

JOHN MORGAN
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July 2, 2012

The Honorable John Carona
Chair, Senate Committee on Business & Commerce
P.O. Box 12068
Austin, Texas 78711

RE: Fiscal Year 2012, Third Quarter Update

Dear Chairman Carona:

Pursuant to the request of the Senate Committee on Business and Commerce, below is the quarterly update of information relating to the Texas State Securities Board.

Contingent Rider Funding

The Agency has received certification from the Comptroller of Public Accounts for fiscal year 2012 rider appropriations provided by the 82nd Legislature to hire and train additional personnel required to effectively regulate the recently increased number of investment advisers registered in Texas.

Enforcement Activities

During the third quarter of fiscal year 2012, law enforcement actions included 10 and seven year prison sentences in Bexar County for two individuals convicted on aggravated theft charges relating to a fraudulent overseas U.S. trading scheme. Another notable enforcement action was an order to pay over \$700,000 in restitution and a 10 year community supervision sentence for a Corpus Christi man convicted of securities fraud for the sale of fraudulent investment contracts and promissory notes.

Agency Performance

During the third quarter of fiscal year 2012, the Agency deposited \$27 million into the general fund; processed 11,910 securities filings; processed 21,958 dealer, agent and investment adviser applications; conducted 81 inspections; and obtained administrative orders against four individuals.

Pending Federal Legislation

H.R. 4624, The Investment Adviser Oversight Act of 2012, is currently pending in the U.S. House of Representatives Financial Services Committee. This proposed legislation would require investment advisers registered by the states to become members of an investment adviser self-regulatory organization. The requirement would create an unnecessary layer of regulation and costs that may be difficult for firms to absorb and may force smaller investment advisers out of business. Members of the Texas congressional delegation serving on the House Financial Services Committee have been advised of the potential harm of this bill.

Please contact me at (512) 305-8302 if you have any questions.

Sincerely,



JOHN MORGAN
Securities Commissioner

JM/cj