

SENATE BILL REPORT

SSB 5365

As Passed Senate, March 18, 2003

Title: An act relating to violations connected with the offer, sale, or purchase of securities.

Brief Description: Addressing violations connected with the offer, sale, or purchase of securities.

Sponsors: Senate Committee on Financial Services, Insurance & Housing (originally sponsored by Senators Benton, Prentice, Doumit, Keiser and Winsley; by request of Governor Locke).

Brief History:

Committee Activity: Financial Services, Insurance & Housing: 1/28/03, 2/13/03 [DPS].
Passed Senate: 3/18/03, 49-0.

SENATE COMMITTEE ON FINANCIAL SERVICES, INSURANCE & HOUSING

Majority Report: That Substitute Senate Bill No. 5365 be substituted therefor, and the substitute bill do pass.

Signed by Senators Benton, Chair; Winsley, Vice Chair; Keiser, Prentice, Reardon, Roach and Zarelli.

Staff: Joanne Conrad (786-7472)

Background: In the past five years, the fraud caseload of the Securities Division of the Department of Financial Institutions has increased substantially, from \$64 million to \$390 million. Complaints from investors have more than doubled in less than 10 years. Securities Act violations tend to be complex to investigate and prosecute, and can involve considerable state resources.

Summary of Bill: A special "Securities Prosecution Fund" is established at the Department of Financial Institutions (DFI). Fines and undistributed funds from orders of disgorgement and restitution are placed in the fund, and used to pay for the costs of preparation and prosecution of state Securities Act violations. If the fund balance exceeds \$350,000, any additional money is placed in the existing Financial Services Regulation Fund, until the balance drops below \$350,000.

Shredding or otherwise destroying evidence is a Class B felony. The current statute of limitations is five years after the alleged violation. In addition, a new statute allows a claim to be brought three years after the discovery of the violation.

Fines for violations are increased from \$5,000 to \$10,000 for each act or omission. In addition, licensees can be charged for the expense of investigation, hearing, or court proceeding. Fines of up to \$25,000 may be authorized for those who knowingly or recklessly violate an administrative order. Courts may also order civil penalties, restitution, and disgorgement for civil violations of the Securities Act.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This bill is needed to assure the integrity of the securities industry, and protect consumers from investment fraud.

Testimony Against: None.

Testified: Carol Jolly, Acting Dir., Governor's Policy Office; Deb Bortner, Div. of Securities, DFI.