO issuers publish a whitepaper that provides details about an offering, such as a description of its blockchain technology, team member bios and token information. White papers can be valuable to investors, but it is difficult for

investors to verify the information included. Some papers may be misleading or even fraudulent. Even the most comprehensive ICO white paper tends to lack the features of prospectuses or other offering documents and disclosures required by the federal securities laws, such as audited financial statements, disclosures about the company and its officers, and risk factors to consider before investing.

## Time-Tested Tips

ICOs and the markets for digital assets might seem like the next big thing, but a few basic, time-tested tips can serve you well before you make a decision to invest in any new product or market.

- Only invest with money you can afford to lose. ICOs are speculative, and you can lose some or all of your investment.
- Practice diversification. This is the equivalent to the proverbial “don’t put all of your eggs in one basket.” Spreading your money across different asset classes such as stocks, bonds, real estate and other investments helps control risk.
- Check out the background and registration status of any individual recommending or selling an investment, including ICOs. You can do that quickly, easily and at no charge with FINRA’s [BrokerCheck](#). Check the credentials of any promoters, salespeople, or those mentioned in a white paper: for example, if someone claims to have a PhD in computer science, verify that it is real using [these tips](#) from the Federal Trade Commission.
- Collect and review information about ICOs from regulators and trusted media outlets. Study the company, including financial documents, executives and employees, organizational structure and business lines.
- Run the investment by others. In the case of ICOs, this might include someone with a strong technology or mathematics background, as well as an experienced investor, CPA or registered investment professional.
- New technologies and media buzz are often the recipe for the latest [pump-and-dump scheme](#). Look out for guarantees, unregistered products, claims of overly consistent returns, complex strategies, missing documentation, account discrepancies and pushy salespeople. All are red flags of potential fraud.

If you have concerns about ICOs or cryptocurrencies, or suspect a scam related to these investments, you can contact the [SEC](#), file a complaint using FINRA’s online [Complaint Center](#) or [send a tip](#) to FINRA’s Office of the Whistleblower. You can also contact the NC Department of the Secretary of State Securities Division at (919) 814-5400, Option 5-2, or toll-free at (800) 688-4507 or by filing a [complaint](#).



# INVESTOR BULLETIN: FINRA'S NEW ACCOUNT PROTECTION RULE - TRUSTED CONTACTS

The SEC's Office of Investor Education and Advocacy is issuing this [Investor Bulletin](#) to provide investors with information about a new rule from the Financial Industry Regulatory Authority (FINRA) to help protect investors from financial exploitation and fraud.

On February 5, 2018, FINRA enacted a new rule to help protect investors from financial exploitation and fraud. This rule requires all brokerage firms to ask their retail customers to provide the name and contact information for a "trusted contact person" the firm may contact in the event of possible financial exploitation or fraud. Brokerage firms must request trusted contact person information from customers when (i) opening any new retail account, or (2) updating account information to an existing retail account opened prior to February 5, 2018.

**A brokerage firm only has to ASK retail customers for a trusted person's contact information. If you do not provide this information, a brokerage firm may still open a new account for you or keep your existing account open.**

## *What is a "trusted contact person?"*

A "trusted contact person" is a person that you authorize your brokerage firm to contact if your broker has a reasonable belief that your account may be exposed to possible financial exploitation or fraud. A trusted contact person must be age 18 or older.

## *Why would you add a "trusted contact person" to your brokerage account?*

Adding a trusted contact person to your brokerage account may help your brokerage firm respond to possible financial exploitation and fraud in your account and protect your account's assets.

## *Why would your brokerage firm contact a "trusted contact person?"*

Your brokerage firm must notify you in writing that it may contact your trusted contact person and disclose certain information about your account. Some reasons your brokerage firm might contact a trusted contact person include:

- Addressing possible financial exploitation or fraud in your account.
- Confirming your current contact information, if your brokerage firm cannot reach you.
- Confirming your current health status, if your brokerage firm suspects you are sick or suffering from [diminished capacity](#).
- Confirming the identity of any legal guardian, executor, trustee or holder of a power of attorney on your account.

## *How can you add a "trusted contact person" to your brokerage account?*

Many brokerage firms will be sending notices (via e-mail or regular mail) to their retail account customers that include instructions for adding a trusted contact person to an account. [Before clicking on any link in an e-mail notice about a "trusted contact person," make sure you verify that your brokerage firm sent the e-mail.](#) If you do not receive a notice, and would like to add a trusted contact person to your brokerage account, contact your brokerage firm and ask them how to add a trusted contact person to your account. Additional Resources

### **Additional Resources:**

- [FINRA Investor Alert: "Protecting Seniors From Financial Exploitation"](#)
- [FINRA Rule 4512](#)
- [FINRA Regulatory Notice 17-11: Financial Exploitation of Seniors](#)
- [FINRA Frequently Asked Questions Relating to Financial Exploitation of Seniors](#)
- Call OIEA at 1-800-732-0330, ask a question [using this online form](#), or email us at [Help@SEC.gov](mailto:Help@SEC.gov).



## NASAA Leads International Crypto Crackdown

The North Carolina Secretary of State's Securities Division announced administrative actions in May as part of an international crackdown on fraudulent Initial Coin Offerings (ICOs) and cryptocurrency-related investment products. The sweep was coordinated by the North American Securities Administrators Association (NASAA), of which North Carolina is a member.

The NC Secretary of State's Securities Division recently completed administrative enforcement actions with respect to Adosia LLC, a North Carolina company which [agreed](#) to cease offering a non-compliant ICO, and PowerMining Pool, which was ordered to permanently [cease and desist](#) from offering unregistered securities and committing fraud in North Carolina.

The NC Secretary of State's Securities Division joined more than 40 other state and provincial securities regulators in the United States and Canada in "Operation Cryptosweep," which resulted in nearly 70 inquiries and investigations and 35 pending or completed enforcement actions in May. These actions were in addition to more than a dozen enforcement actions previously undertaken by NASAA members regarding these types of products.



In April 2018, NASAA organized a task force of its member state and provincial securities regulators to begin a coordinated series of investigations into ICOs and cryptocurrency-related investment products. Regulators identified many cryptocurrency-related products and as part of its work, the task force identified hundreds of ICOs in the final stages of preparation before being launched to the public. These pending ICOs were advertised and listed on ICO aggregation sites to attract investor interest. Many have been examined and some were determined to warrant further investigation. A number of these investigations are ongoing and others resulted in the enforcement actions announced in May.

"The actions accounted are just the tip of the iceberg," NC Secretary of state Elaine F. Marshall said, noting that NASAA's task force also found approximately 30,000 crypto-related domain name registrations, the vast majority of which appeared in 2017 and 2018.

A critical component of "Operation Cryptosweep" is raising public awareness about the risk associated with ICOs and cryptocurrency-related investment products.

"Not every ICO or cryptocurrency-related investment is fraudulent, but we urge investors to approach any initial coin offering or cryptocurrency-related investment product with extreme caution," Secretary Marshall said.

For more information about ICOs and cryptocurrencies, please visit the NC Secretary of State's dedicated [cryptocurrency webpage](#) and read the Department's investor advisories: "[What to Know About ICOs](#)" and "[Be Cautious of the Crypto Investment Craze](#)."



## Investor Alert: Is Your Broker Selling You Investments Approved for Sale Through the Firm?

The SEC's Office of Investor Education and Advocacy (OIEA) and Retail Strategy Task Force are [warning](#) investors about red flags that a broker may be running a side business offering investments that are not approved for sale through the broker's firm.

Always check the registration status and background of anyone recommending or selling an investment using the free simple search tool on [Investor.gov](#). It's a great first step toward protecting your money, as unregistered persons commit much of the investment fraud in the United States.

Even if you are investing with a registered [broker](#) that you have known for years, make sure that your investments are approved for sale through the broker's firm. Ask your broker for an explanation and follow up with the firm's compliance department if you encounter any of these potential red flags:

Your broker asks you to make out a check, or to wire money, to any person or to a different firm;

Your broker tries to sell you an investment without any paperwork about the investment;

Investments or deposits you made through your broker do not appear on your account statement from the firm; or

You receive an account statement that does not appear to be from the firm.



In [SEC v Pagartanis](#), the SEC charged a former registered representative for defrauding some of his long-standing brokerage customers of \$8 million. The SEC alleges that the representative offered purported investments that he described as "safe" and misrepresented to at least some investors that they were investing in a Canadian land development and home building company whose stock is listed on the Toronto Stock Exchange. According to the SEC's complaint, the representative asked customers to send him checks that were made out to a private company that he owned and that had the same name as the Canadian land development company. The SEC alleges that the representative provided some investors with fictitious account statements indicating that they owned stock of the Canadian land development company. The representative allegedly transferred investor funds to other entities he controlled, used funds for his personal benefit, and used funds to pay monthly returns to some investors in a Ponzi scheme-like manner.

Use caution if your broker asks you to sign a letter that you consent to an investment that is not purchased through the firm. If you believe a broker is offering investments that may not be approved for sale through the firm, or to report other problems with a broker, submit a complaint to the firm and to the [SEC](#) or [FINRA](#). Anytime you invest through a broker, confirm that the broker is registered and look out for signs that may indicate your investments are not being made through the broker's firm.

# The Senior Safe Act Is Now Federal Law

On May 24, 2018, President Trump signed into law S. 2155, the Economic Growth, Recovery Relief & Consumer Protection Act of 2018 (Public Law No: 115-174). Included as Section 303 of this legislation, is the text of HR 3738, the Senior Safe Act, bipartisan legislation authored by U.S. Senators Susan Collins (R-ME) and Claire McCaskill (D-MO).



The Senior Safe Act will help protect seniors from financial exploitation and fraud. The legislation provides support for regulators, financial institutions, and legal organizations to educate their employees about how to spot and stop suspected senior financial exploitation.



“The Senior Safe Act is a significant step forward in the ongoing fight against senior financial exploitation,” said Joseph P. Borg, President of the North American Securities Administrator Association (NASAA) and Director of the Alabama Securities Commission. “The Senior Safe Act addresses barriers financial professionals face in reporting suspected senior financial exploitation or abuse to authorities.”

Under the Senior Safe Act, brokers, investment advisers, banks, credit unions, insurance companies, and other financial services providers, will be allowed to disclose, under certain circumstances and to the appropriate authorities, cases of potential financial exploitation of adults aged 65 years or older without fear of legal ramifications.

In addition to granting legal immunity to those who report suspected abuse of seniors to regulators and law enforcement authorities, the new legislation encourages financial services firms to provide standardized training to frontline employees and producers to help them identify and report instances of suspected financial abuse. In North Carolina, cases of suspected investment fraud should be reported to the North Carolina Department of the Secretary of State Securities Division. Our hotline number is (800) 688-4507.



## Five Minutes Could Save Your Life Savings!

Is that individual offering you an investment opportunity licensed to sell securities in North Carolina? Is the investment opportunity itself registered? Know before you sign!

While registration in and of itself is no guarantee against fraud, not being registered is a very big red warning flag.

We urge you to take five minutes to call our NC Investor Hotline at 1-800-688-4507 to see if the person you have been dealing with – perhaps even for years – is properly registered and/or has a disciplinary history.

Pick up the phone and call us. You owe it to yourself and your family to check.

***ATTENTION NC INVESTMENT ADVISERS!***  
**YOU ARE INVITED!**

The next round of our popular “*Best Practices for NC Investment Advisers*” workshops will be held at the locations and dates below. Invitations have been emailed to all state-registered investment advisers and their representatives. If you are a state-registered investment adviser or investment adviser representative and DID NOT receive an invitation, please contact John Maron at [jmaron@sosnc.gov](mailto:jmaron@sosnc.gov) immediately.

These will be **one-day only** workshops. When registration opens, you will need to register for only one day. Reservations will be taken on a first-come, first-served basis once the registration period opens subject to the limitations noted for each location below.

**Tuesday, September 25<sup>th</sup> and Wednesday, September 26<sup>th</sup>:**

Central Piedmont Community College  
Harris Building 1, Room 1120  
3210 CPCC Harris Campus Drive  
Charlotte, NC 28208  
(Maximum of 80 registrants/day)

**Thursday, September 27<sup>th</sup> and Friday, September 28<sup>th</sup>:**

NC Department of the Secretary of State Securities Division  
4701 Atlantic Avenue, Suite 116  
Raleigh, NC 27604  
(Maximum of 30 registrants/day)

**Monday, November 19<sup>th</sup>**

A-B Tech/Mission Health Conference Center  
340 Victoria Road  
Asheville, NC 28801  
(Note: MINIMUM of 10 registrants required.)

The time for ALL sessions will be 8:30 AM -- 4:00 PM.

Registration Fee: \$40.00 per person

These workshops are intended to provide North Carolina Investment Advisers with a basic overview of the compliance issues surrounding their practice, investment adviser “best practices,” and what to expect during an audit. ***NEW! Case Studies.***



## Calendar of Upcoming Events

A representative from the Securities Division will be giving an anti-fraud presentation on the following dates and locations. Dates and times are subject to cancellation (although cancellations are rare), so please call the contact number listed to confirm the event is still on before leaving for it. All presentations are free and open to the public unless otherwise indicated. If you would like to schedule a speaker for your church, business, group or organization, please contact [John Maron](#) at (800) 688-4507. For a complete list of all upcoming events, please check out our online [calendar](#).

Date	City	Details
8/30/18	Greenville	“Combating Frauds Against the Elderly: A Partnership Working Together” presentation. Center for Family Violence Prevention, 150 E. Arlington Blvd., Suite D. Time: 3:00 — 4:00 PM. Free, but open only to the staff of the Center for Family Violence Prevention.
9/4/18	Morehead City	“Investment Crowdfunding in North Carolina” presentation for small businesses. Carteret County Community College, Commerce Development Center, 3615 Arendell Street. Time: 6:00 PM — 8:00 PM. Free, but registration is required. For more information and to register, please visit <a href="https://www.ncsbc.net/workshop.aspx?ekey=90380078">https://www.ncsbc.net/workshop.aspx?ekey=90380078</a> . This presentation is planned as an overview of investment crowdfunding for businesses that may want to utilize this option. A representative of the N.C. Secretary of State’s Securities Division will cover the following: a regulatory overview and how crowdfunding fits within securities laws; the legal do’s and don’ts of a crowdfunding offering; the marketing aspects – what you can say and how to reach investors; and utilizing a web site intermediary – picking one and connecting with investors.
9/5/18	Plymouth	“Scam Jam” anti-fraud presentation at Washington County Senior Center, 198 NC-45. Time: 10:00 AM — 2:00 PM. Free. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Justice Consumer Protection Division, and the NC Department of Insurance Senior Health Insurance Information Program will provide information on how to protect yourself from a variety of scams. For more information, please contact Laura Alvarico at 252-426-5753 ext 224.
9/6/18	Gatesville	“Scam Jam” anti-fraud presentation at Merchants Millpond State Park, 176 Mill Pond Rd. Time: 1:00 PM — 4:00 PM. Free. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Justice Consumer Protection Division, and the NC Department of Insurance Senior Health Insurance Information Program will provide information on how to protect yourself from a variety of scams. For more information, please contact Laura Alvarico at 252-426-5753 ext 224.
9/7/18	Elizabeth City	“Scam Jam” anti-fraud presentation at Elizabeth City Senior Center, 200 E Ward Street. Time: 9:00 AM — Noon. Free. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Justice Consumer Protection Division, and the NC Department of Insurance Senior Health Insurance Information Program will provide information on how to protect yourself from a variety of scams. For more information, please contact Laura Alvarico at 252-426-5753 ext 224.



<b>Date</b>	<b>City</b>	<b>Details</b>
9/25/18	Charlotte	“Best Practices Workshop for NC Investment Advisers” conducted by the NC Department of the Secretary of State Securities Division. Central Piedmont Community College, Harris Building 1, Room 1120, 3210 CPCC Harris Campus Drive. Time: 8:30 AM — 4:00 PM. Registration Fee: \$40.00 per person. This workshop is intended to provide NC investment Advisers with a basic overview of the compliance issues surrounding their practice, investment adviser “best practices,” and what to expect during an audit. Seating is limited to 80 people. For more information or to register, contact John Maron at <a href="mailto:jmaron@sosnc.gov">jmaron@sosnc.gov</a> .
9/26/18	Charlotte	“Best Practices Workshop for NC Investment Advisers” conducted by the NC Department of the Secretary of State Securities Division. Central Piedmont Community College, Harris Building 1, Room 1120, 3210 CPCC Harris Campus Drive. Time: 8:30 AM — 4:00 PM. Registration Fee: \$40.00 per person. This workshop is intended to provide NC investment Advisers with a basic overview of the compliance issues surrounding their practice, investment adviser “best practices,” and what to expect during an audit. Seating is limited to 80 people. For more information or to register, contact John Maron at <a href="mailto:jmaron@sosnc.gov">jmaron@sosnc.gov</a> .
9/27/18	Raleigh	“Best Practices Workshop for NC Investment Advisers” conducted by the NC Department of the Secretary of State Securities Division. NC Department of the Secretary of State, Securities Division, 4701 Atlantic Avenue, Suite 116. Time: 8:30 AM — 4:00 PM, Registration Fee: \$40.00 per person. This workshop is intended to provide North Carolina Investment Advisers with a basic overview of the compliance issues surrounding their practice, investment adviser “best practices,” and what to expect during an audit. Seating is limited to 30 people.
9/28/18	Raleigh	“Best Practices Workshop for NC Investment Advisers” conducted by the NC Department of the Secretary of State Securities Division. NC Department of the Secretary of State, Securities Division, 4701 Atlantic Avenue, Suite 116. Time: 8:30 AM — 4:00 PM, Registration Fee: \$40.00 per person. This workshop is intended to provide North Carolina Investment Advisers with a basic overview of the compliance issues surrounding their practice, investment adviser “best practices,” and what to expect during an audit. Seating is limited to 30 people.
10/3/18	Morehead City	“Incorporating a Business with the Secretary of State” presentation for small businesses. Carteret County Community College, Commerce Development Center, 3615 Arendell Street. Time: 6:00 PM — 8:00 PM. Free, but registration is required. For more information and to register, please visit <a href="https://www.ncsbc.net/workshop.aspx?ekey=90380095">https://www.ncsbc.net/workshop.aspx?ekey=90380095</a> . In this session, attendees will learn the general rules of the road on incorporation and their filing responsibilities.
10/4/18	Lumberton	“Combating Frauds Against the Elderly: A Partnership Working Together” keynote address at the Aging Conference sponsored by the Lumber River Area Agency on Aging. Southeastern Agricultural Center, 1027 US-74 ALT. Time: 9:00 AM — 10:00 AM. Registration required. For more information, contact Rachell Hodnett at Lumber River AAA at <a href="mailto:rachell.hodnett@lrcog.org">rachell.hodnett@lrcog.org</a> .

<b>Date</b>	<b>City</b>	<b>Details</b>
10/4/18	Hillsborough	“Investment Fraud: Guarding Your Assets in a Scary World” presentation. The Passmore Center, 103 Meadowlands Drive. Time: 1:00 PM — 2:00 PM. Free, but registration is requested. Please contact Meghan Davis at (919) 245-2026 for more information.
10/26/18	Hendersonville	“Investment Fraud: Guarding Your Assets in a Scary World” presentation at Carolina Village, 600 Carolina Village Rd. Time: 6:00 PM — 7:00 PM.. Free, but open to Carolina Village residents and their guests only.
11/10/18	Durham	“Investment Fraud: Guarding Your Assets in a Scary World” presentation at District 3 Partners Against Crime, Community & Family Life Recreation Center at Lyon Park, 1309 Halley Street. Time: 10:00 AM — Noon. Free.
11/17/18	Jamestown	“Investment Fraud: Guarding Your Assets in a Scary World” presentation to the Greensboro Chapter of the American Association of Independent Investors, Griffin Recreation Center, Room 105, 5301 Hilltop Road. Time: 10:00 AM — Noon. Free, but open to AAI members and their guests only.
11/19/18	Asheville	“Best Practices Workshop for NC Investment Advisers” conducted by the NC Department of the Secretary of State Securities Division. A-B Tech/Mission Health Conference Center, 340 Victoria Road. Time: 8:30 AM — 4:00 PM, Registration Fee: \$40.00 per person. This workshop is intended to provide North Carolina Investment Advisers with a basic overview of the compliance issues surrounding their practice, investment adviser “best practices,” and what to expect during an audit. Seating is limited to 30 people.
11/27/18	Morehead City	“ABC’s of Trademarks for Small Business” at Carteret County Community College, Commerce Development Center, 3615 Arendell Street. Time: 6:00 PM — 8:00 PM. Free, but registration is required. For more information and to register, please visit <a href="https://www.ncsbc.net/reg.aspx?mode=event&amp;event=90380096">https://www.ncsbc.net/reg.aspx?mode=event&amp;event=90380096</a> .



## “Swaps Reg Version 2.0” on *CFTC Talks*

Commodity Futures Trading Commission (CFTC) Chairman J. Christopher Giancarlo and CFTC Chief Economist Bruce Tuckman discuss their new white paper, “*Swaps Reg Version 2.0*” on the June 15th edition of the “[CFTC Talks](#)” podcast. In their conversation with podcast host Andy Busch, Giancarlo and Tuckman offer insight on five key areas the paper addresses: Swaps Central Counterparties (CCPs); Swaps Reporting Rules; Swaps Execution; Swaps Dealer Capital; and End User Exception.

The paper looks at a range of aspects of the global swaps market and explains why refreshing how swaps are being regulated is important and pivotal at this time. “This paper also looks forward as to what swaps reform will look like not only in the months to come, but in years to come and well into the future. The process of swaps reform is not a one-and-done approach,” Giancarlo said. Check out the podcast at [www.cftc.gov/Media/Podcast/index.htm](http://www.cftc.gov/Media/Podcast/index.htm).

# Recent Enforcement Actions



*(For prior administrative actions, click on the badge to the right.)*

On **July 12, 2018**, the **Temporary Cease and Desist Order** entered on **January 9, 2018** against **Bitconnect, BitConnect LTD, BitConnect International PLC** and **BitConnect Trading LTD** (“**BitConnect**”) became **final**. Since receiving the **Temporary Cease and Desist Order** Bitconnect has closed its exchange and lending operation. Click [here](#) to view the Final Order.

On **June 12, 2018**, **Frank Calabro, Jr.** (“**Calabro**”) entered into a **Consent Order** with the Deputy Securities Administrator agreeing to cease offering unregistered securities, acting as unregistered dealers/salesmen, and omitting to state material facts when offering securities. Click [here](#) to view the Consent Order. This Consent Order resolves the Temporary Cease and Desist Order entered on March 18, 2018. Click [here](#) to view the Temporary Order.

On **May 10, 2018**, **Adosia LLC** and **Kyle Solomon** (“**Respondents**”) entered into a **Consent Order** with the Deputy Securities Administrator (“**Administrator**”). During an investigative sweep, the Administrator discovered that Respondents intended to undertake an initial coin offering (“**ICO**”). Prior to the commencement of the ICO, the Administrator alerted Respondents that the Administrator believed that token they intended to offer through the ICO was a security. As a result, the Respondents agreed to cease offering the token through the ICO and to provide a rescission offer to the investor who purchased the token during the ICO pre-sales. Click [here](#) to view the Consent Order.

On **April 19, 2018**, the **Temporary Cease and Desist Order** entered on **March 2, 2018** against **Power Mining Pool** (“**PMP**”) became **final**, permanently barring PMP from, among other things, offering unregistered securities in North Carolina. Click [here](#) to view the Final Order.

On **April 17, 2018**, **Alan Carver and Dechoker, LLC** entered into a **Consent Order** with the Deputy Securities Administrator agreeing to cease offering unregistered securities and acting as unregistered dealers/salesmen in North Carolina. Click [here](#) to view the Consent Order. Also on **April 17, 2018**, the Deputy Securities Administrator entered a **Final Order** against **Russell Wadell, Mark Shores, and Mark Honeycutt** making permanent the Temporary Cease and Desist Order in the matter of **Dechoker, LLC, Alan Carver, Russell Wadell, Mark Shores, and Mark Honeycutt** entered on February 15, 2018. Click [here](#) to view the Final Order.

On **April 6, 2018**, the **Temporary Cease and Desist Order** entered on **February 16, 2018** against **USI-Tech Limited** (“**USIT**”) became final, permanently barring USIT from, among other things, offering securities in North Carolina until such time as it becomes fully compliant with North Carolina’s securities laws. Click [here](#) to view the Final Order.

On **March 26, 2018**, as the result of a multi-jurisdictional investigation, the Securities Division of the North Carolina Department of the Secretary of State entered into an **Administrative Consent Order** with **LPL Financial, LLC** (“**LPL**”) regarding its conduct surrounding the offers of non-traded real estate investment trusts (“**REITs**”) to citizens of North Carolina. The Order found that LPL failed to implement and enforce an adequate supervisory system which led to the improper conduct by its employees when offering the REITs. LPL will offer to remediate losses of all North Carolina residents who purchased the improperly sold REITs. LPL also paid a fine and investigative costs to the Secretary of State’s office. Click [here](#) to view the Consent Order.

On **March 8, 2018**, the Securities Division of the North Carolina Department of Secretary of State issued a **Temporary Cease and Desist Order** to **Frank Calabro, Jr.** (“**Calabro**”). The Temporary Cease and Desist Order found that Calabro was not registered as a dealer or salesman of securities in North Carolina and offered and sold securities on behalf of multiple different companies in violation of the North Carolina Securities Act. The Temporary Cease and Desist Order ordered Calabro to cease and desist a) offering unregistered securities, b) acting as a securities dealer and/or salesman in North Carolina while not registered to do so, and c) making material misstatements and omissions of fact when offering securities. The Temporary Cease and Desist Order gives Calabro thirty (30) business days in which to request a hearing. If no such request is made during that time, the Temporary Cease and Desist Order shall become final. Click [here](#) to view the Temporary Order.



## On The Docket

**The following cases are ones in which the Securities Division has had involvement, either as the lead investigative agency or in a supporting role.**

A Forsyth County grand jury indicted **Russell Joseph Mutter** in May on four felony counts of investment adviser fraud, four felony counts of obtaining property by false pretenses, and four felony counts of financial exploitation of an older adult. Mutter is in custody in the Forsyth County Detention Center on a \$5 million secured bond.

A Carteret County grand jury indicted **Darrell Dwayne York** in March on five felony counts of securities fraud, four felony counts of obtaining property by false pretenses, and one felony count of embezzlement in an alleged Ponzi scheme. According to the indictments, victims were promised high rates of return in short term commodities investments with York's company, Provision Financial. The victims' money was instead allegedly used to repay earlier investors, as well as for York's own use and benefit. The indictments were handed down on March 12, 2018.

**Alan Peter Darcy**, of Murphy, pleaded guilty on June 7 in federal court to one count of felony wire fraud. A federal grand jury indicted Darcy on March 24 for orchestrating an \$800,000 investment fraud scheme. Darcy is currently awaiting sentencing.



## News from the Regulators

*The following are links to selected public notices issued by one or more securities regulator. Click the links to view the full notices. These are offered for informational purposes only.*

### [SEC Adopts Rule Amendments to Improve Municipal Securities Disclosure](#)

**Aug. 20, 2018** — The Securities and Exchange Commission adopted amendments to enhance transparency in the municipal securities market. The adopted amendments to Rule 15c2-12 of the Securities Exchange Act will focus on material financial obligations that could impact an issuer's liquidity, overall creditworthiness, or an existing security holder's rights.

### [FINRA: What You Need to Know About IRAs](#)

**Aug. 8, 2018** — Individual retirement accounts, or IRAs, account for a significant portion of Americans' retirement savings. Investors held approximately \$9.2 trillion in IRAs at the end of March 2018, representing nearly one third of retirement assets, according to the Investment Company Institute. If you're interested in opening an IRA account, click the link above to find out what you need to know.

## [SEC Updates List of Firms Using Inaccurate Information to Solicit Investors](#)

**Aug. 6, 2018** — The Securities and Exchange Commission announced that it has updated its list of unregistered firms that use misleading information to primarily solicit non-U.S. investors, adding 16 soliciting entities, four impersonators of genuine firms, and nine bogus regulators. The updates by the SEC Division of Enforcement’s Office of Market Intelligence, in coordination with the SEC’s Office of Investor Education and Advocacy and the Office of International Affairs, are part of the agency’s continuing effort to protect retail investors. The SEC’s list of soliciting entities that have been the subject of investor complaints, known as the [Public Alert: Unregistered Soliciting Entities \(PAUSE\) list](#), enables investors to better inform themselves and avoid being a victim of fraud. [The latest additions](#) are firms that the SEC staff found were providing inaccurate information about their affiliation, location, or registration. Under U.S. securities laws, firms that solicit investors generally are required to register with the SEC and meet minimum financial standards and disclosure, reporting, and recordkeeping requirements.

## [FINRA Podcast: Enforcement Guiding Principles](#)

**July 31, 2018** — What are the principles that guide FINRA’s decision making when it comes to taking Enforcement action? That’s the question that’s been on the mind of FINRA’s head of Enforcement, Susan Schroeder, since she took on the role in mid-2017. In this episode, Susan discusses how getting back to basics has helped her build a more effective Enforcement team.

## [FINRA Encourages Firms to Notify FINRA if They Engage in Activities Related to Digital Assets](#)

**July 6, 2018** — A new regulatory notice from FINRA aims to ascertain the extent of FINRA member involvement related to digital assets. The regulatory agency issued a Notice on July 6 encouraging each firm to notify FINRA if it, or its associated persons or affiliates, currently engages, or intends to engage, in any activities related to digital assets, such as cryptocurrencies and other virtual coins and tokens. In addition, until July 31, 2019, FINRA encourages each firm to keep its Regulatory Coordinator abreast of changes in the event the firm, or its associated persons or affiliates, determines to engage in activities relating to digital assets not previously disclosed. If a firm recently has provided notice to its Regulatory Coordinator in response to a direct request, has provided this information by way of the 2018 Risk Control Assessment (RCA) Survey, or has submitted a continuing membership application (CMA) regarding its involvement in activities related to digital assets, FINRA does not request additional notification pursuant to this Notice unless a change has occurred.

## [Investors, Innovation, and Performance Top SEC’s Draft Strategic Plan](#)

**June 19, 2018** — The Securities and Exchange Commission has published a draft strategic plan that focuses on investors, innovation, and performance as the top strategic goals in coming years. The SEC is seeking public comment on the proposed draft that will guide the SEC’s priorities through FY 2022. The plan highlights the SEC’s commitment to serving the long-term interests of Main Street investors; becoming more innovative, responsive, and resilient to market developments and trends; and leveraging staff expertise, data and analytics to bolster performance. “This plan focuses on the most important goals and initiatives that will best position the SEC to fulfill our mission of protecting investors, ensuring fair, orderly, and efficient markets and facilitating capital formation,” said SEC Chairman Jay Clayton. “We are presenting the plan in a more concise and readable format this year, which we hope will further encourage investors – particularly our Main Street investors – and market participants to share their views on how we can meet and exceed their expectations of our agency.” To comment on the plan, send an email to [PerformancePlanning@sec.gov](mailto:PerformancePlanning@sec.gov).

## [New Technology Will Lead to Enhanced Efficiencies and Reduced Compliance Costs for Firms](#)

**June 14, 2018**—FINRA has announced details of a multi-phased effort to overhaul its registration and disclosure programs, including the Central Registration Depository (CRD)—the central licensing and registration system that FINRA operates for the U.S. securities industry and its regulators and that provides the backbone of BrokerCheck. The first phase of the transformation is a new WebCRD interface that highlights important information or activities requiring immediate attention of firms, branches and individuals. The transformation aims to increase the utility and efficiency of the registration and disclosure process for firms, investors and regulators, as well as to reduce compliance costs for firms. FINRA expects to complete the project in 2021. “This important initiative will strengthen an essential function of the securities industry,” said FINRA President and CEO Robert W. Cook. “The transformation will allow FINRA to develop systems that help firms effectively maintain compliance programs and reduce compliance costs, while continuing to operate and enhance BrokerCheck as an essential tool for investors.” More information about the registration system transformation is available at [www.finra.org/newcrd](http://www.finra.org/newcrd).

## [CFTC Staff Issues Advisory for Virtual Currency Products](#)

**May 21, 2018**— The Commodity Futures Trading Commission’s (CFTC) Division of Market Oversight (DMO) and Division of Clearing and Risk (DCR) issued a [joint staff advisory](#) on May 21 that gives exchanges and clearinghouses registered with the CFTC guidance for listing virtual currency derivative products. “The CFTC staff is committed to providing regulatory clarity as much as possible,” said DMO Director Amir Zaidi. “As the virtual currency market continues to evolve, CFTC staff will seek to provide additional guidance to help market participants keep pace with innovation while complying with CFTC regulations. CFTC staff is providing this information, in part, to aid market participants in their efforts to design risk management programs that address the new risks imposed by virtual currency products,” DCR Director Brian Bussey stated. “In addition, the guidance is designed to help ensure that market participants follow appropriate governance processes with respect to the launch of these products.”

## [CFTC Opens Access for U.S. Customers to Trading in Australian Markets](#)

**May 22, 2018**—The Commodity Futures Trading Commission (CFTC) have announced the approval of Australian Securities Exchange Limited’s (ASX 24) application to permit direct access for U.S. customers to trade on its platform. By this order, issued May 15, 2018, ASX 24, a foreign board of trade (FBOT) is registered with the CFTC and allowed to permit members and other participants in the U.S. to trade by direct access on the exchange without having to trade through an intermediary. The CFTC also issued an [order](#) on May 17 to open access to the National Stock Exchange of India (NSE). Currently, over 120 foreign brokers across the globe are authorized to deal directly with U.S. futures customers, resulting in more efficient and less costly transactions. “I believe the global nature of derivatives markets calls for an international perspective,” said CFTC Chairman J. Christopher Giancarlo. “Regulators must take a cooperative approach to pursuing market integrity and customer protection. And, we must keep in mind that cross-border competition, growth, and innovation are stifled if we impose piecemeal or inconsistent regulatory requirements. That is why the optimal approach to reconcile these considerations is deference to comparable foreign regulatory regimes.”

## [CFTC, NASAA Sign Agreement for Greater Information Sharing Between Federal Commodities and State Securities Regulators](#)

**May 21, 2018**– Commodity Futures Trading Commission (CFTC) Chairman J. Christopher Giancarlo and North American Securities Administrators Association (NASAA) President Joseph P. Borg have signed a mutual cooperation agreement to establish a closer working relationship between the federal commodity regulator and individual state securities agencies. The agreement signed by the CFTC and NASAA is intended to provide a framework for the sharing of confidential information between the CFTC and state securities regulators in the United States. The purpose of the information-sharing agreement is to assist participants in enforcing the Commodity Exchange Act, which state securities regulators and state attorneys general are statutorily authorized to do alongside the CFTC. But information shared under the MOU also could generate enforcement actions under state securities laws, commodity codes, or other areas of law. “State securities regulators look forward to strengthening our bond with the CFTC to enhance investor protection and prevent fraud,” NASAA President Borg said. “NASAA members are unique among all federal and state regulators in that they can bring enforcement actions for both securities law and commodities law violations. This is particularly relevant given the recent epidemic of schemes involving cryptocurrencies and other modern types of commodities.”

“This agreement provides the CFTC and NASAA an opportunity to build on our long-standing cooperative relationship,” said CFTC Chairman Giancarlo. “Information-sharing is key to cooperative enforcement operations, and by working together, we can ensure that the rapidly evolving financial technology space has the appropriate oversight to pursue bad actors, protect market participants, and allow for market-enhancing innovation.” Borg noted that individual jurisdictions will be required to sign the MOU in order to receive its benefits, including investigative leads from the CFTC’s Office of the Whistleblower or other tips, complaints and referrals the CFTC offers to provide to NASAA members.

All investors are strongly encouraged to contact the Securities Division at (919) 814-5400 or toll-free at (800) 688-4507 to check that their investment professional is properly registered **before** transferring any assets to that person’s control.

One five-minute telephone call to the Securities Division could protect your entire life’s savings from being stolen from you. For a wealth of investor education information, please visit our web site, [www.sosnc.gov](http://www.sosnc.gov). Click on the yellow box entitled “Investment Securities.”

This newsletter is produced by the Investor Education Program of the Securities Division of the North Carolina Department of the Secretary of State. If you have questions or comments about this publication, or would like to schedule an investor education presentation with your group or organization, please email [John Maron](mailto:John.Maron), Director of the Investor Education Program, or call (919) 814-5560.

**Please help us publicize the educational information in this mailing by forwarding it to your contacts around the state.**

If you no longer wish to receive mailings from the Securities Division, please send an email to: [jmaron@sosnc.gov](mailto:jmaron@sosnc.gov) with “Remove from mailing list” in the subject line.

**Remember that if an investment sounds too good to be true, it probably is!**