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Risk Alert for Securities Dealers, Investment Advisers, and Issuers

Recently, the Securities Division of the Arizona Corporation Commission has discovered multiple incidents of firms and individuals failing to properly register or renew registration in Arizona, then conducting business in Arizona in violation of the Securities Act of Arizona and the Arizona Investment Management Act.

These registration violations have resulted in the Corporation Commission entering 12 orders in the past 18 months against dealers, investment advisers, investment adviser representatives, and one issuer for conducting unregistered sales and business activity within and from Arizona and for failing to supervise employees. The orders have included requirements to cease and desist from the unlicensed activity, take affirmative steps to correct the practice that led to the violation, and penalties up to \$75,000.

In addition to authorization to order penalties, Arizona statutes allow the Corporation Commission to order restitution and suspension, revocation or denial of registration and licensing. The Division considers use of these other remedies on a case-by-case basis and has ordered them in an appropriate case.

The underlying conduct in these orders has included a variety of oversights and failures to properly monitor employee activity. In several instances, an employee moved to Arizona, transacted business in the state for some time, then later applied for proper registration. In other instances, the Division notified firms and individuals of deficiencies in their applications, but the applicants never resolved the deficiencies and continued to transact business in Arizona.

To avoid administrative action and penalties like the ones in the orders, a firm should consider, among other things:

- Does your firm have a thorough system that monitors the origin of all trade orders and ensures that orders coming from Arizona clients are being handled by an agent registered in Arizona?
- Does your firm have protocols in place to ensure that all representatives immediately apply for appropriate licensure and registration in Arizona before conducting activity in Arizona?
- How does your firm identify when a client moves to Arizona?
- Does your firm have compliance personnel that review Arizona-specific registration and licensure requirements, such as providing fingerprints for individual applicants, and that is responsive to correspondence from the Division?

All documents relating to these orders can be found in the Corporation Commission's online docket at <https://edocket.azcc.gov> and by entering docket numbers:

S-21215A-22-0303

S-21232A-23-0068

S-21257A-23-0204

S-21271A-23-0266

S-21273A-23-0297

S-21274A-23-0300

S-21291A-24-0028

S-21305A-24-0103

S-21306A-24-0105

S-21319A-24-0182

S-21320A-24-0183

S-21329A-24-0231

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