



North Carolina Department of the Secretary of State

Hon. Elaine F. Marshall, Secretary

Jan-Feb 2018 SECURITIES NEWSLETTER

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Secretary of State Issues Order to Halt BitConnect Investment Programs in North Carolina



The North Carolina Secretary of State’s Office entered a [Temporary Cease and Desist Order](#) on January 9 to halt the investment programs operated by BitConnect, a foreign technology organization that conducts its business on the Internet by way of www.bitconnect.co.

“These specific BitConnect investment programs are very concerning from a regulatory standpoint,” said North Carolina Secretary of State Elaine F. Marshall. “BitConnect offers investment programs whose returns are derived from a secret trading system about which BitConnect has failed to provide material information to investors, including evidence of its very existence.”

Secretary of State Division of Securities officials found that the investment programs are unregistered securities being offered by entities and persons that are not registered to sell securities in North Carolina. Further, BitConnect was found to be encouraging members of the investing public to act as unregistered salesmen by selling these unregistered securities in violation of the Securities Act.



In The News

Check out the Raleigh News & Observer’s [story](#) on the BitConnect Cease and Desist Order.

When investing in BitConnect’s programs, BitConnect requires individuals to exchange Bitcoin, a more established cryptocurrency, for BitConnect Coin tokens. In one of the investment programs, the investors then lend their BitConnect Coin back to BitConnect to fund the trading activities of the proprietary, secret trading system that it calls the “volatility software.”

According to statistics on BitConnect’s website, the market value of the BitConnect Coin tokens on January 6 was more than \$4.1 billion. BitConnect also commenced another initial coin offering of a new cryptocurrency it calls BitConnectx, in which it intends to raise more than \$500 million.

“Let me be clear,” Secretary Marshall said, “we are not condemning cryptocurrencies as a whole. We are targeting this specific investment scheme that involves the BitConnect trading programs. We are aware that there appear to be other cryptocurrency investment schemes offered to North Carolina citizens as well,” Secretary Marshall said. “The purported returns from some of these investments appear to be ‘too good to be true’. We will continue to investigate these other operators. Meanwhile, people should remember that the only way to avoid having your hard-earned money lost on the Internet because of a fraudulent investment scheme is to not make that investment in the first place.” (Read the Securities Division’s [Investor Alert on Investment Schemes Involving Cryptocurrencies](#).)

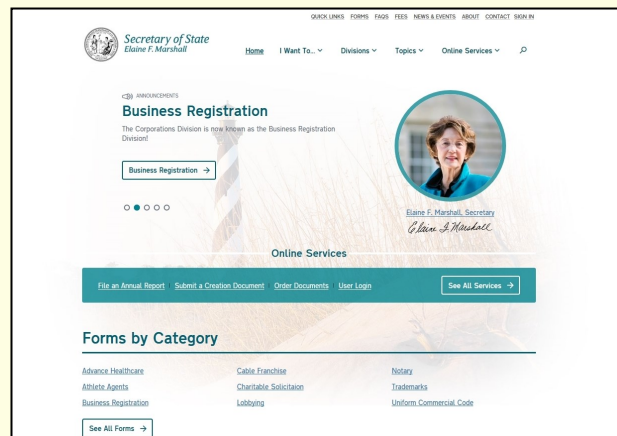
The U.S. Securities and Exchange Commission (SEC) and the North American Securities Administrators Association (NASAA) have both issued investor alerts and advisories about cryptocurrencies and investment schemes involving them. Alerts about initial coin offerings (ICOs) and public companies making ICO-related claims were the top two alerts in the SEC’s [Top 10](#) list of investor alerts for 2017.

Under the North Carolina Securities Act, in most cases investments that involve earning income from cryptocurrency trading systems are securities needing to be regulated in accordance with the Act’s legal authority. Anyone offering a security to a North Carolina resident must be registered with the Secretary of State’s Division of Securities Office. Citizens can check the registration status of anyone offering investments by calling the NC Investor Hotline at 1-800-688-4507.

SOSNC.gov Has a New Look!

The North Carolina Department of the Secretary of State has updated the look of its website at www.sosnc.gov!

The new design is focused on making the site as intuitive and convenient as possible for users. This should make it even easier for visitors to access the vast amount of public information filed with the Department. Most importantly, you can still access all of the information on the website free of charge 24/7/365.



The updated design, created under the statewide Digital Commons initiative, features improved navigation, modern design, and mobile device optimization.

You can learn more about the new site design by watching this [video](#) with Secretary of State Elaine F. Marshall for an introductory virtual tour of the new site and some helpful tips for navigating the site and updating your [bookmarks](#). So, visit us at www.sosnc.gov and check out the new site!



NASAA Announces Current and Emerging Investor Threats

*Promissory Notes, Real Estate Investments and Ponzi Schemes Top the List
Cryptocurrency Contracts for Differences (CFDs) Identified as an Emerging Threat*

A [survey](#) of state securities regulators conducted by the North American Securities Administrators Association (NASAA) revealed promissory notes to be the most frequently identified source of current investor complaints or investigations.

When asked to identify the top five current investment practices, products or schemes, 74 percent of regulators identified promissory notes as among their leading sources of complaints or investigations. Securities regulators from 50 U.S. jurisdictions responded to the survey, which was conducted in the spring and summer of 2017.



“In today’s ongoing environment of low interest rates, the lure of high-interest-bearing promissory notes continues to tempt investors, especially seniors and others living on a fixed income,” said Joseph P. Borg, NASAA President and Alabama Securities Commission Director.

Used generally by companies to raise capital, legitimate promissory notes are marketed and sold almost exclusively to sophisticated or corporate investors with the resources to research the companies issuing the notes and to determine whether the issuers have the capacity to pay the promised interest and principal. Promissory notes may require registration as securities with federal and state securities regulators.

Borg noted that average investors should be cautious about offers of promissory notes with a duration of nine months or less, which in some circumstances do not require registration. Short-term notes that appear to be exempt from securities registration have been the source of most – though not all – of the fraudulent activity involving promissory notes identified by regulators. According to NASAA’s 2017 enforcement report, based on 2016 data, state securities regulators reported 138 formal enforcement actions involving promissory notes.



Fifty-four percent of state securities regulators identified both real estate investments and Ponzi/pyramid schemes as the second-most frequent source of current complaints or investigations. Oil and gas-related investments or interests were the third most cited source of complaints or investigations, identified by 50 percent of regulators. Affinity fraud was identified by 28 percent of the regulators, followed by variable annuity sales practices, identified by 26 percent.

Emerging Threats

Separately, NASAA’s Enforcement Section identified three emerging threats that investors should watch for in 2018: initial coin offerings (ICOs), cryptocurrency contracts for difference (CFD), and identity theft for purposes of depleting investment accounts, especially among senior investors.

“Technology, and in some instances the criminal misuse of technology, is at the heart of each of the emerging threats investors are likely to face in the coming year,” said Keith Woodwell, Utah Securities Director and NASAA Enforcement Section chair.



Woodwell noted that with mounting regulatory pressure on binary options, fraudsters are seeking other products to pitch investors. State and provincial securities regulators believe that these fraudsters are launching a new wave of schemes involving ICOs and CFDs that use cryptocurrencies as the underlying investment.

CFDs are complex financial instruments that enable an investor to speculate on the price of an underlying asset and can be highly leveraged, which multiplies the impact of price changes on profits and losses. Cryptocurrency CFDs allow investors to speculate on price changes in highly volatile cryptocurrencies such as Bitcoin or Ethereum. CFDs, which are prohibited from being sold to U.S. citizens or residents, are marketed through Internet platforms and regulators caution that some of these platforms can be fraudulent themselves. “These speculative, high-risk products are prohibited in the United States for a reason; they are not suitable for investors,” Woodwell said. “There are red flags waving everywhere.”

“All investments involve a degree of risk. Investors can help protect themselves by taking time to research both the investment product and the person selling it. It’s best to learn before you get burned,” Borg said.

The North Carolina Secretary of State’s Securities Division offers a wealth of free [investor education materials](#) and can help investors research the background of those selling or advising the purchase of an investment. Call the North Carolina Investor Hotline at 1-800-688-4507 when considering an investment opportunity to make sure that the person offering the investment opportunity and the investment opportunity itself are registered with the State to sell securities. Background information on each of this year’s top investor threats can be found on NASAA’s website, www.nasaa.org.

Learn More:

For more details on how to protect yourself from some of the top investor threats, check out [these resources](#) on nasaa.org.



Five Minutes Could Save Your Life Savings!

Is that individual offering you an investment opportunity licensed to sell securities in North Carolina? Is the investment opportunity itself registered? Know before you sign!

While registration in and of itself is no guarantee against fraud, not being registered is a very big red warning flag.

We urge you to take five minutes to call our NC Investor Hotline at 1-800-688-4507 to see if the person you have been dealing with – perhaps even for years – is properly registered and/or has a disciplinary history.

Pick up the phone and call us. You owe it to yourself and your family to check.



NC Secretary of State Reminds Investors to Approach Cryptocurrency with Caution

As cryptocurrencies continue to attract headlines, North Carolina Secretary of State Elaine F. Marshall is urging North Carolina’s investing public to be cautious about investments involving cryptocurrencies.

“There is so much buzz right now about cryptocurrency and financial products linked to cryptocurrencies, but do your homework to get beyond all the hype and headlines,” advised Secretary Marshall.

Cryptocurrencies are a medium of exchange that are created and stored electronically in the blockchain, a distributed public database that keeps a permanent record of digital transactions. Current common cryptocurrencies include Bitcoin, Ethereum and Litecoin. Unlike traditional currency, these alternatives have no physical form and typically are not backed by tangible assets. They are not insured or controlled by a central bank or other governmental authority, cannot always be exchanged for other commodities, and are subject to little or no regulation.

A survey of state and provincial securities regulators by the North American Securities Administrators Association (NASAA), of which the NC Secretary of State’s Office is a member, shows 94 percent believe there is a “high risk of fraud” involving cryptocurrencies. Surveyed regulators also were unanimous in their view that more regulation is needed for cryptocurrency to provide greater investor protection.

“While price fluctuations have driven a lot of speculation, caution should be the watchword when considering investments related to cryptocurrencies, given that these are high-risk investments without a proven track record and with a substantial risk of fraud. Even in the world of digital currencies, the old rule to ‘Check Before You Write One’ applies. Call the NC Investor Hotline at 1-800-688-4507 before you make an investment to make sure the person offering you that investment opportunity – and the investment opportunity itself – are registered with the NC Secretary of State’s Office,” said Secretary Marshall.

NASAA has identified Initial Coin Offerings (ICOs) and cryptocurrency-related investment products as emerging investor threats for 2018. Unlike an Initial Public Offering (IPO) when a company sells stocks in order to raise capital, an ICO sells “tokens” in order to fund a project, usually related to the blockchain. The token likely has no value at the time of purchase. Some tokens constitute, or may be exchangeable for, a new cryptocurrency to be launched by the project,

Senate Hearing on Virtual Currencies

On February 6, 2018, the Senate Banking, Housing and Urban Affairs Committee held a hearing to discuss virtual currencies.

Jay Clayton, Chair, Securities and Exchange Commission (SEC) and J. Christopher Giancarlo, Chair, Commodity Futures Trading Commission (CFTC), testified on their agencies' oversight and regulatory actions thus far, as well as what they thought should be a broader coordinated effort by federal agencies to monitor and regulate these currencies, including Bitcoin, and educate the public and investors about potential associated risks.

To listen to the nearly 2-hour hearing, please visit <https://www.c-span.org/video/?440770-1/jay-clayton-christopher-giancarlo-testify-hearing-virtual-currencies>.

while others entitle investors to a discount, or early rights to a product or service proposed to be offered by the project.

Common Cryptocurrency Concerns

Some common concerns investors should consider before investing in any offering containing cryptocurrency include:

Cryptocurrency is subject to minimal regulatory oversight, susceptible to cybersecurity breaches or hacks, and there may be no recourse should the cryptocurrency disappear.

Cryptocurrency accounts are not insured by the Federal Deposit Insurance Corporation (FDIC), which insures bank deposits up to \$250,000.

The high volatility of cryptocurrency investments makes them unsuitable for most investors, especially those investing for long-term goals or retirement.

Investors in cryptocurrency are highly reliant upon unregulated companies, including some that may lack appropriate internal controls and may be more susceptible to fraud and theft than regulated financial institutions.



Investors will have to rely upon the strength of their own computer security systems, as well as security systems provided by third parties, to protect purchased cryptocurrencies from theft.

Common Red Flags of Fraud

The NC Secretary of State's Office reminds investors to keep watch for these common red flags of investment fraud:

“Guaranteed” high investment returns. There is no such thing as guaranteed investment returns, and there is no guarantee that the cryptocurrency will increase in value. Be wary of anyone who promises a high rate of return with little or no risk.



Unsolicited offers. An unsolicited sales pitch may be part of a fraudulent investment scheme. Cryptocurrency investment opportunities are promoted aggressively through social media. Be very wary of an unsolicited communication—meaning you didn't ask for it and don't know the sender—about an investment opportunity.

Sounds too good to be true. If the project sounds too good to be true, it probably is. Watch out for exaggerated claims about the project's future success.

Pressure to buy immediately. Take time to research an investment opportunity before handing over your money. Watch out for pressure to act fast or “get in on the ground floor” of a new tech trend.

Unlicensed sellers. Many fraudulent investment schemes involve unlicensed individuals or unregistered firms. In general, people who are paid to promote an investment—like some of the people who tout cryptocurrency investments via YouTube videos—must be registered in order to promote the investments lawfully. Call the North Carolina Investor's Hotline at 1-800-688-4507 to make sure that the person pitching you any investment opportunity -- and the investment opportunity itself -- are properly registered with the NC Secretary of State's Securities Division.



North Carolina Secretary of State Holds Workshops for Investment Advisers

In December, the North Carolina Department of the Secretary of State Securities Division conducted another round of “Best Practices” workshops for state-registered investment advisers.

Since 2010, the Division has conducted 29 such training events, which have been attended by nearly 900 state-registered investment advisers.

Under both federal and state law, all investment advisers and their representatives are fiduciaries with a legal obligation to put their client's interests ahead of their own. By offering its voluntary "Best Practices" workshop outreach program for advisers, the Division is helping ensure investors are better served and protected from falling victim to fraud.



In her remarks to attendees, Secretary of State Elaine F. Marshall said, "I want you to earn a good living. I want you to make your clients lots of money. But, we want the rules followed. There is nothing I take more seriously as Secretary of State than protecting investors. I want them to get the best advice, the best service, and the best returns they can when they invest their nest eggs into our economy. I want us all working together for the same purpose: helping North Carolina investors."



Secretary Marshall went on to point out that this outreach program has been very well received by the advisory community and has yielded tangible results.

"To date," Secretary Marshall said, "our investigators have conducted 108 exams during 2017. Of those, three advisers were found to have had ZERO deficiencies – an

all-time record! What's important to note is that these were not the first exams these advisers have gone through, and at least one of these folks had attended one of our previous workshops. Since 2005, only one adviser has ever been found to have had zero deficiencies on their first exam. So there is great value in attending our workshops!"

Get in the Know About ICOs



With issues surrounding cryptocurrency making so many headlines, it's a good time to revisit [this helpful video](#) from the North American Securities Administrators Association (NASAA) outlining what you need to know about cryptocurrency and Initial coin offerings.



The New Number to Reach Us!

A reminder that the new main number to reach the Secretary of State's Office is (919) 814-5400. Calling that number will route customers to any section of the Secretary of State's Office.

However, you can still reach our NC Investor Hotline at (800) 688-4507!



Sign up for Our RSS Feed!

Have you signed up for the Secretary of State's Securities Division's RSS (Really Simple Syndication) feed yet? It's a great way to get our monthly Securities newsletter delivered direct to your computer.

And don't forget to follow the Secretary of State's Office on social media! Just click on the icons below to go to SOSNC's social media accounts!



FINRA Unscripted

In FINRA's latest podcast, Chief Economist, Jonathan Sokobin, talks with FINRA's head of communications, Josh Drobnyk, about his team's recent work around microstructure and capital formation—and a related conference on market structure. Watch or listen [here](#).



SOSNC on YouTube

Have questions about filing annual reports for your business corporation or LLC, or perhaps becoming a notary public? A series of informative videos available now on [SOSNC's YouTube channel](#) has you covered!

Our videos cover how to file annual reports for LLCs and business corporations, what to do if you've received a notice about annual reports you owe, and much more!

NORTH CAROLINA CONSUMER AND FRAUD WATCHDOGS PROMOTE NEW WAY TO SCREEN FINANCIAL ADVISORS

Investors seeking services from a professional financial advisor will benefit by using a free online tool, [AARP Interview an Advisor](#)[™], [launched](#) by AARP and the North American Securities Administrators Association (NASAA).

The new resource is designed to take the guesswork and mystery out of the process of interviewing and hiring a financial advisor. It walks the user through a short series of suggested questions to ask a financial professional as part of the process of the hiring decision. Included are questions regarding the advisor’s qualifications, methods of compensation, and whether the advisor is required to act as a fiduciary – that is, whether the advisor is obligated to act in the investor’s best interest.

In addition to the suggested questions, Interview an Advisor includes a sample script to help start a conversation with a financial advisor.

“This program will help both seasoned and new investors feel more confident that the investment advisor they select is working in their best interest,” said North Carolina Secretary of State Elaine F. Marshall. The North Carolina Secretary of State Division of Securities works to prevent financial fraud and abuse, and to promote a more progressive, transparent, competitive, and ethical business climate. “As with any major business transaction or investment,” Secretary of State Marshall added, “it is smart to know the background of the service provider and to truly understand the products and services you are purchasing.”

The web-enabled tool is free and available to anyone – AARP membership is not required. Access it at: www.aarp.org/InterviewAnAdvisor. Interview an Advisor is optimized for mobile use, and can run on any smartphone, tablet device or computer.

“Many people can benefit from working with a financial professional, but they just don’t know where to start when it comes to selecting one,” said Joseph P. Borg, NASAA president and director of the Alabama Securities Commission. “Interview an Advisor provides guidance on the types of questions to ask an advisor and helps frame the discussion to empower investors in the selection process. At a minimum, we encourage investors to check out the background of a potential financial advisor with state regulators. Investors also should make sure they understand the products and services being offered and the fees they will be paying.”

“While Registered Investment Advisers serve as fiduciaries who are required to provide advice that is in their clients’ best interest, many other financial advisors operate under different requirements that obligate them only to make recommendations that are ‘suitable,’” said Doug Dickerson, State Director of AARP North Carolina. “AARP’s new interactive guide will help investors avoid confusion about a financial professional’s standards and qualifications.”

The U.S. Department of Labor approved a fiduciary duty rule in 2016 requiring that advisors managing retirement savings accounts meet the “best interests” standard. However, last year DoL announced a delay until 2019 in implementation of major provisions of the rule.

The app-like [Interview an Advisor](#) allows users to log their advisor’s answers to each of the interview questions. The responses are aggregated online for AARP’s research purposes. No personal information is requested or entered. Separately on the web page, consumers have the option to share their name and e-mail address to subscribe to AARP’s monthly *Money Matters* newsletter.





Rise of Fintech Raises New Concerns for Securities Regulators

Survey Shows Millennials at Greatest Risk for Fintech Fraud;
Need for Increased Vigilance by Regulators, Industry and Investors

A new survey of securities regulators by the North American Securities Administrators Association (NASAA), underscores why regulators, the industry and investors, especially Millennials, must step up to be vigilant amid the rapid pace of development spurred by advances in financial technology (fintech).



The results come from NASAA's recent Pulse Survey on fintech and the technological innovations shaping new investment and financial products. The poll conducted from mid-November to mid-December 2017, collected responses from NASAA members – state and provincial securities regulators in the United States, Canada and Mexico – about the challenges of adapting to new financial technology products and changes in and how financial services are delivered to investors. The findings offer a unique insight into the concerns and perspectives of the investment industry's local cops on the beat.

One-third (34 percent) of securities regulators said the rapid development of financial technology is a positive development for investors, while 20 percent expressed concern with the potential negative impact of fintech on investors. Almost one-half (46 percent) said it is too soon to tell, citing benefits such as lower costs and greater accessibility to investments among groups not previously reached by traditional methods, but cautioning that sufficient investor protections must be in place so that easier access does not translate into greater exposure to risk or fraud.

Top takeaways include:

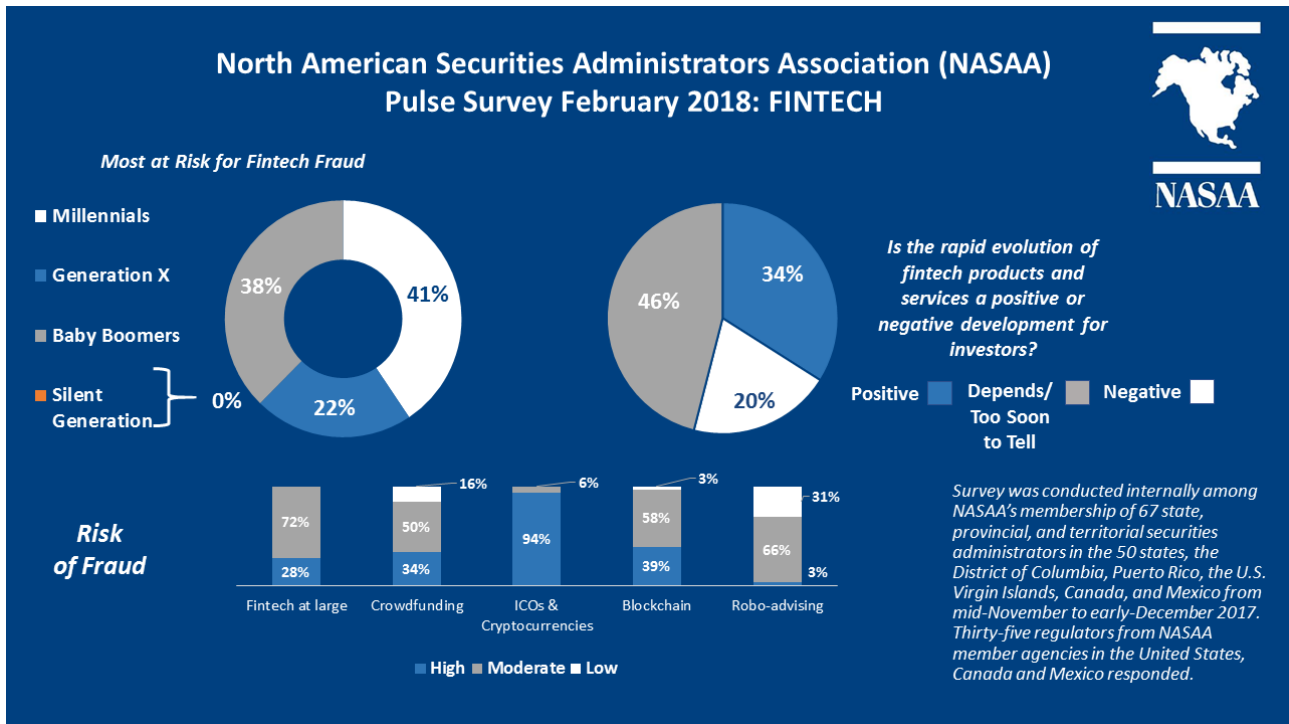
- **Millennials most at risk for fraud:** Regulators viewed Millennials as both most likely to use fintech products (84 percent) and also as most at risk of fraud from fintech products (41 percent). While Baby Boomers were viewed as least likely to use fintech, they were still viewed as the second most likely demographic group to be at risk of fintech fraud (38 percent).



- **Not all risks are created equal:** While all regulators viewed fintech at large as having a high (28 percent) or moderate (72 percent) chance of fraud, the risk varied widely by specific products with ICOs and cryptocurrencies being most commonly identified as high risk (94 percent) and robo-advising being least commonly identified as high risk (3 percent).

- **Fraudsters most knowledgeable:** More than half of regulators (56 percent) said they viewed fraudsters as the most knowledgeable about the risks of fintech, nearly all respondents felt that investors were the least knowledgeable about these risks (94 percent).

- **Fighting fintech fraud is getting harder.** Three-fourths of respondents (75-percent) felt that preventing fintech fraud is getting more difficult.



“The survey results show that our members are focused on the potential for fraud when it comes to new technologies and products, but the results also reflect recognition that these innovations may benefit investors, which makes appropriate regulation and investor education critical,” said Joseph P. Borg, NASAA President and Alabama Securities Commission Director.

“Our members are learning about new technologies and uncovering potential threats every day, but to keep pace with innovation we can’t do it alone. The industry and its investors should carefully approach any new investment product or technologies and collaborate with regulators to identify and end new threats that may arise,” Borg said.



Borg noted that NASAA has created a Fintech Committee, chaired by NASAA President-elect and Vermont Commissioner of Financial Regulation Michael Pieciak.

The committee is planning a fintech roundtable in May to bring together industry experts and regulators to discuss areas of mutual interest and concern.

“Investors benefit when regulators and industry work toward solutions that promote both innovation and investor protection,” Pieciak said.

Investor Bulletin: Investment Adviser Sponsored Wrap Fee Programs

The SEC's Office of Investor Education and Advocacy is issuing this Investor Bulletin to provide investors information about investment adviser sponsored wrap fee programs. This bulletin provides basic information about wrap fee programs and some questions to consider asking your investment adviser before choosing to open an account in a wrap fee program.

What is a wrap fee program?

A wrap fee program generally involves an investment account where you are charged a single, bundled, or “wrap” fee for investment advice, brokerage services, administrative expenses, and other fees and expenses. While wrap fee programs may be called different names—such as asset allocation program, asset management program, investment management program, mini-account, uniform managed account, or separately managed account—the defining feature is that they offer bundled investment management and brokerage services for one fee. There is typically a "sponsor" for a wrap fee program, i.e., the person that, for a portion of the fee, sponsors, organizes, or administers the program or selects, or provides advice to clients regarding the selection of, other investment advisers in the program. Some wrap fee programs have more than one sponsor.



In a wrap fee program, your fee is generally based on a percentage of the value of your account, rather than upon transactions in your account. It might be appealing to pay one fee that covers most or all of your investment expenses—but you should be sure you understand what you are actually getting for your money. Because wrap fee programs bundle services into a single fee, total fees to a client in a wrap fee program may be more or less than obtaining such services separately.

Tip: In general, as an advisory client, a wrap fee based on the value of assets in your investment account may be less if there is a lot of trading activity in your account and the wrap fee covers the costs for executing all or most of the trades. But if there is little or no trading activity in your advisory account or the trades being made would not otherwise have a transaction fee, a wrap fee arrangement may cost more than separately paying for the services. You should check your account statements to review the level of trading, and periodically talk to your adviser about the level of trading in your account, the fees involved, and what sort of account makes sense for you. Of course, there may be considerations other than cost, like access to certain managers, that make a wrap fee program right for you.

What services and fees does the wrap fee typically cover?

Wrap fee programs can be a convenient way to include all of your investment services in one fee. Wrap fee programs vary, so you should always be sure you understand what services are included—or not included—in the wrap fee.



SEC rules require that a wrap fee program brochure be given to you before or at the time you enter into a wrap fee program contract. The wrap fee program brochure provides you with important information about the program, including information about the services provided and the fees you will pay. SEC rules also require that a firm brochure be given to you for any investment adviser (other than the sponsor) that provides advisory services to you as part of the wrap fee program. The firm brochure includes additional important information, including information about the investment adviser's services and role in the wrap fee program. Be sure to read the wrap fee program brochure and any firm brochure(s) carefully and to ask questions about anything you do not understand.

You should look for whether the following services and fees are covered by the wrap fee, and consider whether you want or need them to be covered:

Investment advice. Investment advisory services are an important on-going component of wrap fee programs. They may include financial planning, portfolio management, or advice concerning the selection of other investment advisers.

Brokerage costs. Brokerage costs are another important component of wrap fee programs. They include [trade execution costs](#)—the transaction costs of buying and selling securities. Some broker-dealers may also provide research and/or make recommendations about specific investments. You might pay [mark-ups](#), mark-downs, or spreads in addition to the wrap fee.

Administrative expenses. Certain administrative expenses are sometimes included in a wrap fee. This could include, for example, custodial fees.

Other fees and expenses. Other fees and expenses may or may not be covered by the wrap fee. For example, you might pay [mutual fund fees and expenses](#) in addition to the wrap fee.

Third-party service provider costs and trading away. Third-party service providers may provide services to the investment adviser sponsoring the wrap fee program and your account. The wrap fee typically covers these services. In some cases, a provider may offer these services in a manner that may result in an additional cost to you. For example, an investment adviser may select a broker-dealer outside of the wrap fee program to execute certain trades in your account—a practice sometimes referred to as “trading away”—that results in your account incurring separate brokerage fees.

The wrap fee program brochure is required to describe any fees you may pay in addition to the wrap fee and the circumstances under which you might pay such fees.

Example: Trading Away

A wrap fee program charges a single fee that covers investment advisory services from Adviser X and brokerage services from Broker X. Broker X provides most brokerage services to the wrap fee program, and those services are covered by the wrap fee. However Adviser X occasionally selects a different broker-dealer—Broker Y—to provide brokerage services to wrap fee program clients for certain types of transactions. Because services from Broker Y are not covered by the wrap fee, you might be required to pay brokerage fees for Broker Y's services that are in addition to the wrap fee.

Questions to consider asking your investment adviser about a wrap fee program:

What services are included in the wrap fee program? Why does the wrap fee program make sense for me as opposed to another account type? Will my account be actively traded or will the account pursue a buy and hold strategy?

Who else will be involved in making investment decisions or providing services to my account? Will I have any direct contact with them? Are they affiliated with you or independent?

How often will you review whether the wrap fee program still makes sense for me? What factors will you assess?

What fees and expenses are included in the wrap fee? For example, will the wrap fee include all my trade execution costs?

Other than the wrap fee, what other fees and expenses will I pay? Will these include fees and expenses to other managers/service providers associated with the wrap fee program? What is the likely frequency with which I will incur those fees and expenses?

How would I change or cancel my wrap fee program contract if I no longer wish to participate in the wrap fee program?

Enforcement Actions

The SEC has brought several enforcement actions for violations of the Investment Advisers Act of 1940 in connection with wrap fee programs:

Two Firms Charged With Compliance Failures in Wrap Fee Programs

Raymond James & Associates Order

Robert W. Baird & Co. Order

Stifel, Nicolaus & Co. Order

SEC Charges Investment Adviser With Failing to Clearly Disclose Additional Costs to Investors

Riverfront Investment Group Order

AIG Affiliates Charged With Mutual Fund Shares Conflicts



Additional Information

Details on an investment professional's background and qualifications, as well as a copy of the wrap fee program brochure, are available on the SEC's Investment Adviser Public Disclosure (IAPD) [website](#) or on the SEC's website for individual investors, [Investor.gov](#). If you have any questions about how to check the background of an investment professional, you can call the SEC's toll-free investor assistance line at (800) 732-0330 for help.

Looking for an investment professional can be a daunting task for first time investors. The Financial Industry Regulatory Authority (FINRA) has a great resource that can make the process that lays out some key steps to help you make smart, informed decisions. You can see the complete guide [here](#), but these are a few highlights:

Step 1. Shop smart for investment professionals

Ask friends and colleagues who already invest for the names of people they've used. Ask direct questions, such as how long they've done business with the investment professional and the types of services that were provided. Also ask if they've ever had any problem with that person and, if so, how well and quickly it was resolved.



Step 2. Work with registered firms and individuals

Check to see if the person and his or her firm are registered. There are many [types of investment professionals](#). But when it comes to buying and selling stocks, bonds and other securities products, those individuals and firms should be registered with FINRA (for securities brokers), the Securities and Exchange Commission (SEC) (for certain investment advisers), and (in North Carolina) the NC Secretary of State's Securities Division. Before signing over any of your money, check out each person on FINRA BrokerCheck at www.FINRA.org/BrokerCheck. It's also wise to call the NC Investors Hotline at 1-800-688-4507 to make sure the person you're dealing with, and the investment opportunity itself, are properly registered with the State. Also ask about their disciplinary history.

Step 3. Key questions you should ask an investment professional you're considering



1. Do you or your firm impose any minimum account balances on customers? If so, what are they? What happens if my portfolio falls below the minimum?
2. How do you get paid? Do you receive commissions on products I buy or sell? A percentage of the amount of my assets you manage? A flat fee? Any other method?
3. What other fees and expenses do you charge?

Step 4. Comparison shop

When it comes to shopping for, and buying, financial products, your investment professional isn't the only place to look. It's possible to buy securities products, such as mutual funds, college savings plans and other investments, directly from a fund provider, state or other entity, sometimes at a lower cost than through a broker or investment adviser. It is a sound investment principal to [diversify](#) within and among different asset classes (owning a variety of stocks and bonds, for instance).

Step 5: Know the warning signs of fraud.

Know the [warning signs of fraud](#)—including promises of quick profits, “guaranteed” returns or pressure to send money immediately. Also, an investment professional should never ask to borrow money from you or encourage you to name them as a beneficiary or executor of your estate. If you suspect investment fraud don't hesitate to contact the NC Secretary of State's Securities Division at 1-800-688-4507.



Protecting Personal Information in Registration Form Filings

Firms and associated persons are required to provide complete, up-to-date and accurate information on registration forms (e.g., Form BD, Form U4, Form U5 and other forms) (“Filings”). Some of the information required to complete these Filings is personal information. Please review the guidance provided on this page on how to protect this information.



Personal Information Required

As a matter of course, some personal information is required to complete the Filings. For example, Form U4 General Information requires the filer to provide his/her Social Security Number (SSN). Most required personal information is entered into specific, defined text fields, where the inclusion of such data is expected. This allows for protection of those fields from inadvertent disclosure.

Personal Information May Be Required

Sometimes Filings require that you enter information that in some instances may be personal information. For example, the Form U4 Judgment/Lien Disclosure Reporting Page requests the “Docket/Case#” of the case related to the judgment or lien. The Docket/Case# is usually public information. However, in some limited cases it may be an SSN, bank card number or other personal identification number. In such circumstances, the Form U4 provides a means to alert users that the particular Docket/Case# is personal information by checking a box next to the field that requests the Docket/Case#. If the box is checked, it will alert users that the particular Docket/Case# reflects personal information. If the box is not checked, the particular Docket/Case# will be treated as a public Docket/Case#.

Personal Information Not Required

Filings frequently solicit information in response to a more general question that does not require personal information. For example, the Form U4 Customer Complaint/Arbitration/Civil Litigation DRP requests that you provide “Allegation(s) and a brief summary of the events related to the allegation(s).” When providing the requested allegations and summary, do not include personal information specific to a broker, customer or any other individual. Refrain from providing specific account numbers (such as “Account # XYZ-1234567”), and instead provide a description of the customer’s account (such as, “Customer Account 1,” “insurance account,” or “variable annuity A”). When providing a narrative response to an open-ended question, do not include personal information of any kind. Instead, use descriptive information that does not include personal information to provide the complete, up-to-date and accurate required response.

Remember to only provide personal information about customers in response to specific questions that solicit that information. For example, the Form U4 Customer Complaint/Arbitration/Civil Litigation DRP requests that you provide a “Customer Name” in response to Question 1. The customer name should not be included in response to the “Allegation(s) and a brief summary of the events related to the allegation(s)” or “Comment” questions. When responding to those questions, use a description such as “customer” or “Customer 1.”

If you have questions about how to appropriately complete a filing and protect personal information, please contact [FINRA](#) or the NC Secretary of State’s [Securities Division](#).



Calendar of Upcoming Events

A representative from the Securities Division will be giving an anti-fraud presentation on the following dates and locations. Dates and times are subject to cancellation (although cancellations are rare), so please call the contact number listed to confirm the event is still on before leaving for it. All presentations are free and open to the public unless otherwise indicated. If you would like to schedule a speaker for your church, business, group or organization, please contact [John Maron](#) at (800) 688-4507. For a complete list of all upcoming events, please check out our online [calendar](#).

Date	City	Details
3/1/18	Greensboro	"Investment Fraud: Guarding Your Assets in a Scary World" presentation to Greensboro Lecture League. Location: Greensboro Country Club, 410 Sunset Drive. Time: 11:45 AM -- 1:00 PM. This event is free, but open to members of the Greensboro Lecture League and their guests only. A representative of the NC Department of the Secretary of State Securities Division will give a presentation on spotting the red flags of investment fraud. For more information, contact Shirley Haworth at shirleyhaworth@mac.com .
3/6/18	Raleigh	"ABCs of Trademarks for NC Businesses" seminar at the Innovation & Entrepreneurship Center, 444 S. Blount St., Suite 115B, Raleigh. Time: 6:30 PM -- 8:00 PM. This event is free and open to the public. Is your company name important to you? Did you spend time and money developing a logo or a slogan? Small business owners that answer yes should consider registering for a trademark as a way to protect the business brand. North Carolina's trademarks registry is administered by the N.C. Secretary of State's Office, while federal trademarks are overseen by the U.S. Patent and Trademark Office. This seminar focuses on various aspects of trademarks – from choosing between a federal or a state trademark or both to filing for one. Attendees can expect to get an overview of the costs, benefits and pitfalls of trademarks. Contact Talib Graves-Mann (talib@iecnc.com) for more information.
3/21/18		Regional Webinar: "ABC's of Incorporating a Business" Time: 2:00 PM -- 4:00 PM. The N.C. Secretary of State provides many resources including online forms, resource guides, and e-mail alerts to assist small business owners and entrepreneurs with incorporation. In this webinar session, a representative from the N.C. Secretary of State's Office will provide general rules of the road on Incorporation and Filings and Responsibilities. Registration for this webinar is free. Please go to our calendar page and use the registration link for the college serving your respective county of residence (inks will be added as they become available).
3/28/18		Regional Webinar: "Trademarks in North Carolina" (Piedmont Triad Region) Time: 2:00 PM -- 4:00 PM. This webinar will focus on various aspects of trademarks – from choosing between a federal or a state trademark or both to filing for one. Please join us for an informative overview of the costs, benefits and pitfalls of trademarks. Registration for this webinar is free. Please go to our calendar page and use the registration link for the college serving your respective county of residence (other links will be added as they become available).

- 4/2/18 China Grove "Investment Fraud: Guarding Your Assets in a Scary World" seminar at Mt. Zion United Church of Christ, 1415 S Main Street, China Grove. Time: 11:00 AM -- Noon. This event is free and open to the public. Don't think you can become a victim of investment fraud? Neither did the nearly 500 people who trusted J.V. Huffman, Jr., of Conover, NC, or the 100 people who trusted Sid Hanson, of Charlotte, NC, with approximately \$25 million and \$30 million (respectively) of their money! Want to learn how to avoid becoming a victim of investment fraud? Join us and learn how to recognize and avoid possible investment scams. You will also learn how to spot the red flags of potential investment fraud, learn how to do your due diligence, and the questions to ask your investment professional. This seminar will help you to understand what to do if you become a victim of an investment scam. Information will also be presented on how you can register your advance health care directives with the Secretary of State's office so that you or your caregiver can access them 24/7/365 from anywhere in the world. Presented by John Maron, Director of the Investor Protection and Education Services Division of the North Carolina Department of the Secretary of State.
- 4/2/18 China Grove "Investment Fraud: Guarding Your Assets in a Scary World" seminar at Southside Church of God, 163 3rd Avenue, China Grove. Time: 12:30 PM -- 1:30 PM. This event is free and open to the public. Want to learn how to avoid becoming a victim of investment fraud? Join us and learn how to recognize and avoid possible investment scams. You will also learn how to spot the red flags of potential investment fraud, learn how to do your due diligence, and the questions to ask your investment professional. This seminar will help you to understand what to do if you become a victim of an investment scam. Information will also be presented on how you can register your advance health care directives with the Secretary of State's office so that you or your caregiver can access them 24/7/365 from anywhere in the world.
- 4/2/18 Thomasville "Investment Fraud: Guarding Your Assets in a Scary World" seminar at Thomasville Church of God, 1200 W Holly Hill Road, Thomasville, NC. Time: 2:30 PM -- 3:30 PM. This event is free and open to the public. Want to learn how to avoid becoming a victim of investment fraud? Join us and learn how to recognize and avoid possible investment scams. You will also learn how to spot the red flags of potential investment fraud, learn how to do your due diligence, and the questions to ask your investment professional. This seminar will help you to understand what to do if you become a victim of an investment scam. Information will also be presented on how you can register your advance health care directives with the Secretary of State's office so that you or your caregiver can access them 24/7/365 from anywhere in the world. Presented by John Maron, Director of the Investor Protection and Education Services Division of the North Carolina Department of the Secretary of State.

- 4/4/18 Regional Webinar: "ABC's of Incorporating a Business" Time: 10:00 AM -- 12:00 PM. The N.C. Secretary of State provides many resources including online forms, resource guides, and e-mail alerts to assist small business owners and entrepreneurs with incorporation. In this webinar session, a representative from the N.C. Secretary of State's Office will provide general rules of the road on Incorporation and Filings and Responsibilities. Registration for this webinar is free. Please go to our [calendar page](#) and use the registration link for the college serving your respective county of residence (links will be added as they become available).
- 4/18/18 Williamston "Scam Jam" anti-fraud presentation at Bob Martin Eastern Agriculture Center, 2900 NC Highway 125 South, Williamston. Time: 10:00 AM -- 2:00 PM. This event is free and open to the public. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Insurance Senior Health Insurance Information Program and other agencies will provide information on how you can protect yourself from falling victim to a wide range of scams. Topics will include securities fraud, charitable giving fraud and medical/Medicare fraud. Attendees have learned how to keep their credit card information from being compromised, how to obtain truly free credit reports, how to protect themselves from being taken in by Ponzi schemes and other illegitimate investment come-ons, how to protect oneself against being taken advantage of by donation scams during times of national or international disaster and how to help reduce the more than 62 billion dollars in fraud that occurs each year in the Medicare program alone. For more information, please contact Laura Jett, Regional Long Term Care Ombudsman, Mid-East Commission Region Q, Area Agency on Aging, at 252-974-1838.
- 4/19/18 Supply "Scam Jam" anti-fraud presentation at the Senior Center, 101 Stone Chimney Rd SE, Supply. Time: 8:30 AM -- 2:00 PM This event is free and open to the public. Please join NC Secretary of State Elaine F. Marshall and representatives of other state and local agencies for an informative program designed to provide information on how you can protect yourself from falling victim to a wide range of scams. Topics will include identity theft, how to establish a protective 'freeze' on one's credit report, securities fraud, charitable giving fraud and medical/Medicare fraud. Attendees have learned how to keep their credit card information from being compromised, how to obtain truly free credit reports, how to protect themselves from being taken in by Ponzi schemes and other illegitimate investment come-ons, how to protect oneself against being taken advantage of by donation scams during times of national or international disaster and how to help reduce the more than 62 billion dollars in fraud that occurs each year in the Medicare program alone.

- 4/20/18 Carolina Beach "Using Your Life Preserver" anti-fraud presentation at the 2018 NC Association of FSA County Office Employees (NoCASCOE). Courtyard by Marriott - Carolina Beach 100 Charlotte Avenue. Time: 9:00 AM -- 10:00 AM. Open to NoCASCOE members and their guests only. Registration required. Registration information found at <http://www.nocascoe.com/>. NC Secretary of State Elaine F. Marshall will provide an overview of the Dept's activities to provide efficient services to the citizens and businesses of the state, while combating various types of fraud.
- 4/25/18 Regional Webinar: "Trademarks in North Carolina" Time: 10:00 AM -- 12:00 PM. This webinar will focus on various aspects of trademarks – from choosing between a federal or a state trademark or both to filing for one. Please join us for an informative overview of the costs, benefits and pitfalls of trademarks. Registration for this webinar is free. Please go to our [calendar page](#) and use the registration link for the college serving your respective county of residence (other links will be added as they become available).
- 5/2/18 Durham "Investment Fraud: Guarding Your Assets in a Scary World" presentation to Money Matter\$ Women's Group. Location: Croasdaile Country Club, 3800 Farm Gate Ave. Time: 5:30 PM - 7:00 PM. A representative of the NC Department of the Secretary of State Securities Division will give a presentation on investment frauds aimed at the elderly as well as on the Advance Health Care Directive Registry which the Department maintains. For more information, please contact Lisa Gabriel at lgabriel@pinaforewealth.com.
- 6/6/18 Nashville "Scam Jam" anti-fraud presentation at Nash County Agricultural Center, 1006 Eastern Avenue, Room 102. Time: 9:00 AM -- 11:30 AM. This event is free and open to the public. Representatives of the NC Department of the Secretary of State Securities Division, NC Department of Justice Consumer Protection Division, and the NC Department of Insurance Senior Health Insurance Information Program will provide information on how you can protect yourself from falling victim to a wide range of scams. Topics will include identity theft, how to establish a protective 'freeze' on one's credit report, securities fraud, charitable giving fraud and medical/Medicare fraud. Attendees have learned how to keep their credit card information from being compromised, how to obtain truly free credit reports, how to protect themselves from being taken in by Ponzi schemes and other illegitimate investment come-ons, how to protect oneself against being taken advantage of by donation scams during times of national or international disaster and how to help reduce the more than 62 billion dollars in fraud that occurs each year in the Medicare program alone. For more information, please contact Morgan Doughtie at (252)-462-2730.

Recent Enforcement Actions



(For prior administrative actions, click on the badge to the right.)

On **February 15, 2018**, the Securities Division of the North Carolina Department of Secretary of State issued a **Temporary Cease and Desist Order** to **Dechoker, LLC, Alan Carver, Russell Wadell, Mark Shores and Mark Honeycutt (the "Dechoker Respondents")**. The Temporary Cease and Desist Order found that the Dechoker Respondents were not registered as dealers or salesmen of securities in North Carolina and offered and sold interests in Dechoker, LLC; these activities are in violation of the North Carolina Securities Act. The Temporary Cease and Desist Order ordered Dechoker Respondents to cease and desist offering unregistered securities and acting as securities dealers and/or salesmen in North Carolina while not registered to do so. The Temporary Cease and Desist Order gives the Dechoker Respondents thirty (30) business days in which to request a hearing. If no such request is made during that time, the Temporary Cease and Desist Order shall become final. Click [here](#) to view the Temporary Order.

On **January 9, 2018**, the Securities Division of the North Carolina Department of Secretary of State issued a **Temporary Order to Cease and Desist** to **Bitconnect, BitConnect LTD, BitConnect International PLC and BitConnect Trading LTD ("BitConnect")**. BitConnect was ordered to cease and desist from offering for sale, soliciting offers to purchase or selling, in or from North Carolina, any securities unless and until such securities have been registered and BitConnect, and any person or entity under the direction or control of BitConnect, is properly registered as a securities dealer or salesman. The Temporary Order to Cease and Desist found that BitConnect. was not registered as a dealer or salesman of securities in North Carolina and offered investments called the BitConnect Lending Program and the BitConnect Staking Program. The Temporary Order to Cease and Desist also found that BitConnect had omitted to disclose material facts when offering these investments in North Carolina. These activities are in violation of the North Carolina Securities Act. The Temporary Order to Cease and Desist gives BitConnect thirty (30) business days in which to request an hearing. If no such request is made during that time, the Temporary Order to Cease and Desist shall become final. Click [here](#) to view the Temporary Order.

On **November 30, 2017**, the Securities Division of the North Carolina Department of the Secretary of State entered into a **Consent Order** with **Carlton Hall Asset Management, LLC and Carlton Gray Hall, Jr.** The Consent Order found that the respondents had failed to supervise an investment adviser representative of Carlton Hall Asset Management, LLC. Pursuant to the Consent Order, respondents agreed to immediately cease and desist from violating any provisions of the North Carolina Investment Advisers Act and any related administrative rules, and to pay a civil penalty. Click [here](#) to see the Order.

On **November 15, 2017**, the Securities Division of the North Carolina Department of the Secretary of State entered into a **Consent Order** with **Small People Group ("SPG") and Stanley Patterson ("Patterson")**. The Consent Order found that SPG and Patterson offered unregistered securities to the investing public. Neither SPG nor Patterson were registered, nor did they secure a crowdfunding exemption for the securities. The Consent Order ordered SPG and Patterson to cease and desist selling unregistered securities. Click [here](#) to see the Order.

On **November 2, 2017**, the Securities Division of the North Carolina Department of the Secretary of State entered into a **Consent Order** with **JGM Wealth Management, L.L.C. (“JGM”)** and **John G. Mergner, Jr. (“Mergner”)**. The Consent Order found that JGM and Mergner frequently failed to file registration documents promptly and made material misstatements in filings with the Administrator. The Administrator ordered JGM and Mergner to update the misleading filings and then withdraw the registration. Click [here](#) to see the Order.

On **October 11, 2017**, the Securities Division of the North Carolina Department of the Secretary of State entered into a **Consent Order** with **Hightower Financial Partners, LLC (“Hightower”)**. The Consent Order found that Hightower had filed a document with the Secretary of State which was false or misleading, and that it failed to promptly file a correcting amendment after a document it had previously filed became inaccurate. Pursuant to the Consent Order Hightower agreed to withdraw its registration as an investment adviser in North Carolina, and to immediately cease and desist from violating any provisions of the North Carolina Investment Advisers Act, the North Carolina Securities Act or any administrative rules promulgated under either Act. Click [here](#) to see the Order.

On **September 28, 2017**, the Securities Division of the North Carolina Department of the Secretary of State entered into a **Consent Order** with **SCD Capital, Inc.** and **Scott Daily**. The Consent Order found that SCD and Daily “cherry-picked” trades for personal gain, made false or misleading statements to clients, and made material misstatements in filings with the Administrator. The Administrator ordered that SCD and Daily accept a two day suspension, cease and desist such activities and pay fines. Click [here](#) to see the Order.

On **September 24, 2017**, the Securities Division of the North Carolina Department of the Secretary of State entered into a **Consent Order** with **LPL Financial LLC**. The Consent Order found that LPL had failed to reasonably supervise its salesman Charles Caleb Fackrell and failed to observe high standards of commercial honor. Pursuant to the Consent Order, LPL paid a civil penalty, reimbursed the Securities Division for investigative costs associated with the matter, and was ordered to immediately cease and desist from violating any provisions of the North Carolina Securities Act, the North Carolina Investment Advisers Act, or any administrative rules promulgated under either Act. Click [here](#) to see the Order. Click [here](#) and [here](#) for press releases regarding Charles Caleb Fackrell.



On The Docket

The following cases are ones in which the Securities Division has had some involvement, either as the lead investigative agency or in a supporting role.

Alan Peter Darcy, of Murphy, pleaded guilty on June 7 in federal court to one count of felony wire fraud. A federal grand jury indicted Darcy on March 24 for orchestrating an \$800,000 investment fraud scheme. Darcy is currently awaiting sentencing.



News from the Regulators

The following are links to selected public notices issued by one or more securities regulator. Click the links to view the full notices. These are offered for informational purposes only.

[SEC Adopts Statement and Interpretive Guidance on Public Company Cybersecurity Disclosures](#)

Feb. 21, 2018— The Securities and Exchange Commission voted unanimously on February 21 to approve a statement and interpretive guidance to assist public companies in preparing disclosures about cybersecurity risks and incidents.

“I believe that providing the Commission’s views on these matters will promote clearer and more robust disclosure by companies about cybersecurity risks and incidents, resulting in more complete information being available to investors,” said SEC Chairman Jay Clayton. “In particular, I urge public companies to examine their controls and procedures, with not only their securities law disclosure obligations in mind, but also reputational considerations around sales of securities by executives.”

The guidance provides the Commission’s views about public companies’ disclosure obligations under existing law with respect to matters involving cybersecurity risk and incidents. It also addresses the importance of cybersecurity policies and procedures and the application of disclosure controls and procedures, insider trading prohibitions, and Regulation FD and selective disclosure prohibitions in the cybersecurity context.

[SEC Charges Former Bitcoin-Denominated Exchange and Operator with Fraud](#)

Feb. 21, 2018 — The Securities and Exchange Commission today charged a former bitcoin-denominated platform and its operator with operating an unregistered securities exchange and defrauding users of that exchange. The SEC also charged the operator with making false and misleading statements in connection with an unregistered offering of securities. The SEC alleges that BitFunder and its founder Jon E. Montroll operated BitFunder as an unregistered online securities exchange and defrauded exchange users by misappropriating their bitcoins and failing to disclose a cyberattack on BitFunder’s system that resulted in the theft of more than 6,000 bitcoins. The SEC also alleges that Montroll sold unregistered securities that purported to be investments in the exchange and misappropriated funds from that investment as well.

“We allege that BitFunder operated unlawfully as an unregistered securities exchange. Platforms that engage in the activity of a national securities exchange, regardless of whether that activity involves digital assets, tokens, or coins, must register with the SEC or operate pursuant to an exemption. We will continue to focus on these types of platforms to protect investors and ensure compliance with the securities laws,” said Marc Berger, Director of the SEC’s New York Regional Office.

“As alleged in the complaint, Montroll defrauded exchange users by misappropriating their bitcoins and failing to disclose a cyberattack on the exchange’s system and the resulting bitcoin theft. We will continue to vigorously police conduct involving distributed ledger technology and ensure that bad actors who commit fraud in this space are held accountable,” said Lara S. Mehraban, Associate Regional Director of the SEC’s New York Regional Office.

[First Uniform, National Standards to Protect Senior Investors](#)

February 5, 2018—Two FINRA rule changes took effect on February 5 addressing the financial exploitation of seniors and vulnerable adults, putting in place the first uniform, national standards to protect senior investors. Firms are now required to make reasonable efforts to obtain the name of and contact information for a trusted contact person for a customer’s account. In addition, the rule permits FINRA member firms to place a temporary hold on a disbursement of funds or securities when there is a reasonable belief of financial exploitation, and to notify the trusted contact of the temporary hold.

"These important changes, developed in collaboration with our members, provide firms with tools to respond more quickly and effectively to protect seniors and vulnerable investors from financial exploitation," said Robert L.D. Colby, FINRA's Chief Legal Officer. "With the aging of the U.S. population, financial exploitation is a serious and growing problem, and protecting senior investors remains a top priority for FINRA."

The trusted contact person is intended to be a resource for firms in handling customer accounts, protecting assets and responding to possible financial exploitation of any vulnerable investors. The new rule allowing firms to place a temporary hold provides them and their associated persons with a safe harbor from certain FINRA rules. This provision will allow firms to investigate the matter and reach out to the customer, the trusted contact and, as appropriate, law enforcement or adult protective services, before disbursing funds when there is a reasonable belief of financial exploitation. It is a critical measure because of the difficulty investors face in trying to recover funds that they have inadvertently sent to fraudsters and scam artists.

[Chairman Giancarlo Statement on Virtual Currencies](#)

January 4, 2018—Commodity Futures Trading Commission (CFTC) Chairman J. Christopher Giancarlo issued a [statement](#) on virtual currencies on January 4. Additionally the CFTC released a [backgrounder on its oversight of and approach to virtual currency futures markets](#).

"Undoubtedly, virtual currency and virtual currency derivatives present both significant opportunities and challenges. As a Federal market regulator, the CFTC is cognizant of the considerable risks of virtual currencies like Bitcoin. In addition to the nascent stage of the technology itself, risks associated with virtual currencies include: operational risks of unregulated and unsupervised trading platforms; cybersecurity risks of hackable trading platforms and virtual currency wallets; speculative risks of extremely volatile price moves; and fraud and manipulation risks through traditional market abuses of pump and dump schemes, insider trading, false disclosure, Ponzi schemes and other forms of investor fraud and market manipulation.

"In 2014, the CFTC declared virtual currencies to be a “commodity” subject to oversight under its authority under the CEA. Since then, the CFTC has taken action against unregistered Bitcoin futures exchanges, enforced the laws prohibiting wash trading and prearranged trades on a derivatives platform, issued proposed guidance on what is a derivative market and what is a spot market in the virtual currency context, issued warnings about valuations and volatility in spot virtual currency markets and addressed a virtual currency Ponzi scheme. The CFTC has also produced consumer information about virtual currencies, including a dedicated Bitcoin webpage, a virtual currency primer and several podcasts.

[SEC Halts Alleged Initial Coin Offering Scam](#)

January 30, 2018—The Securities and Exchange Commission obtained a court order halting an allegedly fraudulent initial coin offering (ICO) that targeted retail investors to fund what it claimed to be the world’s first “decentralized bank.”

According to the SEC’s complaint, filed in federal district court in Dallas on Jan. 25 and unsealed late yesterday, Dallas-based AriseBank used social media, a celebrity endorsement, and other wide dissemination tactics to raise what it claims to be \$600 million of its \$1 billion goal in just two months.

AriseBank and its co-founders Jared Rice Sr. and Stanley Ford allegedly offered and sold unregistered investments in their purported “AriseCoin” cryptocurrency by depicting AriseBank as a first-of-its-kind decentralized bank offering a variety of consumer-facing banking products and services using more than 700 different virtual currencies.

AriseBank’s sales pitch claimed that it developed an algorithmic trading application that automatically trades in various cryptocurrencies. The SEC alleges that AriseBank falsely stated that it purchased an FDIC-insured bank which enabled it to offer customers FDIC-insured accounts and that it also offered customers the ability to obtain an AriseBank-branded VISA card to spend any of the 700-plus cryptocurrencies. AriseBank also allegedly omitted to disclose the criminal background of key executives.

All investors are strongly encouraged to contact the Securities Division at (919) 814-5400 or toll-free at (800) 688-4507 to check that their investment professional is properly registered **before** transferring any assets to that person’s control.

One five-minute telephone call to the Securities Division could protect your entire life’s savings from being stolen from you. For a wealth of investor education information, please visit our web site, www.sosnc.gov. Click on the yellow box entitled “Investment Securities.”

This newsletter is produced by the Investor Education Program of the Securities Division of the North Carolina Department of the Secretary of State. If you have questions or comments about this publication, or would like to schedule an investor education presentation with your group or organization, please email [John Maron](mailto:John.Maron), Director of the Investor Education Program, or call (919) 814-5560.

Please help us publicize the educational information in this mailing by forwarding it to your contacts around the state.

If you no longer wish to receive mailings from the Securities Division, please send an email to: jmaron@sosnc.gov with “Remove from mailing list” in the subject line.

Remember that if an investment sounds too good to be true, it probably is!