It’s That Time of Year Again

Renewal season is upon us once again - your renewal statement will be available through IARD beginning on November 10th and payments to renew your firm registration, as well as any individual or branch registrations, are due on December 12th. We have sent a separate email reminder regarding the process for 2015 registration renewals. If you have any questions, please feel free to contact our Examiner of the Day phone line at (608) 266-2139.

NASAA Announces IARD System Fee Waiver

The North American Securities Administrators Association (NASAA) has announced the waiver in 2015 of the Investment Adviser Registration Depository (IARD) system fees for investment adviser firms and the continuation of substantially reduced initial set-up and annual system fees paid by investment adviser representatives (IARs). For 2015, the initial IARD set-up and renewal fee will continue to be $10 for IARs, reduced significantly from the $45 charged when the IARD system first became operational. IARD system fees are used for user and system support and for enhancement to the system.

Cybersecurity Best Practices

In the wake of several high profile data breaches, clients, advisers, and regulators are increasingly focused on cybersecurity and how to protect sensitive client information. As advisers and clients look to calm fears of a breach by putting preventative measures into place, we have compiled a few best practices in cybersecurity.

1. **Encrypt email** – Having a secure web portal that encrypts and password-protects emails can help prevent information leaks.

2. **Verify client instructions received via email** – A common cyber-attack tactic involves hacking into a client’s email account and asking the adviser to wire funds to an unusual bank account. Firms should have procedures in place to verify client instructions that are received via email.
3. **Review passwords** – Frequently changing passwords and making them long and hard to guess will reduce the risk an intruder will gain access. One idea is to create a “passphrase” that involves numbers and symbols. For example, “T1me4Ch0colate!”

4. **Avoid public Wi-Fi** – The convenience of free public Wi-Fi is overshadowed by the lack of security. A better option is to use a portable “hotspot.”

5. **Secure the electronic office** – Simple steps such as archiving old emails onto an external hard drive and keeping documents offline or behind a firewall can help protect your firm from cyberthreats.

The North American Securities Administrators Association (NASAA) recently released the results of a survey designed to better understand the cybersecurity practices of state-registered investment advisers. Wisconsin was one of the states that participated in this project. If you responded to the survey, thank you for your participation. The combined results of the survey can be found [here](#). Expect to see further guidance from the Division regarding cybersecurity in the future.

### Common Deficiency Alert – Invoicing

Now is a great time to make sure you are correctly invoicing your clients as we head into 2015. **DFI Sec. 5.05(13)** requires every investment adviser registered with Wisconsin to “provide clients with a written notification or invoice of fees due for investment advisory services. The notification or invoice shall specify the time period covered by the fee for ongoing supervisory or management services or shall detail the services rendered for preparation of financial plans or analyses.”

There are additional requirements for investment advisers who directly deduct fees from their clients’ accounts. Per **DFI Sec. 5.035(1)(f)**, investment advisers have a form of custody when they directly deduct their fees, and must do each of the following:

1. **Obtain written authorization** from the client to deduct advisory fees from the account held with the qualified custodian.

2. Each time advisers deduct fees from a client’s account, they must **concurrently** send the custodian notice of the amount of the fee to be deducted from the client’s account AND send the client an invoice **itemizing** the fee.

3. **Notify** the Division of Securities of their intent to comply with the authorization and invoicing requirements for direct deduction on their Form ADV.

There are two terms to take special note of for the direct deduction invoicing requirements. The first is “concurrently.” Investment advisers should send the custodian AND client notice of the fees at or close to the same time as the fee is being deducted from the client’s account. The second is “itemized.” An itemized invoice to the client must include the following: the formula used to calculate the fee, the **amount of assets** under management the fee is based on, and the **time period** covered by the fee.
With many offices going paperless, some investment advisers have asked about emailing invoices to clients. Best practices suggest obtaining a client’s written consent to email rather than post mail an invoice; consider adding an addendum or additional clause to contracts allowing the client to initial or sign to document their consent.

Ensuring that your firm is properly invoicing your clients can help lower litigation risk, and move through the examination process more smoothly.

**Talking to Your Clients about Elder Financial Abuse**

With 8,000 Baby Boomers retiring in America each day, the senior population is rapidly increasing, and will continue to do so in the coming years. Research shows that while many of these new seniors will retain much of their cognitive abilities, difficulty pertaining to financial decision making often arises in the early stages of mild cognitive impairment. Unfortunately, seniors are targets for financial fraud because they have the majority of assets in America thanks to a lifetime of saving. They may be more vulnerable to persuasion tactics favored by con artists, and are less likely to report being defrauded, making them attractive victims for scams. Current statistics from the Investor Protection Trust show that 1 in 5 seniors will be the victim of financial abuse.

The Division of Securities’ Investor Education Team has been presenting to various groups in an effort to help seniors and the professionals who work with them recognize and prevent financial fraud victimization. Consider some classic red flags that may indicate a senior client is being targeted, or is more vulnerable to financial scams:

**Red Flag #1** – A new person is suddenly involved with the senior’s life, and possibly their financial decisions. Ask some questions about who they are and how your client met his or her new friend. A con artist may pose as a senior’s new best friend and offer companionship, but use the senior’s trust to take advantage of them.

**Red Flag #2** - If your senior client expresses concerns about not having enough money, discuss their financial circumstances with them in depth and make sure they understand them. If they are worried and uninformed, they may be more likely to buy into a risky proposal or investment that is pitched to them without taking appropriate precautions like checking if that security or salesperson is registered in Wisconsin.

**Red Flag #3** – If you notice your senior client suddenly making large withdrawals from their accounts, it could merit some follow up on where the money is going. Look out for checks or transfers payable to unfamiliar people or businesses, or if the client has a hard time explaining the reasoning behind these transactions.

Also check out the attached Elder Financial Resource List, which provides the websites and contact information of many organizations dedicated to helping prevent senior citizens from being victimized by a financial scam. Many websites include helpful reading and interactive materials designed to educate seniors about how to protect themselves or report a scam. If you believe that a client,
friend, or family member is possibly subject to financial abuse, feel free to use these resources and to contact our office.

Staying Out of Trouble with Investors

To help protect investors, the Wisconsin Division of Securities investigates complaints from adviser and brokerage customers. As a result, we see trends in the complaints that could have been avoided had investment professionals used a different approach to their advice. We know, as you do, that past performance is not indicative of future results and it is easier to second guess in hindsight; however, good fundamentals have not been applied at times. Below is a list of suggestions that will minimize the risk to your firm and your registration status. Apply the phrase “don’t risk a lot for a little” and follow these simple guidelines:

• **Avoid high concentrations in any one product or position.** Some registered representatives and advisers tend to recommend high concentrations for various reasons. Higher compensation incentives (7 to 10%) can lead to recommendations of higher concentrations in investments such as Regulation D offerings, annuities, and non-exchange traded products. Other concentration problems occur solely by placing too much into one favored investment.

• **Avoid illiquid products and lockup features.** Products with higher compensation can have lockup periods to offset their acquisition costs. Or a lockup may be inherent in the investment design given the underlying investment such as real-estate. An illiquid investment can trigger a complaint when an investor is not clear at the outset on a lockup or liquidity provision, and later cannot get out of an investment that is losing value.

• **Don’t get overly complicated with your products or strategy.** Using a complicated strategy in conjunction with a complicated product is a problem area when the intended result deviates from the plan. Currently, the term “alternative asset” is becoming cliché and can encompass many products and strategies. Nonetheless, alternative investments can be subject to investment risks that are not as obvious as those associated with less complicated investments.

• **Do your own due diligence on what you sell.** The firm and the representative’s interests are not always aligned, however, both are accountable for the products they market and recommend. For example, a firm not reviewing the issuer’s financials or a third party opinion about the soundness of an investment is probably not performing good investment due diligence. Representatives may assume the firm’s investment due diligence is sound and find out otherwise at complaint time. In response to a complaint, representatives are accountable for their own recommendations regardless of the quality of the firm’s due diligence process.

• **Learn the rules when innovating.** Innovation pushes the envelope from time to time which is what capital formation is about. In short, innovation is healthy to the Wisconsin economy. However, if there is a gray area on how a rule is applied, know how to apply the rule when innovating. Therefore, getting an opinion from your legal advisor may be money well spent.
Interest Builds for Crowdfunding in Wisconsin

Six months after implementing Wisconsin’s intrastate crowdfunding exemption, the Division of Securities continues to receive inquiries from interested parties looking to utilize the new exemption. With the increased attention, it is important that advisers become knowledgeable about these securities in the event questions are received from clients.

Crowdfunding offerings allow unaccredited investors to take equity positions in companies, similar to buying stocks. However, crowdfunded securities come with a unique set of characteristics. Advisers looking to provide advice on crowdfunded securities should understand the specific liquidity issues, disclosure requirements, and investment ceilings involved.

Since the June 1st “go live” date, two companies have registered as internet site operators. Additionally, two issuers have registered with the Division to raise capital for their businesses. It is important that before investors participate in a crowdfunding offering they verify the offering’s status on the Division’s website. A list of entities is available at: https://www.wdfi.org/apps/crowdfunding/Menu/Index

As issuers become more familiar with the crowdfunding exemption, the Division anticipates more issuers taking advantage of the exemption. To keep current on intrastate crowdfunding in Wisconsin, visit: http://wdfi.org/fi/securities/crowdfunding/.

Contact an Examiner

If you have questions relating to professional registration and/or compliance, please feel free to contact our Examiner of the Day phone line at (608) 266-2139.

Find Us on Facebook

The Wisconsin Department of Financial Institutions’ (DFI) Facebook page provides information on financial literacy, investor education, scam warnings and other timely news to help protect investors. Please check out DFI’s Facebook page and share any content that you find useful. Feel free to “Like” our page so that you receive future posts in your Facebook newsfeed.

www.facebook.com/WIDFI
Resource List

1. Wisconsin Department of Financial Institutions - www.wdfi.org

   Scroll down to click on Securities Broker Check or Investment Adviser Check. You can also like us on Facebook at https://www.facebook.com/WIDFI for updates on red flags or emerging scams.

2. Division of Securities Examiner of the Day Hotline – 608-266-2139

   A securities examiner is available Monday - Friday from 8:00 am - 4:30 pm to answer questions.


   A list of important questions to ask an investment professional before letting them handle your money can be found at: www.investor.gov/sites/default/files/sec-questions-investors-should-ask.pdf


   NASAA is comprised of securities administrators from around the country who focus on how to effectively protect and serve investors. The Wisconsin Division of Securities is active with NASAA. A helpful brochure is “Cutting through the Confusion,” which covers the meanings and duties behind different designations and roles for financial professionals such as investment adviser representatives and securities agents. It is available at: www.nasaa.org/wp-content/uploads/2013/07/Cutting-through-the-Confusion_2013.pdf.

5. Financial Industry Regulatory Authority (FINRA) - www.finra.org

   FINRA is the self-regulating organization of the securities industry which oversees broker dealers and other firms to ensure compliance with securities regulations, and provide investor education. They offer a helpful catalog of the different requirements for attaining financial certifications. Any time you encounter a professional with letters behind their name, you can check out FINRA’s website to see what they mean: http://www.finra.org/Investors/ToolsCalculators/professionalDesignations/designationsLookup/

6. AARP, Inc. - www.aarp.org

   Official website of AARP, Inc., with many informative articles and tools for planning your financial future.

7. Save and Invest Organization - www.saveandinvest.org

   A non-profit dedicated to promoting financial health among all age groups and demographics. They also offer a helpful set of questions called the Scam-O-Meter which can help gauge the risk of a potential investment may be at http://apps.finra.org/meters/2/ScamMeter.aspx

OCI ensures that the insurance industry responsibly and adequately met the insurance needs of Wisconsin citizens, as well as regulating annuity products. All issues concerning variable and fixed annuity insurance products should be addressed to OCI.

OCI can be contacted via telephone at 608-266-3585 or a complaint can be submitted electronically at [OCIComplaints@wisconsin.gov](mailto:OCIComplaints@wisconsin.gov).


DATCP provides invaluable consumer protection services to the public, especially concerning financial fraud or scams pertaining to seniors that include but are not limited to identity theft, credit cards, grandparent scams, phishing, spoofing, contest, lottery, sweepstake or prize promotions, charitable solicitations, and inheritance scams.

DATCP can be contacted via telephone at 608-224-4876 or via email at [DATCPHotline@wi.gov](mailto:DATCPHotline@wi.gov).


The IPT is a nonprofit organization devoted to investor education. They also sponsor the Elder Investment Fraud and Financial Exploitation Prevention Program (EIFFE), which educates professionals working with the elderly on recognizing when their older clients may be vulnerable to or victims of financial abuse. Please see the additional information in this packet for the EIFFE program for healthcare providers.


The BBB is an organization which researches and fields complaints or inquiries concerning many different types of businesses. It also provides information on new scams or fraudulent schemes. If you have a complaint or want more information about a business, the BBB can be contacted via telephone at 414-847-6000 or through their website.


The Department of Justice recently launched its Elder Justice Initiative as a resource for victims of elder abuse and financial exploitation and their families; practitioners who serve them; law enforcement agencies and prosecutors; and researchers seeking to understand and address this silent epidemic plaguing our nation’s elders.