



Annual Report

DIVISION OF

Securities

2016
2017



COLORADO
Department of
Regulatory Agencies



A Message From The Commissioner



Gerald Rome

*Colorado Securities Commissioner
Division of Securities*

Colorado Department of Regulatory Agencies

Over the last year, the focus of the Division of Securities at the Colorado Department of Regulatory Agencies has remained on its key priorities of investor protection and promoting a fair business environment. In fiscal year 2017-2018, our 26 staff members continued their commitment to streamlining our exam process and opened 88 new investigations. We

worked to pass legislation to improve protection of seniors from financial exploitation, and conducted over 60 industry and consumer outreach efforts around the state. We continue to dedicate ourselves to protecting Colorado investors' financial future, and ensuring that securities markets are fair but free of undue burdens on business. We strive to protect consumers and our licensees alike, which is the theme for this year's annual report.

We increased engagement with our licensees by conducting on-site exams throughout the state to better communicate and understand the firms under our jurisdiction. We also worked to protect Colorado investors by bringing enforcement actions against such bad actors as Daniel Sullivan, who through affinity fraud convinced his coworkers at the Jefferson County Sheriff's Department to invest much of their life savings, only to lose it all.

For a second straight year, we have expanded and improved our outreach efforts, particularly to the senior citizen community and their caregivers.

As we work to inform some of the most vulnerable Coloradans to recognize the warning signs of exploitation and fraud, our goal is to help them avoid devastating financial losses that gravely impact their lives. As part of this initiative, we created a public service television announcement with one 80 year old who volunteered to tell her story about falling victim to affinity fraud to help raise awareness about financial exploitation of seniors.

I hope you enjoy reading about these successes and more, and we look forward to another productive year.

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From DORA's Leadership

At the Colorado Department of Regulatory Agencies (DORA), we believe in promoting a Colorado in which consumers and service providers partner to forge common successes. With a sharp focus on streamlining and modernizing processes and enhancing end-to-end customer experiences, we strive to advance an environment and regulatory framework where both businesses and consumers are treated fairly and the economy thrives. DORA looks to deliver the fastest, easiest, and most enjoyable experience to our customers—the businesses and individuals who interact with us to get the services they need. We are committed to protecting customers, reducing unnecessary “red tape,” and ensuring that businesses thrive in an environment that protects consumers.

Division Mission Statement

The Division of Securities exists to protect investors and maintain confidence in the securities market, while avoiding unreasonable burdens on the marketplace by licensing securities professionals, enforcing securities law violations, and helping Coloradans become more informed investors.



Overview

DORA's Mission, Vision and Core Values

OUR MISSION

Consumer protection is our mission.

OUR VISION

To ensure Colorado has an effective regulatory landscape where both consumers are protected and businesses can thrive in a competitive and fair marketplace.

OUR CORE VALUES

DEDICATION

We are dedicated to serving the people of Colorado. We know that with sensibility, patience, and a positive attitude, we can do great things. We are committed to making our strengths stronger, focusing on the added value we bring to state government.

OPENNESS

We know that the best outcomes are built from including diverse perspectives in decision making. We seek and provide honest feedback, learning from mistakes and successes, and building trust by listening.

RESPECT

We treat our team members, customers, and stakeholders with respect and sensitivity to different views and interests. We recognize people for their contributions, and approach every interaction with mindfulness and presence.

ACCOUNTABILITY

We are committed to personal responsibility, demonstrating credibility and sincerity in our work. The strength of our Department is built upon the trust and confidence we inspire in our community, and we pledge to uphold that trust through our professional conduct.



About the Division

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 Coloradoans become more informed investors.

■ The division's investigations and examinations are funded by our licensing fees, which are the lowest in the United States.





Examinations

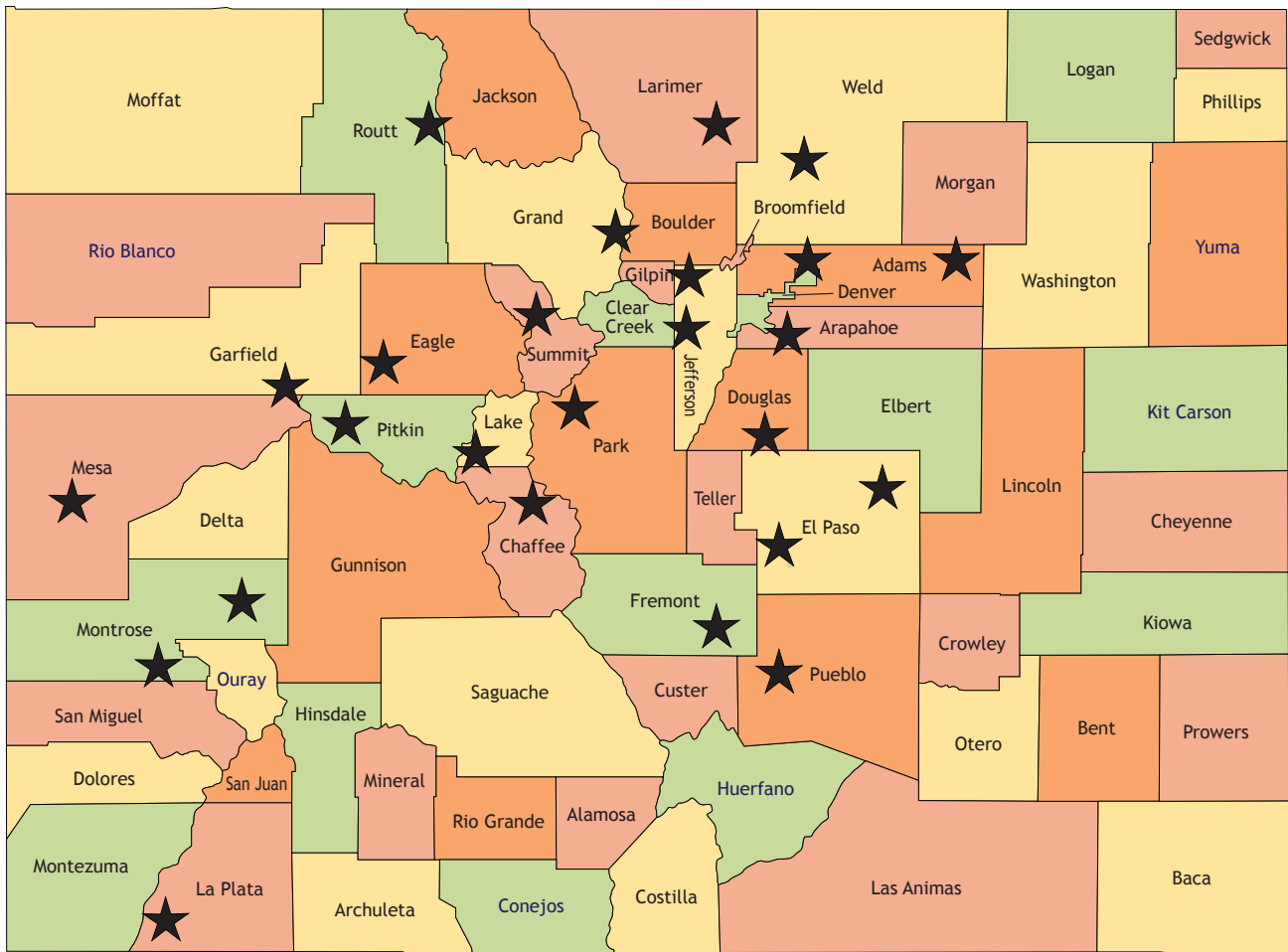
Ensuring Financial Goals are in Good Hands

Examinations Top 5 Deficiencies for FY 16-17



- 1 BOOKS AND RECORDS: 121
- 2 DISHONEST AND UNETHICAL CONDUCT: 88
- 3 CUSTODY AND SAFEKEEPING: 42
- 4 MANDATORY DISCLOSURES: 20
- 5 APPLICATION FOR IA LICENSE: 16





Examinations Highlight

This year the examinations team has been on the road. As part of our industry outreach efforts, instead of limiting ourselves to “desk exams” for licensee firms outside the Denver Metro Area, this year examiners have traveled all over the state conducting in-person exams, thereby making ourselves more available to all licensees in the state of Colorado.

From Durango to Pueblo and many places in between, Division examiners made new contacts, opened dialogue, and listened to concerns from licensees. With some new rules and legislation on the horizon, the Division hopes to continue this program through the 2017-2018 fiscal year.

TOWNS VISITED BY DIVISION STAFF INCLUDE:

Boulder, Longmont, Aspen, Basalt, Steamboat Springs, Alma, Canon City, Pueblo, Grand Junction, Greeley, Fort Collins, and Colorado Springs.

Registrations

While most of the Examinations section is often on the road, conducting examinations and providing insight and education for the Division’s licensees, the Division also handles securities filings for registrations and exemptions in the state of Colorado. This program ensures that the Division is able to monitor that important information is being accurately disclosed to Colorado investors in order to enable investors to make informed decisions about whether or not to purchase a company’s securities.

THIS YEAR THE FOLLOWING SECURITIES WERE FILED WITH THE DIVISION:

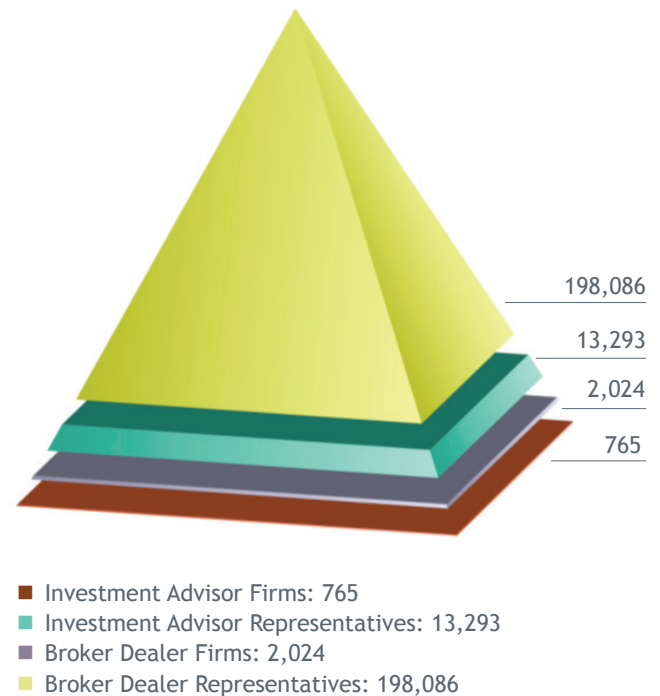
Exempt Municipal Filings	199
Regulation D	2,600
Investment Company Exemption	1,284
Registration by Coordination	28
Limited Qualification Registration	2
Registration by Qualification	8
Local Government Trust	1
Crowdfunding Offering	1

Behind the Scenes—Licensing

FY 16-17 LICENSES APPROVED

Total number of Broker-Dealer Agents Applications Approved	37,564
Total number Investment Advisor Representatives Applications Approved	2,795
Total number of Applications Approved	40,359
Total number of Broker-Dealer (Firm) Applications Approved	97
Total number of Investment Advisor (Firm) Applications Approved	103

NUMBER OF LICENSES



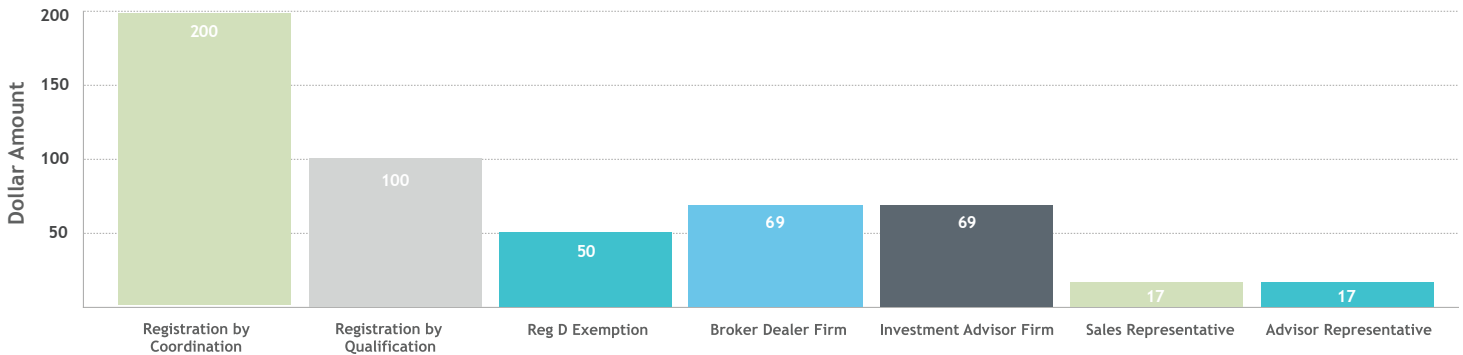
Licensing Fees

We are proud to say that the Colorado Division of Securities has the lowest licensing fees in the country, with individual sales representative and investment adviser representative licenses costing just 17 dollars annually. That's a full eight dollars cheaper than the closest state regulator, and provides real savings to business-people compared to the highest 150 dollar fee.

It's also one of the reasons why so many securities representatives choose to hold licenses in Colorado, and why we work extra hard to make sure that they can conduct business that benefits Coloradans and boosts our markets.



Licensing Fees

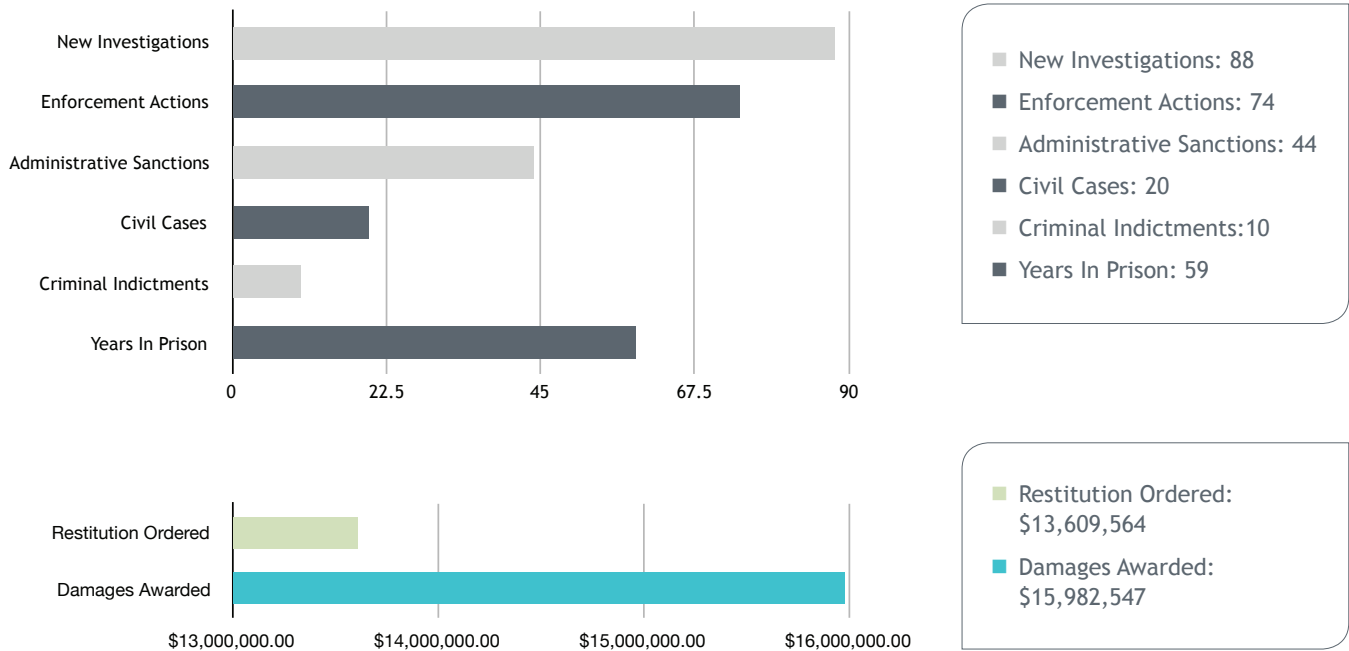


- Registration by Coordination: \$200
- Registration by Qualification: \$100
- Reg D Exemption: \$50
- Broker Dealer Firm: \$69
- Investment Advisor Firm: \$69
- Sales Representative: \$17
- Advisor Representative: \$17



PROTECTING DREAMS FROM THOSE WHO WOULD STEAL THEM

Enforcement





Enforcement

Enforcement Case Highlight

In late February 2017, Daniel Sullivan, a former Jefferson County Sheriff's deputy who worked at the Jefferson County jail, was sentenced to six years in prison. This case was the result of a thorough investigation conducted by the Division of Securities, and a skilled prosecution by the Colorado Attorney General's Consumer Protection Unit.

According to the Division's investigation, Sullivan began in 2009 to give seminars to fellow coworkers at the Jefferson County Sheriff's Office about how to build wealth through real estate and investing. Sullivan, who never held a license to advise, solicit, or conduct investment transactions in the state of Colorado, then offered a number of coworkers, friends, and family members investment opportunities with companies he claimed were bound to be successful.

Sullivan was indicted, accused of collecting more than \$1 million from investors over an approximately five year period from 2009 to 2014. While Sullivan did place a portion of the collected funds into investments, he co-mingled investor funds with his own personal funds in a number of bank accounts, reaching a total of \$671,000 of investor monies on personal expenses.



While Sullivan did warn his coworkers about the risks associated with any investment venture, the victims in the case maintain that he consistently represented to them that he was placing their assets in winning investments, and lied to them about the state of his own finances and qualifications.

Sullivan's case stands out as one of many that the Division sees, and calls "affinity fraud." Affinity fraud occurs when someone abuses the trust placed in them as a member of an identifiable group, here the sheriff's office, to encourage people to turn over their money unquestioningly. As a result of this abuse of trust, most victims, including many of those in Sullivan's case, feel extremely betrayed and find it difficult to trust people thereafter. The sentencing, while a just result for Sullivan's crime, won't bring back that sense of stability and trust that his victims have lost.



Other Enforcement Headlines

In The News

License for Littleton investment firm and president revoked

In The News

Colorado securities regulator says Rio National and Steven Kerbel targeted seniors

In The News

Securities Commissioner files complaint alleging \$2.1 million securities fraud in connection with professional golf tour

In The News

Aurora scam artist gets 10-year prison sentence, ordered to pay \$1.3 million in restitution

In The News

Commissioner seeks permanent bar on Idaho investment firm for alleged violation of fiduciary standard

In The News

Commissioner wins appeal related to \$15.25 million Ponzi Scheme

In The News

Nederland marijuana business ordered to cease all investment solicitations





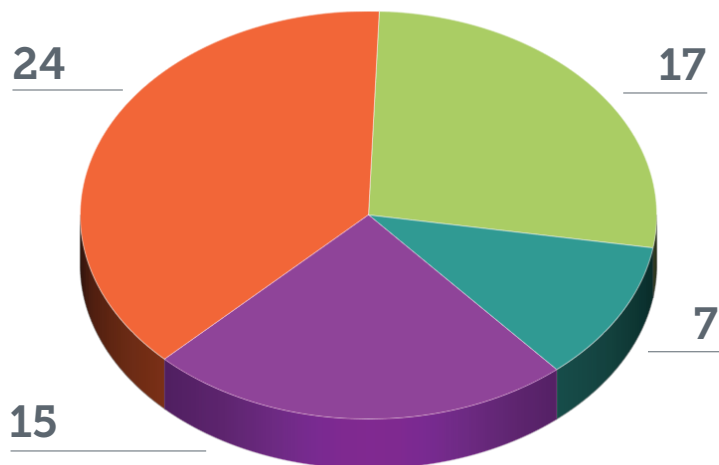
Education



Giving Consumers
the Tools to Pursue
Their Best Life

OUTREACH ACTIVITIES

- Consumer Outreach
- Industry Outreach
- Partner Outreach
- Legislative Outreach



Education Highlight

There is a reason why financial fraud is one of the most under-reported crimes: when it comes to loss of finances through fraud, victims are often either in disbelief (many just think it was a bad investment), or incredibly embarrassed to have fallen for a scam. It is difficult to get many victims to cooperate even with our investigations, but when it comes to talking about their stories in public, it is nearly impossible.

That is why the Division is so grateful to Lois, an 80 year old Coloradan who graciously offered to share her story in order to help prevent others from falling victim to a similar crime. Through a Public Service Announcement and a morning television interview, Lois was able to tell the story of how she became a victim of affinity fraud, and ended up losing her life savings.

Lois and her husband had both worked for over 30 years. After retirement, they were looking for a way to make their savings last when they were contacted by a cousin of Lois' in the insurance business. He told them about a "sure bet" investment with men who were involved in real estate development.

Trusting the word of her cousin, Lois and her husband handed over their life savings, almost \$500,000. The men lost all of it, leaving Lois and a severely ill husband to fend for themselves. Lois, now a widow, lives off her social security and help from her family, but hopes that her story encourages others to be extra critical of any investment opportunity, and to vet thoroughly the person and the product before handing over any money.

"I want to stress to everyone, check out anyone that takes your money, because I lost every penny."



Legislation

Legislative Highlight

On June 2, Governor Hickenlooper signed into law House Bill 17-1253, known as the “Protection of Vulnerable Adults from Financial Exploitation Act.” (“the Act.”) The Act, which is based on a model act Commissioner Rome collaborated on with the North American Securities Administrators Association (NASAA strives to prevent elder financial exploitation through early identification and intervention by people who are in a prime position to notice: financial professionals.

The Act creates a mandatory reporting requirement for investment adviser and broker dealer sales representatives as a way to encourage these professionals to keep an eye out for any possible “red flags” of financial abuse in their senior or “at-risk” clients. Professionals who fall under this requirement, when they have a reasonable belief that exploitation is occurring or is about to occur, must file a report with the Division of Securities.

The objective of House Bill 1253 is to prevent senior financial exploitation, but not at the expense of investment adviser and broker dealer sales representatives acting in good faith. Accordingly, the Act includes an immunity provision protecting from administrative or civil liability any investment professional who reports suspected abuse or exploitation in good faith.



Further, the Act allows investment adviser and broker dealer firms to delay disbursements of funds to clients who they feel may be victims of a scam or of exploitation. The Division received feedback from the industry that this particular language is increasingly important based on their experience of seeing devastating financial losses when they cannot convince a client that the money is going to a scam.

Finally, the Act fosters an important partnership with local law enforcement agencies and adult protective services, as any reports made to the Division of Securities will be passed on to the proper law and Adult Protective Services offices. Record sharing with Adult Protective Services has also been made easier for firms that have filed reports, while still ensuring the confidentiality of all clients.

The Act, which went into effect July 1, 2017, is now a part of the Colorado Securities Act.

As a courtesy to licensees who are now mandatory reporters, the Division is offering free **SENIOR\$AFE** Training, which discusses the red flags of exploitation and how to file a thorough report, to all Colorado firms.

“The Act”
7.1.17

House Bill
17-1253

Protection of
Vulnerable Adults from
Financial Exploitation Act

Do you know the **RED FLAGS** of elder financial exploitation?



Sudden appearance of previously uninvolved relatives claiming their rights to the elder's affairs and possessions.



Abrupt changes to financial documents, such as power of attorney, account beneficiaries, will and trusts, property title, and deeds.



Elder displays unexplained or unusual excitement over a financial windfall or prize check; may be reluctant to discuss details.

Find information at: serveourseniors.org | AskDORA.colorado.gov



Collaborative Efforts

Colorado Division of Securities employees work hard every day to embody the mission of consumer protection, and value the many partnerships that have been built in an effort to improve processes and educate licensees and consumers.

Among the great partnerships of the previous year are the Colorado Attorney General's Office, the AARP Foundation, the Denver Regional Office of the U.S. Securities and Exchange Commission, and many of the other DORA Divisions.

Many Division employees also choose to extend their work by participating in a variety of working groups hosted by the North American Securities Administrators Association (NASAA). NASAA supports the work of its members by offering training programs, publishing investor education materials, presenting the views of its members before Congress on matters of securities regulation, and fostering multi-state discussions and information sharing. These teams work on topical issues from policy to training to outreach, and require members to go over-and-above every day work to improve the regulatory industry for licensees and consumers alike. Colorado members bring their experience, insight, and ideas to a total of 15 working groups, which include:

- **Federal Legislation Committee**—working on national regulatory policies to benefit the securities marketplace and protect consumers.
- **Cybersecurity and Technology Project Group**—working on the betterment of cybersecurity for regulators and industry members to better protect consumer information and assets.
- **Investment Adviser Training Project Group**—working on educational initiatives to improve communication and collaboration with industry partners.
- **Elder Outreach Project Group**—working on protection of vulnerable elderly members of society by providing education on fraud and exploitation.







COLORADO

Department of
Regulatory Agencies

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