

# **State of Alaska FY2008 Governor's Operating Budget**

**Dept of Commerce,Community,& Economic Development  
Banking and Securities  
RDU/Component Budget Summary**

**RDU/Component: Banking and Securities***(There is only one component in this RDU. To reduce duplicate information, we did not print a separate RDU section.)***Contribution to Department's Mission**

Protect consumers of financial services and maintain a safe and sound state financial system.

**Core Services**

1. Register securities and license and examine those who sell and provide advice on securities.
2. Charter and examine state financial institutions.
3. Require accurate disclosure of election materials from Alaska Native Claims Settlement Act corporations (ANCSA).

End Results	Strategies to Achieve Results
<p><b>A: Protect Alaska investors.</b></p> <p><u>Target #1:</u> All regulated broker-dealers and investment advisors are in substantial compliance with the Alaska Securities Act.</p> <p><u>Measure #1:</u> Number of enforcement actions and administrative orders taken against regulated firms.</p>	<p><b>A1: Examine broker-dealers and investment advisors.</b></p> <p><u>Target #1:</u> 100 percent of broker-dealers and investment advisors are examined within a two-year period.</p> <p><u>Measure #1:</u> Percentage examined within two-year period.</p> <p><b>A2: Educate broker-dealers and investment advisors.</b></p> <p><u>Target #1:</u> All examinations will include education on regulatory issues and compliance with the Alaska Securities Act.</p> <p><u>Measure #1:</u> Percentage of examinations that include an educational component.</p> <p><b>A3: Take enforcement action against unregistered persons and unregistered securities.</b></p> <p><u>Target #1:</u> Identify unregistered broker-dealers and investment advisors, unregistered securities, and fraudulent offerings</p> <p><u>Measure #1:</u> Number of enforcement actions against unregistered entities.</p> <p><b>A4: Register securities and those who sell securities.</b></p> <p><u>Target #1:</u> Register securities offerings that are in compliance.</p> <p><u>Measure #1:</u> Percentage of securities offerings that are registered.</p> <p><u>Target #2:</u> Register sellers of securities that are in compliance.</p> <p><u>Measure #2:</u> Percentage of sellers that are registered.</p> <p><u>Target #3:</u> Process all mutual fund notice filings.</p>

	Measure #3: Number of filings.
End Results	Strategies to Achieve Results
<b>B: Protect Alaska borrowers.</b> <u>Target #1:</u> Ensure all violations cited during examinations of financial institutions are resolved. <u>Measure #1:</u> Number of enforcement actions issued due to unresolved violations.	<b>B1: Take enforcement action against unlicensed financial institutions.</b> <u>Target #1:</u> Identify unlicensed financial institutions. <u>Measure #1:</u> Number of enforcement actions taken against unlicensed financial institutions.
End Results	Strategies to Achieve Results
<b>C: Safe and sound state financial institutions.</b> <u>Target #1:</u> No state banks in receivership. <u>Measure #1:</u> Number of state banks in receivership.	<b>C1: Examine state financial institutions.</b> <u>Target #1:</u> Examine 100 percent of examinations on or before statutory deadlines. <u>Measure #1:</u> Percent of exams completed on time.

### Major Activities to Advance Strategies

- Conduct examinations of licensed financial institutions and financial service businesses and take enforcement action against unlicensed entities.
- Investigate complaints against financial institutions and financial services businesses.
- Investigate complaints of misleading ANCSA election materials.

### FY2008 Resources Allocated to Achieve Results

<b>FY2008 Component Budget: \$2,407,400</b>	<b>Personnel:</b>	
	Full time	18
	Part time	0
	<b>Total</b>	<b>18</b>

## Performance Measure Detail

### A: Result - Protect Alaska investors.

**Target #1:** All regulated broker-dealers and investment advisors are in substantial compliance with the Alaska Securities Act.

**Measure #1:** Number of enforcement actions and administrative orders taken against regulated firms.

#### Number of enforcement actions/administrative orders against regulated firms

Fiscal Year	YTD Total
FY 2005	1
FY 2006	2

**Analysis of results and challenges:** Of the 1,325 registered broker dealers, and the 27 registered state investment advisors, only two enforcement actions were taken, demonstrating substantial compliance with the Alaska Securities Act.

**A1: Strategy - Examine broker-dealers and investment advisors.**

**Target #1:** 100 percent of broker-dealers and investment advisors are examined within a two-year period.

**Measure #1:** Percentage examined within two-year period.

**Percent of examinations conducted over a two-year period.**

Fiscal Year	YTD Total
FY 2005	32%
FY 2006	20%

**Analysis of results and challenges:** For the two-year period FY05-FY06, a total of 52 percent of all broker-dealers and investment advisors domiciled in the state of Alaska were examined. In FY06, 50 percent of state investment advisors were examined. The division did not meet its goal of 100% due to a shortage in staffing.

**A2: Strategy - Educate broker-dealers and investment advisors.**

**Target #1:** All examinations will include education on regulatory issues and compliance with the Alaska Securities Act.

**Measure #1:** Percentage of examinations that include an educational component.

**Percent of examinations that include an educational component.**

Fiscal Year	YTD Total
FY 2005	100%
FY 2006	100%

**Analysis of results and challenges:** All examinations conducted included an educational component.

**A3: Strategy - Take enforcement action against unregistered persons and unregistered securities.**

**Target #1:** Identify unregistered broker-dealers and investment advisors, unregistered securities, and fraudulent offerings

**Measure #1:** Number of enforcement actions against unregistered entities.

**Number of enforcement actions taken.**

Fiscal Year	YTD Total
FY 2005	5
FY 2006	2

**Analysis of results and challenges:** 2 unregistered entities were identified and enforcement action was taken in each instance.

**A4: Strategy - Register securities and those who sell securities.**

**Target #1:** Register securities offerings that are in compliance.

**Measure #1:** Percentage of securities offerings that are registered.

**Percent of securities offerings registered.**

Fiscal Year	YTD Total
FY 2005	85%
FY 2006	96%

**Analysis of results and challenges:** Of the 46 applications received to register securities offerings, 44 were found compliant and were registered, and two were in process.

**Target #2:** Register sellers of securities that are in compliance.

**Measure #2:** Percentage of sellers that are registered.

**Percent of sellers registered.**

Fiscal Year	YTD Total
FY 2005	98%
FY 2006	99%

**Analysis of results and challenges:** Of the 1,561 applications received, 1,540 sellers were found compliant and were registered; 21 sellers were not compliant and were denied registration.

**Target #3:** Process all mutual fund notice filings.

**Measure #3:** Number of filings.

**Mutual fund filings.**

Fiscal Year	YTD Total
FY 2005	4,870
FY 2006	5,160

**Analysis of results and challenges:** The number of filings increased a modest 6 percent from FY 2005 to FY 2006; providing additional choices to Alaskan investors.

**B: Result - Protect Alaska borrowers.**

**Target #1:** Ensure all violations cited during examinations of financial institutions are resolved.

**Measure #1:** Number of enforcement actions issued due to unresolved violations.

**Enforcement actions.**

Fiscal Year	YTD Total
FY 2005	0
FY 2006	0

**Analysis of results and challenges:** No enforcement actions were issued, demonstrating regulated financial institutions are generally willing to resolve any identified violations.

**B1: Strategy - Take enforcement action against unlicensed financial institutions.**

**Target #1:** Identify unlicensed financial institutions.

**Measure #1:** Number of enforcement actions taken against unlicensed financial institutions.

**Number of unlicensed financial institutions**

Fiscal Year	YTD Total
FY 2005	2
FY 2006	3

**Analysis of results and challenges:** Three unlicensed financial institutions were identified and enforcement action was taken in each instance.

**C: Result - Safe and sound state financial institutions.**

**Target #1:** No state banks in receivership.

**Measure #1:** Number of state banks in receivership.

**State banks in receivership.**

Fiscal Year	YTD Total
FY 2005	0
FY 2006	0

**Analysis of results and challenges:** No state banks are in receivership, an indicator of safe and sound state financial institutions.

**C1: Strategy - Examine state financial institutions.**

**Target #1:** Examine 100 percent of examinations on or before statutory deadlines.

**Measure #1:** Percent of exams completed on time.

**Exams completed on time.**

Fiscal Year	YTD Total
FY 2005	60%
FY 2006	96%

**Analysis of results and challenges:** Out of twenty-four examinations due for FY 2006, the division completed twenty examinations on-site and three examinations off-site. One examination, an out of state entity, is past due, and will be completed in FY 2007.

**Key Component Challenges**

The division will request legislative approval to establish a contingency fund to cover at least 3 months worth of expenses incurred by the division. In the event state regulated depository institutions and/or trust companies experience severe financial hardship, the fund would help to absorb costs incurred for continuous on-site regulation for an indefinite period of time. This is a recommendation from the Conference of Bank Supervisors, a nationwide organization representing the 50 state banking agencies.

**Significant Changes in Results to be Delivered in FY2008**

No changes anticipated.

## Major Component Accomplishments in 2006

- The division received professional accreditation through the Conference of State Bank Supervisors on June 21, 2006, demonstrating our commitment to achieving and maintaining the highest levels of quality bank supervision.
- The division unveiled a consumer protection campaign that targeted investors and borrowers as follows:
  - 1) We partnered with various non-profit entities to produce a series of Investor Education modules that included seminars and televised presentations on Alaska Public Radio and TV. The Investor Protection Trust, a Wisconsin non-profit corporation, provided funding assistance.
  - 2) We collaborated with various agencies to launch a Don't Borrow Trouble Campaign to educate borrowers about the risk of pledging their home to secure a loan, specifically loans with high costs and high interest rates.
  - 3) We established and staff a toll-free state-wide telephone hotline for investor, lending, and financial fraud complaints.
- The division reviewed 1,561 agent and investment adviser representative applications and 124 broker-dealer and investment advisor applications. Proceedings were taken against 31 applicants, of which 21 withdrew their application. The division conducted 25 on-site examinations of broker-dealers and investment advisors, 20 on-site examinations of financial institutions, and 3 off-site examinations of financial institutions.
- The division took action that resulted in refunds of finance charges totaling \$365,000 made to borrowers.
- The division took action that resulted in \$151,000 of debt forgiven to borrowers.
- The division took action that requires \$225,000 to be refunded to investors.
- The division collected \$59,200 in fines.
- The division identified 5 financial services businesses operating without proper licensing or registration, and took enforcement action in each case.
- The division registered 5,160 mutual fund filings, and processed 475 exemptions and preempted private placement offerings.

## Statutory and Regulatory Authority

AS 06	Financial Institutions
AS 10.13	Business and Industrial Development Corporation Act
AS 34.55	Land Sales Act
AS 45.55 and AS 45.57	Securities
3 AAC 01, 02, 03, 06, 07&12	Financial Institutions
3 AAC 08	Securities

### Contact Information

**Contact:** Mark R. Davis, Division Director  
**Phone:** (907) 465-2521  
**Fax:** (907) 465-2549  
**E-mail:** Mark\_Davis@commerce.state.ak.us





### Banking and Securities Component Financial Summary

*All dollars shown in thousands*

	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	1,270.2	1,546.1	1,774.4
72000 Travel	109.4	89.1	89.1
73000 Services	621.1	437.5	483.5
74000 Commodities	92.2	9.4	9.4
75000 Capital Outlay	5.3	60.0	51.0
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>2,098.2</b>	<b>2,142.1</b>	<b>2,407.4</b>
<b>Funding Sources:</b>			
1007 Inter-Agency Receipts	93.5	0.0	0.0
1156 Receipt Supported Services	2,004.7	2,142.1	2,407.4
<b>Funding Totals</b>	<b>2,098.2</b>	<b>2,142.1</b>	<b>2,407.4</b>

### Estimated Revenue Collections

Description	Master Revenue Account	FY2006 Actuals	FY2007 Management Plan	FY2008 Governor
<b>Unrestricted Revenues</b>				
Receipt Supported Services	51073	8,684.6	8,500.0	8,500.0
<b>Unrestricted Total</b>		<b>8,684.6</b>	<b>8,500.0</b>	<b>8,500.0</b>
<b>Restricted Revenues</b>				
Interagency Receipts	51015	93.5	0.0	0.0
Receipt Supported Services	51073	2,004.7	2,142.1	2,407.4
<b>Restricted Total</b>		<b>2,098.2</b>	<b>2,142.1</b>	<b>2,407.4</b>
<b>Total Estimated Revenues</b>		<b>10,782.8</b>	<b>10,642.1</b>	<b>10,907.4</b>

**Summary of Component Budget Changes  
From FY2007 Management Plan to FY2008 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2007 Management Plan</b>	<b>0.0</b>	<b>0.0</b>	<b>2,142.1</b>	<b>2,142.1</b>
<b>Adjustments which will continue current level of service:</b>				
-FY 08 Health Insurance Increases for Exempt Employees	0.0	0.0	0.2	0.2
<b>Proposed budget increases:</b>				
-FY 08 Internal Dept Cost Increase due to Retirement Systems Rate Increases	0.0	0.0	46.0	46.0
-FY 08 Retirement Systems Rate Increases	0.0	0.0	219.1	219.1
<b>FY2008 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>2,407.4</b>	<b>2,407.4</b>

### Banking and Securities Personal Services Information

Authorized Positions			Personal Services Costs	
	<u>FY2007</u> <u>Management</u> <u>Plan</u>	<u>FY2008</u> <u>Governor</u>		
Full-time	18	18	Annual Salaries	1,062,485
Part-time	0	0	Premium Pay	0
Nonpermanent	0	0	Annual Benefits	784,941
			<i>Less 3.95% Vacancy Factor</i>	(73,026)
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>18</b>	<b>18</b>	<b>Total Personal Services</b>	<b>1,774,400</b>

### Position Classification Summary

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Assistant	0	0	1	0	1
Administrative Clerk III	1	0	2	0	3
Business Reg Examiner	0	0	1	0	1
Division Director	1	0	0	0	1
Financial Instit Exam I	1	0	0	0	1
Financial Instit Exam II	1	0	1	0	2
Financial Instit Exam III	1	0	0	0	1
Financial Instit Exam IV	0	0	1	0	1
Investigator III	2	0	0	0	2
Secretary	0	0	1	0	1
Securities Examiner I	1	0	1	0	2
Securities Examiner II	1	0	1	0	2
<b>Totals</b>	<b>9</b>	<b>0</b>	<b>9</b>	<b>0</b>	<b>18</b>