

**State of Alaska
FY2009 Governor's Operating Budget**

**Department of Commerce, Community, and 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 while responding to consumer complaints regarding the sale of securities within the jurisdiction of the Alaska Securities Act.
2. Charter, license, and examine state financial institutions.
3. Require accurate disclosure of election materials from Alaska Native Claims Settlement Act corporations (ANCSA) and shareholders and investigate proxy related complaints.

| End Result | Strategies to Achieve End Result |
|---|---|
| <p>A: Protect Alaska investors.</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>A1: Examine investment advisors and broker-dealers.</p> <p><u>Target #1:</u> 100 percent of investment advisors are examined within a two-year period.</p> <p><u>Measure #1:</u> Percentage examined within two-year period.</p> <p><u>Target #2:</u> Examine broker/dealers on a for-cause basis.</p> <p><u>Measure #2:</u> Number of examinations conducted in response to credible complaints received.</p> <p>A2: Register securities and those who sell securities.</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> |
| End Result | Strategies to Achieve End Result |
| <p>B: Protect Alaska borrowers.</p> <p><u>Target #1:</u> Ensure all violations cited during examinations of financial institutions are resolved.</p> <p><u>Measure #1:</u> Number of enforcement actions issued due to unresolved violations.</p> | <p>B1: Take enforcement action against unlicensed financial institutions.</p> <p><u>Target #1:</u> Identify unlicensed financial institutions.</p> <p><u>Measure #1:</u> Number of enforcement actions taken against unlicensed financial institutions.</p> |
| End Result | Strategies to Achieve End Result |
| <p>C: Safe and sound state financial institutions.</p> <p><u>Target #1:</u> No state banks in receivership.</p> | <p>C1: Examine state financial institutions.</p> <p><u>Target #1:</u> Examine 100 percent of examinations on or</p> |

| | |
|--|--|
| Measure #1: Number of state banks in receivership. | before statutory deadlines. Measure #1: Percent of exams completed on time. |
|--|--|

Major Activities to Advance Strategies

- Conduct examinations of licensed financial institutions and financial service businesses.
- Coordinate examinations of depository institutions with the Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration
- Prepare the Division's annual Directory of Banks and Financial Institutions.
- Maintain accreditation with the Conference of State Bank Supervisor's (CSBS).
- Require licensed financial institutions to comply with statutes and take enforcement action against unlicensed financial services companies.
- Investigate consumer complaints concerning state chartered or licensed financial institutions.
- Coordinate with the Office of Consumer Affairs and Investigations to ensure consumers' concerns are being serviced and responded to appropriately.
- License and examine state supervised investment advisors.
- Conduct for cause examinations of broker-dealers, and respond to consumer complaints regarding inappropriate sales of securities.
- Conduct an eighteen month exam schedule for State investment advisors and ensure their compliance with the Alaska Securities Act.
- Process broker dealer applications for registration in Alaska by checking their backgrounds with the Central Registration Depository (CRD).
- Register securities, broker dealers, and process requests for securities exemptions.
- Supervise the activities of registered broker-dealers, investment advisors, and registered investment representatives that are licensed in the State.
- Provide educational outreach to the public with particular emphasis towards seniors and youth.
- Conduct seminars for Alaskan consumers regarding various topics such as investment accounts, fraud, and choosing an investment professional.
- Work with the Office of Consumer Affairs and Investigations to educate the public on how to avoid being a victim of a financial fraud.
- Provide educational programs on personal finances and money management and work with outreach groups, such as AARP, to publicize such events.
- Provide oversight with respect to the filing of proxies and materials received by the Division under AS 45.55.139.
- Investigate complaints concerning material misstatements in proxies and related materials for certain ANCSA corporations and their shareholders.

FY2009 Resources Allocated to Achieve Results

FY2009 Component Budget: \$3,084,600

| | |
|-------------------|-----------|
| Personnel: | |
| Full time | 19 |
| Part time | 0 |
| Total | 19 |

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

| Year | YTD |
|---------|-----|
| FY 2006 | 2 |
| FY 2007 | 0 |

Analysis of results and challenges: Of the 1,371 registered broker dealers, and the 29 registered state

investment advisors, no enforcement actions were taken, demonstrating compliance with the Alaska Securities Act.

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

Target #1: 100 percent of 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.

| Year | YTD |
|---------|------|
| FY 2006 | 20% |
| FY 2007 | 100% |

Analysis of results and challenges: In FY07, 100 percent of state investment advisors were examined.

Target #2: Examine broker/dealers on a for-cause basis.

Measure #2: Number of examinations conducted in response to credible complaints received.

Number of for-cause examinations

| Year | YTD |
|------|-----|
| 2007 | 0 |

Analysis of results and challenges: No credible complaints were received that would trigger a for-cause examination in FY 2007.

A2: 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.

| Year | YTD |
|---------|-----|
| FY 2006 | 96% |
| FY 2007 | 91% |

Analysis of results and challenges: Of the 55 applications received to register securities offerings, 50 were found compliant and were registered, and five were in process. Registrations increased by approximately 20 percent.

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

Measure #2: Percentage of sellers that are registered.

Percent of sellers registered.

| Year | YTD |
|---------|-----|
| FY 2006 | 99% |
| FY 2007 | 99% |

Analysis of results and challenges: Of the 1,632 applications received, 1,621 sellers were found compliant and were registered; 11 sellers were not compliant and were denied registration.

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.

| Year | YTD |
|---------|-----|
| FY 2006 | 0 |
| FY 2007 | 1 |

Analysis of results and challenges: Only one enforcement action was 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

| Year | YTD |
|---------|-----|
| FY 2006 | 3 |
| FY 2007 | 1 |

Analysis of results and challenges: One unlicensed financial institution was identified and enforcement action was taken.

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.

| Year | YTD |
|---------|-----|
| FY 2006 | 0 |
| FY 2007 | 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.

| Year | Banks/Credit Unions | Small Loan Company | Premium Finance Company | Payday Lender |
|---------|---------------------|--------------------|-------------------------|---------------|
| FY 2007 | 100% | 33% | 22% | 54% |

Analysis of results and challenges: 100% of all bank and credit union exams due in FY 2007 were completed on time.

Of the two past due small loan exams, the on-site portion of each exam has been conducted.

Of the seven past due premium finance exams, five have been completed and two are in process.

Of the seven past due payday lender exams, five have been completed and two are in process.

Key Component Challenges

The Division will continue to investigate alleged or suspected violations of the statutes under its jurisdiction. Resolving these complaints in a timely manner is a priority and will likely include closure or referrals for administrative or legal action. The Division requires a full-time Assistant Attorney General to accomplish this effort.

The Division is required to track recent reforms in the electronic filing in many areas of federal securities supervision in a 2007 mandate by the Securities and Exchange Commission (SEC).

There is a recommendation from the Conference of Bank Supervisors to establish a contingency fund to cover at least 3 months worth of expenses incurred by the Division to be used 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.

Significant Changes in Results to be Delivered in FY2009

No changes anticipated.

Major Component Accomplishments in 2007

- The Division established a Memorandum of Understanding with the Office of the Comptroller of the Currency (OCC) to facilitate resolving complaints against nationally chartered banks
- The Division continued a consumer protection campaign that targeted investors and borrowers as follows:
- 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.
- 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 registered 5,310 mutual fund filings, and processed 493 exemptions and preempted private placement offerings.
- The Division in FY07 processed 27 ANCSA complaints.

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

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**Banking and Securities
Component Financial Summary**

All dollars shown in thousands

| | FY2007 Actuals | FY2008 Management Plan | FY2009 Governor |
|---------------------------------|----------------|---------------------------|-----------------|
| Non-Formula Program: | | | |
| Component Expenditures: | | | |
| 71000 Personal Services | 1,316.9 | 1,455.9 | 1,688.1 |
| 72000 Travel | 102.6 | 91.6 | 116.6 |
| 73000 Services | 696.8 | 861.5 | 1,200.5 |
| 74000 Commodities | 22.9 | 10.4 | 16.4 |
| 75000 Capital Outlay | 0.0 | 53.0 | 63.0 |
| 77000 Grants, Benefits | 0.0 | 0.0 | 0.0 |
| 78000 Miscellaneous | 0.0 | 0.0 | 0.0 |
| Expenditure Totals | 2,139.2 | 2,472.4 | 3,084.6 |
| Funding Sources: | | | |
| 1002 Federal Receipts | 0.0 | 250.0 | 250.0 |
| 1156 Receipt Supported Services | 2,139.2 | 2,222.4 | 2,834.6 |
| Funding Totals | 2,139.2 | 2,472.4 | 3,084.6 |

Estimated Revenue Collections

| Description | Master Revenue Account | FY2007 Actuals | FY2008 Management Plan | FY2009 Governor |
|---------------------------------|------------------------------|-----------------|---------------------------|-----------------|
| Unrestricted Revenues | | | | |
| Receipt Supported Services | 51073 | 8,764.6 | 8,690.5 | 8,069.2 |
| Unrestricted Fund | 68515 | 17.0 | 17.0 | 17.0 |
| Unrestricted Total | | 8,781.6 | 8,707.5 | 8,086.2 |
| Restricted Revenues | | | | |
| Federal Receipts | 51010 | 0.0 | 250.0 | 250.0 |
| Receipt Supported Services | 51073 | 2,139.2 | 2,222.4 | 2,834.6 |
| Restricted Total | | 2,139.2 | 2,472.4 | 3,084.6 |
| Total Estimated Revenues | | 10,920.8 | 11,179.9 | 11,170.8 |

**Summary of Component Budget Changes
From FY2008 Management Plan to FY2009 Governor**

All dollars shown in thousands

| | <u>General Funds</u> | <u>Federal Funds</u> | <u>Other Funds</u> | <u>Total Funds</u> |
|---|----------------------|----------------------|--------------------|--------------------|
| FY2008 Management Plan | 0.0 | 250.0 | 2,222.4 | 2,472.4 |
| Adjustments which will continue current level of service: | | | | |
| -FY 09 Health Insurance Increases for Exempt Employees | 0.0 | 0.0 | 0.2 | 0.2 |
| -FY 09 Bargaining Unit Contract Terms: General Government Unit | 0.0 | 0.0 | 81.5 | 81.5 |
| Proposed budget increases: | | | | |
| -2nd Year Fiscal Note (HB 162) Mortgage Lending | 0.0 | 0.0 | 285.5 | 285.5 |
| -Program Coordinator Position Costs in Administrative Services | 0.0 | 0.0 | 17.0 | 17.0 |
| -Core Service Increases Paid to Department of Administration | 0.0 | 0.0 | 24.0 | 24.0 |
| -Administrator of Investigations Support in the Office of Consumer Affairs & Investigations | 0.0 | 0.0 | 24.0 | 24.0 |
| -Legal Costs | 0.0 | 0.0 | 180.0 | 180.0 |
| FY2009 Governor | 0.0 | 250.0 | 2,834.6 | 3,084.6 |

**Banking and Securities
Personal Services Information**

| Authorized Positions | | Personal Services Costs | | |
|----------------------|-----------|----------------------------------|--|------------------|
| <u>FY2008</u> | | | | |
| <u>Management</u> | | <u>FY2009</u> | | |
| <u>Plan</u> | | <u>Governor</u> | | |
| | | Annual Salaries | | 1,040,576 |
| Full-time | 17 | COLA | | 82,951 |
| Part-time | 0 | Premium Pay | | 0 |
| Nonpermanent | 0 | Annual Benefits | | 572,024 |
| | | <i>Less 0.44% Vacancy Factor</i> | | (7,451) |
| | | Lump Sum Premium Pay | | 0 |
| Totals | 17 | Total Personal Services | | 1,688,100 |

Position Classification Summary

| Job Class Title | Anchorage | Fairbanks | Juneau | Others | Total |
|---------------------------|-----------|-----------|-----------|----------|-----------|
| Administrative Assistant | 1 | 0 | 1 | 0 | 2 |
| Administrative Clerk III | 0 | 0 | 2 | 0 | 2 |
| Business Reg Examiner | 0 | 0 | 2 | 0 | 2 |
| Division Director | 1 | 0 | 0 | 0 | 1 |
| Financial Instit Exam II | 1 | 0 | 1 | 0 | 2 |
| Financial Instit Exam III | 1 | 0 | 2 | 0 | 3 |
| Financial Instit Exam IV | 0 | 0 | 1 | 0 | 1 |
| Investigator III | 1 | 0 | 0 | 0 | 1 |
| Law Office Assistant I | 0 | 0 | 1 | 0 | 1 |
| Securities Examiner I | 0 | 0 | 2 | 0 | 2 |
| Securities Examiner II | 1 | 0 | 1 | 0 | 2 |
| Totals | 6 | 0 | 13 | 0 | 19 |