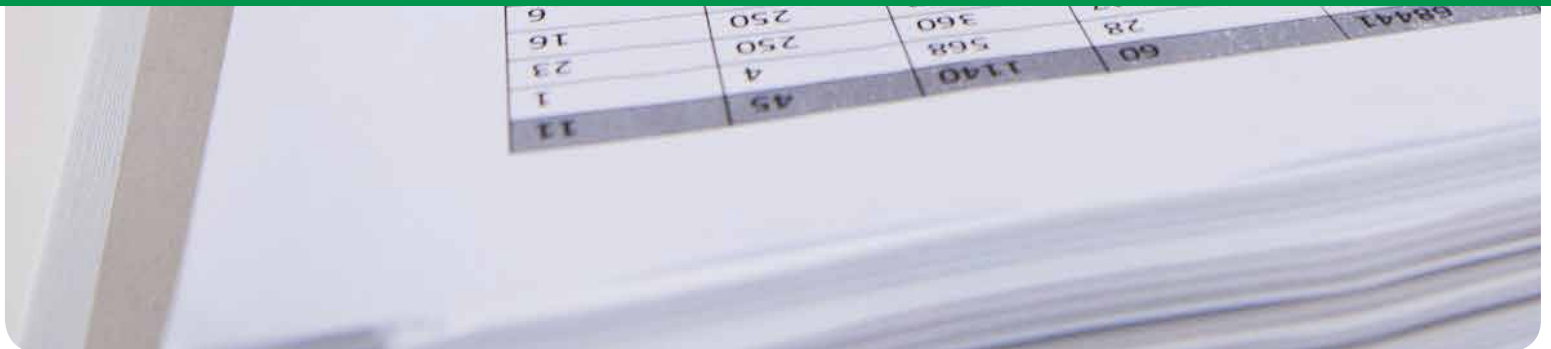




COLORADO
Department of
Regulatory Agencies

DIVISION OF
Securities

FY 2015/2016 ANNUAL REPORT



Message from the Securities Commissioner



The 2015-2016 fiscal year saw many positive developments in the Division of Securities, which resulted in significant actions. These results were the direct impact of the diligent work and dedication

of Division of Securities staff, and I am happy to be able to highlight a few of the many ways in which we successfully cut red tape, collaborated with industry members, educated the public, and effectively protected consumers this year.

The Division of Securities is primarily made up of two sections: examinations and enforcement. After we implemented a LEAN process, the examinations staff reduced the average time to complete an exam from 270 days to 60 days on average. This enabled us to stay on track of reaching our goal of reviewing and auditing all 700 investment adviser firms we regulate on a four-year schedule.

Meanwhile, the enforcement team at the division opened 77 investigations in the past year. The significance of the division's investigatory work cannot be overstated, as over half of our cases this year included victims in the "at-risk" category, meaning they were over the age of 60 and in most cases unable to work to recoup their often devastating losses.

While these enforcement actions are crucial for deterring bad actors, we also realize that the most effective way to help consumers is to prevent fraud before it even occurs. That's why, just prior to the start of the 2015-2016 fiscal year, we implemented an investor education and outreach program. We are working with partners both within and outside the securities industry to educate and inform investors, particularly those who are most vulnerable to fraud.

The division remains committed to pursuing programs that support our mandate to protect investors, and we look forward to 2016-2017 being just as productive and beneficial to industry members and consumers alike.

Gerald Rome
Colorado Securities Commissioner



Colorado Division of Securities staff

Message from the Executive Director



I'm delighted to be able to present to you the annual report for the Department of Regulatory Agencies' Division of Securities. The Division of Securities

does vital work to protect Colorado consumers in the investment realm by regularly monitoring compliance by industry professionals and firms, as well as investigating and pursuing disciplinary actions against bad actors. As you'll see in the report, the division, led by Securities Commissioner Gerald Rome, has worked tirelessly this past year to protect the people of our great state. Last year alone, the division brought 71 enforcement actions.

The division isn't just helping consumers, however. During the 2015-2016 fiscal year, Commissioner Rome and division employees worked to support economic development, engaged with industry stakeholders through their Financial Industry Advisory Committee, implemented measures to cut red tape and streamline administrative processes, and implemented new rules in support of the Colorado Crowdfunding Act (which makes it easier for small businesses and startups to gain access to investor funds).

I hope you enjoy reading about some of the division's activities and accomplishments this past year, and I encourage you to reach out to the division and department, where consumer protection truly is our mission.

Joe Neguse, Executive Director
Colorado Department of Regulatory Agencies

Who We Are

- The mission of the Division of Securities is to protect investors and maintain confidence in the securities market.
- The division is divided into two main sections: Examinations and Investigations.
- The division licenses securities professionals, enforces securities law, and works to help Coloradans become more informed investors.
- The division's investigations and examinations are funded by licensing fees, which are the lowest in the United States.



Enforcement Highlight



One of the division's top priorities is to advance investor confidence in the securities markets through vigorous, fair and effective enforcement of Colorado's securities laws. In the fiscal year, the division brought 71 enforcement actions that resulted in criminal and civil sanctions against bad actors, including over \$33 million ordered in damages and restitution back to harmed investors. The effect the enforcement team's hard work has on consumer protection can truly be seen through the year's criminal cases. The main goal in any case is to see that justice is served to perpetrators of investment fraud so that their victims can begin to rebuild their lives. However, an equally important goal in investigating and pursuing actions in these cases is to ensure that additional investors don't find themselves victimized.



Enforcement Statistics 2015-2016

- **77** new investigations
- **71** enforcement actions
- **17** civil cases
- **\$33 million** awarded in damages
- **21** administrative sanctions
- **9** criminal indictments
- **28 years** in prison sentenced
- **\$5.5 million** ordered in restitution

Wheat Ridge Man Nets 28 Year Prison Term in \$4.4 Million Ponzi Scheme

Perry Sawano, age 51, controlled a licensed Investment Adviser firm in Jefferson County. Through the course of a routine examination by the division, staff determined that enough suspicious deficiencies had been found to merit a full investigation. The following investigation revealed that from January 2007 through March 2013 he engaged in fraudulent behavior through his investment adviser firm, Integrity Financial Consulting. Sawano would advise his clients on various investment opportunities, and initially place investment funds with traditional brokerage firms. However, he would often then redirect money out of these traditional, more reliable firms, into so-called “alternative investments,” which were companies that he himself operated. In some cases, the companies were nothing more than empty shells, producing no actual revenue.

During this time, Sawano provided little to no true information to clients about his activities, and in addition to redirecting funds without disclosure or permission from his victims, often used their money to pay other investors, funded his own business and personal expenses, and moved money in and out of banks accounts that he controlled.

It was estimated that from 2007 to early 2013, Sawano’s clients invested \$4,885,000. Around \$3,636,000 was used to pay back other investors, and approximately \$1,230,000 went toward personal and business expenses. Throughout the course of this activity, Sawano perpetrated fraud on his clients by leading them to believe that their investments

were in low risk, valid and successful investments, both through conversations as well as through fraudulent statements.

The case, prosecuted by the Jefferson County District Attorney’s Office, was resolved summer of 2015. Sawano received a sentence of 28 years in prison—one year for each of his known victims—and was also ordered to pay over \$4.4 million in restitution.

Sawano perpetrated a Ponzi scheme on a number of clients who trusted him with large amounts of money. Oftentimes these crimes cause damage that extends far beyond a victim’s bank account. The division was happy to be able to assist in bringing Sawano to justice, and in preventing his scheme from affecting even more investors.



Enforcement Highlight

“Woodland Park man jailed for violating injunction against securities activity”

-- Colorado Springs Gazette, November 2015

“Colorado equity crowdfunding bill signed into law”

-- Denver Business Journal, April 2015

“Longmont man sued for plundering \$2 million from parents’ retirement accounts”

-- Denver Post, March 2015

“‘Wizard of Wall Street’ barred from Colorado securities industry”

-- BizWest, October 2015

“CitiGroup subsidiary ordered to pay settlement to state of Colorado”

-- Denver Business Journal, November 2015

“California man ordered to stop selling stock in Colorado wine companies”

-- Denver Business Journal, April 2016

“Colorado solar tech company founder banned from securities, ordered to pay \$13 million”

-- Denver Post, October 2015

“Judge sides with securities regulators in long-running Heartland Energy battle”

-- Denver Post, April 2016

“Former partner with Boulder lender ordered to pay \$10 million to investors”

-- Denver Business Journal, October 2015

“Futures trader arrested on golf course, charged with securities fraud”

-- Denver Business Journal, April 2015

“Sterling man charged with securities fraud”

-- Sterling Journal Advocate, December 2015

LEAN Project

The 2015-2016 fiscal year was an important transitional phase for the division’s examinations team. As part of a department-wide LEAN Project –the goal of which was improving procedures, streamlining regulatory actions, and cutting down on departmental costs—the division identified the examinations process as an area that could be improved.

Prior to the LEAN process, examinations in the division tended to run on a rotating schedule that, while meeting the expectations of the department, was not as efficient as it could have been. Division leadership felt that the current examination process was disjointed and not operating with a common methodology. Many examiners were keeping exams open for longer than needed, the general tone of examinations was not always consistent, and industry members had expressed some frustration with a lack of communication during their upcoming and ongoing audits.

Licensed by the Division of Securities:

- **194,213**
Broker-Dealer Sales Representatives
- **12,695**
Investment Adviser Representatives
- **2,072**
Broker-Dealer Firms
- **768**
Investment Adviser Firms





Examinations Highlight



LEAN Project continued...

The goal, as identified by a thorough division review, was to get examinations of the investment adviser community running on a four year cycle, meaning each firm regulated by the Division of Securities would be examined at least once every four years. Once met, this goal would ensure that issues with record keeping, licensing and client relations would be identified as often as possible by the division, thereby further fulfilling the department's commitment to consumer protection.

In order to reach this aim, the division divided responsibilities and worked to fully standardize the exams process. Team members created templated forms and formats, established general parameters for closing exams, and made procedural changes to the way examinations are assigned to employees.

In order to better assist licensees in the examinations process, a new required procedure for regular communication by phone was implemented, and the division also moved all record-keeping for exams to an electronic database for easy tracking and review. Finally, to assist employees with the transition and to offer better ways for staff to communicate with their supervisor, a schedule of one-on-one quarterly meetings along with team quarterly meetings was put in place.

The division is happy to announce that as of the close of the fiscal year, the goal has been met. Through the procedural changes and due to the diligent work of the examinations staff, the division is conducting exams with greater efficiency and is on track to conduct audits of each regulated firm within a four year cycle.



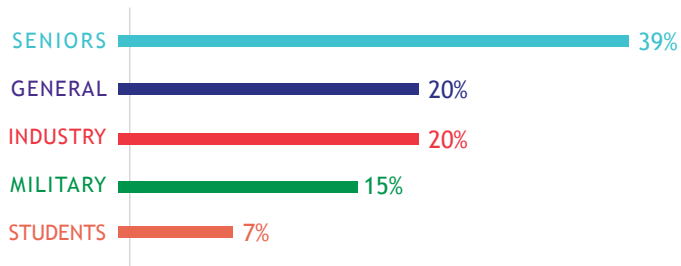
Secure Colorado

The Division of Securities is fighting what, at times, feels like an uphill battle against investment fraud. Sadly, one of the most vulnerable and therefore consistently targeted populations is the senior citizen community. Over 40 million U.S. investors are victimized each year, and many are over age 65, a population that is growing by 10,000 people every day. Billions of dollars are lost every year, and for those who are already retired, these losses are nearly impossible to recoup. Even more problematic is the issue of reporting. Financial fraud is one of the most under-reported crimes in the country, with an estimated one out of 40 cases actually making it to law enforcement or regulators.

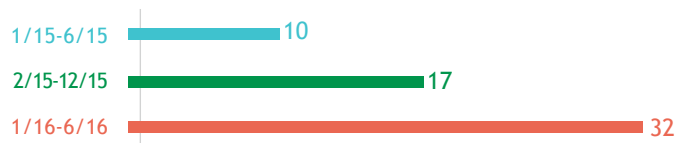


Recognizing this issue, division leadership wanted to make outreach to the Colorado elder community a priority for the 2015-2016 fiscal year. Since July 2015, the Division of Securities has greatly increased outreach efforts to the senior population through the creation of the Secure Colorado program. This initiative aims to educate seniors, caregivers, adult family members and industry about the risk factors and warning signs of elder financial abuse and exploitation. As a part of this program, Commissioner Rome and the division staff have attended a variety of seminars, trainings and resource fairs to present on the types of fraud and tactics commonly used to con vulnerable seniors out of their retirement savings.

DIVISION OF SECURITIES—OUTREACH AUDIENCE



DIVISION OF SECURITIES—OUTREACH EVENTS





Education Highlight

Secure Colorado continued...

The Secure Colorado program includes training materials for both seniors and caregivers, as well as presentations tailored to each individual audience. Of particular note, on 2016 World Elder Abuse Awareness Day, June 15, the division kicked off a new branch of the Secure Colorado campaign, titled SeniorSafe. This program, developed by the North American Securities Administrators Association (NASAA)'s Elder Outreach Project Group, targets financial professionals—from bank tellers to investment advisers and brokers—who are on the front lines working directly with the senior population.

SeniorSafe provides training on how to recognize red flags of abuse and exploitation and presents a “no wrong door” approach to industry members for reporting these issues. The training provides information on how to report to Adult Protective Services, financial industry regulators, law enforcement, and community organizations to ensure that potential abuse is reported to the correct agency. Division members plan on conducting multiple SeniorSafe trainings throughout FY 2016-2017 and will be participating in NASAA's SeniorSafe week from October 2-8, 2016.

Financial fraud of any kind can be devastating to victims, so we continue to persist in our prevention efforts to all vulnerable groups. If you would like to request a presentation or speak to our Investment Education Coordinator, please contact (303) 894-2878.



Working with the Financial Industry

This year, the division increased efforts to connect and collaborate with the industry members whom it licenses and regulates. A noteworthy event aimed at achieving this goal was the 2015 Securities Industry Symposium. Held in partnership with the Denver Regional Office of the United States Securities and Exchange Commission, the AARP Foundation, the Colorado Attorney General's Office and the United States Commodities and Futures Trading Commission, the event, held on September 24th, provided industry members with an opportunity to ask questions of and speak openly with regulators. The event also featured a presentation on recognizing diminished mental capacity in elderly clients, as part of the Secure Colorado senior protection initiative.

The featured portion of the event, attended by nearly 200 investment adviser and broker-dealer representatives, was a panel of regulatory experts, including Colorado Securities Commissioner Gerald Rome. Rome and fellow panel members fielded questions from the audience regarding particular types of financial fraud becoming more prevalent in the state, how to address client privacy concerns



related to cybersecurity, new legislation surrounding the United States Department of Labor's fiduciary rule for financial services professionals, and examinations deficiencies that are often seen during exams of firm records.

The response to the symposium was overwhelmingly positive, and many industry members who had been unable to attend due to the size of the venue requested a duplicate event in 2016.

Financial Industry Advisory Council

A new collaborative project to encourage communication and exchange of ideas between the Commissioner and licensee advocates.

**Interested in becoming a member of the Advisory Council?
Contact us at (303) 894-2320.**

