

# *Texas State Securities Board*



## **ANNUAL FINANCIAL REPORT TO THE GOVERNOR**

For The  
**FISCAL YEAR**  
**SEPTEMBER 1, 2020 – AUGUST 31, 2021**

# *Texas State Securities Board*

## **ANNUAL FINANCIAL REPORT**

**For the Year Ended August 31, 2021**

TRAVIS J. ILES  
SECURITIES COMMISSIONER



CLINTON EDGAR  
DEPUTY SECURITIES COMMISSIONER

Mail: P.O. BOX 13167  
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## *Texas State Securities Board*

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Austin, Texas 78701-2407  
[www.ssb.texas.gov](http://www.ssb.texas.gov)

E. WALLY KINNEY  
CHAIR

KENNY KONCABA  
MEMBER

ROBERT BELT  
MEMBER

MELISSA TYROCH  
MEMBER

EJIKE E OKPA II  
MEMBER

November 19, 2021

Honorable Greg Abbott, Governor  
Honorable Glenn Hegar, Texas Comptroller  
John McGeedy, Director, Legislative Budget Board  
Lisa Collier, First Assistant State Auditor

Ladies and Gentlemen:

We are pleased to submit the annual financial report of the Texas State Securities Board for the year ended August 31, 2021, in compliance with Texas Government Code Annotated, Section 2101.011, and in accordance with the requirements established by the Comptroller of Public Accounts.

Due to the statewide requirements embedded in Governmental Accounting Standards Board (GASB) 34, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this statement. The financial report will be considered for audit by the state auditor as part of the audit of the State of Texas *Annual Comprehensive Financial Report* (ACFR); therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

If you have any questions, please contact Derek Lauterjung, at (512) 305-8321. Thank you for your time, consideration, and service.

Sincerely,

A handwritten signature in blue ink, appearing to read "T. J. Iles", written over a light blue circular stamp.

Travis J. Iles  
Securities Commissioner

Enclosure  
TI/dl

# *Texas State Securities Board*

## ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2021

### MEMBERS OF THE BOARD

August 31, 2021

E. Wally Kinney, Chair.....	Comfort
Kenny Konkaba, Member.....	Friendswood
Robert R. Belt, Member.....	Houston
Melissa Tyroch, Member.....	Belton
Ejike E. Okpa, Member.....	Dallas

# STATE SECURITIES BOARD

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### IV. ADDENDA

**I. COMBINED FINANCIAL STATEMENTS**

- A.     Exhibit I:             Combined Balance Sheet/Statement of Net Assets - Governmental Funds**
  
- B.     Exhibit II:            Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities - Governmental Funds**
  
- C.     Exhibit VI:            Combined Statement of Fiduciary Net Assets**

**STATE SECURITIES BOARD (312)****Exhibit I – Combined Balance Sheet/Statement of Net Assets – Governmental Funds**

August 31, 2021

General  
Funds**ASSETS**

Current Assets:	
Cash and Cash Equivalents:	
Cash in State Treasury	9,560.56
Legislative Appropriations	856,618.94
Interfund Receivable	8,720.00
Total Current Assets	<u>874,899.50</u>
Non-Current Assets:	
Capital Assets Note 2:	
Depreciable:	
Furniture and Equipment	
Less Accumulated Depreciation	
Amortizable:	
Computer Software-Intangible	
Less Accumulated Amortization	
Total Non-Current Assets	<u>0.00</u>
Total Assets	<u>874,899.50</u>

**LIABILITIES AND FUND BALANCES**

Liabilities:	
Current Liabilities:	
Accounts Payable	19,331.13
Payroll Payable	731,375.75
Interfund Payable	8,720.00
Employees Compensable Leave (Note 5)	0.00
Total Current Liabilities	<u>759,426.88</u>
Non-Current Liabilities:	
Employees Compensable Leave (Note 5)	
Total Non-Current Liabilities	<u>0.00</u>
Total Liabilities	<u>759,426.88</u>

**FUND FINANCIAL STATEMENT**

Fund Balances (Deficits)	
Nonspendable	0.00
Assigned	0.00
Unassigned	716,636.88
Other Changes	(601,164.26)
Total Fund Balances	<u>115,472.62</u>
Total Liabilities and Fund Balances	<u>874,899.50</u>

**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**

Net Assets:	
Invested in Capital Assets, Net of Related Debt	
Unrestricted	
Total Net Assets	

**STATE SECURITIES BOARD (312)****Exhibit I – Combined Balance Sheet/Statement of Net Assets – Governmental Funds**

August 31, 2021

<u>Capital Assets Adjustments</u>	<u>Long-Term Liabilities Adjustments</u>	<u>Other Adjustments</u>	<u>Statement Of Net Assets</u>
			9,560.56
			856,618.94
			<u>8,720.00</u>
			<u>874,899.50</u>
82,138.64			82,138.64
(75,009.51)			(75,009.51)
9,073.80			9,073.80
<u>(9,073.80)</u>			<u>(9,073.80)</u>
<u>7,129.13</u>			<u>7,129.13</u>
<u>7,129.13</u>			<u>882,028.63</u>
			19,331.13
			731,375.75
			8,720.00
	<u>470,206.69</u>		<u>470,206.69</u>
	<u>470,206.69</u>		<u>1,229,633.57</u>
	<u>379,877.28</u>		<u>379,877.28</u>
	<u>379,877.28</u>		<u>379,877.28</u>
	<u>850,083.97</u>		<u>1,609,510.85</u>
			0.00
			0.00
			716,636.88
			<u>(601,164.26)</u>
			<u>115,472.62</u>
7,129.13			7,129.13
	(850,083.97)		(850,083.97)
			<u>(727,482.22)</u>

**STATE SECURITIES BOARD (312)****Exhibit II – Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities – Governmental Funds****For the Fiscal Year Ended August 31, 2021**

	General Funds
<b>REVENUES</b>	
Legislative Appropriations:	
Original Appropriations (GR)	7,491,116.00
Additional Appropriations	1,663,630.00
Licenses, Fees and Permits	526.50
Federal Pass-Through Revenue	8,720.00
Interest, Dividend, & Other Income	<u>.56</u>
Total Revenues	<u>9,163,993.06</u>
<b>EXPENDITURES</b>	
Salaries and Wages	6,601,858.99
Payroll Related Costs	1,757,178.17
Professional Fees and Services	259,958.14
Travel	9,193.45
Materials and Supplies	92,729.09
Communication and Utilities	182,848.95
Repairs and Maintenance	16,631.02
Rentals and Leases	166,861.21
Printing and Reproduction	311.00
Other Expenditures	43,515.40
Capital Outlay	0.00
Depreciation Expense	<u>0.00</u>
Total Expenditures/Expenses	<u>9,131,085.42</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>32,907.64</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Gain (Loss) on Sale of Capital Assets	
Total Other Financing Sources (USES)	
<b>Net Change in Fund Balances/Net Position</b>	<u>32,907.64</u>
<b>FUND FINANCIAL STATEMENT - FUND BALANCES</b>	
Fund Balances, September 1, 2020	704,931.53
Appropriations Lapsed / Backouts / Restatements	<u>(622,366.55)</u>
Fund Balances, August 31, 2021	<u>115,472.62</u>
<b>GOVERNMENT-WIDE STATEMENT - NET POSITION</b>	
Net Position/Net Change in Net Position	
Net Position, September 1, 2020	
Net Position, August 31, 2021	<u>115,472.62</u>

**STATE SECURITIES BOARD (312)**

**Exhibit II– Combined Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities – Governmental Funds**

**For the Fiscal Year Ended August 31, 2021**

<u>Capital Assets Adjustments</u>	<u>Long-Term Liabilities Adjustments</u>	<u>Statement Of Activities</u>
		7,491,116.00
		1,663,630.00
		526.50
		8,720.00
		.56
<u>0.00</u>	<u>0.00</u>	<u>9,163,993.06</u>
	(74,869.01)	6,526,989.98
		1,757,178.17
		259,958.14
		9,193.45
		92,729.09
		182,848.95
		16,631.02
		166,861.21
		311.00
		43,515.40
		0.00
<u>3,693.72</u>		<u>3,693.72</u>
<u>3,693.72</u>	<u>(74,869.01)</u>	<u>9,059,910.13</u>
<u>(3,693.72)</u>	<u>74,869.01</u>	<u>104,082.93</u>
<u>0.00</u>		<u>0.00</u>
<u>0.00</u>		<u>0.00</u>
		<u>32,907.64</u>
		704,931.53
		<u>(622,366.55)</u>
		<u>115,472.62</u>
<u>(3,693.72)</u>	<u>74,869.01</u>	<u>71,175.29</u>
<u>10,822.85</u>	<u>(924,952.98)</u>	<u>(914,130.13)</u>
<u>7,129.13</u>	<u>(850,083.97)</u>	<u>(727,482.22)</u>

**STATE SECURITIES BOARD (312)**  
**Exhibit VI – Combined Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
August 31, 2021

	Agency Funds (Ex J-1)
<b>ASSETS</b>	
Cash in State Treasury	840.00
Total Assets	<u>840.00</u>
<b>LIABILITIES</b>	
Funds Held for Others	840.00
Total Liabilities	<u>840.00</u>
<b>NET ASSETS</b>	
Total Net Assets	<u>0.00</u> <u>0.00</u>

## **II. NOTES TO THE FINANCIAL STATEMENTS**

**STATE SECURITIES BOARD (312)****NOTES TO THE FINANCIAL STATEMENTS****NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. ENTITY**

The State Securities Board is an agency of the State of Texas and its financial records comply with state statutes and regulations. This includes compliance with the Texas Comptroller of Public Accounts' *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*.

The State Securities Board was created in 1957 pursuant to "The Securities Act" passed by the 55<sup>th</sup> Legislature. This Act provides for the regulation of the sale of securities and the regulation of dealers, investment advisers, and their agents and representatives who sell securities or render investment advice. The State Securities Board is responsible for administering and enforcing the provisions contained in the Act. (For detailed information about the Board, refer to Section IV of this report.)

Due to the statewide requirements embedded in Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Comptroller of Public Accounts does not require the accompanying annual financial report to comply with all the requirements in this Statement. The financial report is considered for audit by the State Auditor as part of the audit of the State of *Texas Comprehensive Annual Financial Report*, therefore, an opinion has not been expressed on the financial statements and related information contained in this report.

**B. FUND STRUCTURE**

The accompanying financial statements are presented on the basis of fund type, each of which is considered a separate accounting entity.

**GOVERNMENTAL FUND TYPES**General Fund (GAAP Fund Type 01)

The General Revenue Fund is used to account for all financial resources of the state except those required to be accounted for in another fund.

## STATE SECURITIES BOARD (312)

### Capital Asset Adjustment Fund Type

The Capital Assets Adjustment fund is used to convert governmental fund types' capital assets from modified accrual to full accrual.

### Long-Term Liabilities Adjustment Fund Type

Long-Term Liabilities Adjustment fund is used to convert governmental fund types' debt from modified accrual to full accrual.

## FIDUCIARY FUND TYPES

### Agency Funds (GAAP Fund Type 09)

Agency funds are used to account for assets the government holds on behalf of others in a purely custodial capacity. Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

## COMPONENT UNITS

The State Securities Board has no component units.

## C. BASIS OF ACCOUNTING

The basis of accounting determines when revenues and expenditures or expenses are recognized in the accounts reported in the financial statements. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus.

Governmental fund types that build the fund financial statements are accounted for using the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized in the period that they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end.

The State of Texas considers receivables collected within 60 days after year-end to be available and recognizes them as revenues of the current year for Fund Financial statements prepared on the modified accrual basis. Expenditures and other uses of financial resources are recognized when the related liability is incurred.

Governmental adjustment fund types that will build the government-wide financial statements are accounted for using the full accrual basis of accounting. The following activities are recognized in these fund types:

- Capital assets
- Accumulated depreciation
- Unpaid employee compensable leave

**STATE SECURITIES BOARD (312)**

- The unmatured debt service on general long-term liabilities
- Long-term capital leases
- Long-term claims and judgments
- Full accrual revenues and expenses

**D. BUDGETS AND BUDGETARY ACCOUNTING**

The budget is prepared biennially and represents appropriations authorized by the Legislature and approved by the Governor (*the General Appropriations Act*).

Unencumbered appropriations are generally subject to lapse 60 days after the end of the fiscal year for which they were appropriated.

**E. ASSETS, LIABILITIES, AND FUND BALANCES/NET ASSETS****ASSETS**Capital Assets

Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. These assets are capitalized at cost or, if any are purchased, as appraised fair value as of the date of acquisition. Purchases of assets by governmental funds are reported as expenditures. Depreciation is reported on all "exhaustible" assets. Assets are depreciated over the estimated useful life of the asset using the straight-line method.

**LIABILITIES**Accounts Payable

Accounts Payable represents the liability for the value of assets or services received at the balance sheet date for which payment is pending.

Employees' Compensable Leave Balances

Employees' Compensable Leave Balances represent the liability that becomes "due" upon the occurrence of relevant events such as resignations, retirements, and uses of leave balances by covered employees. Liabilities are reported separately as either current or non-current in the statement of net assets.

## STATE SECURITIES BOARD (312)

### FUND BALANCE/NET ASSETS

The difference between fund assets and liabilities is “Net Assets” on the government-wide, proprietary and fiduciary fund statements, and the “Fund Balance” is the difference between fund assets and liabilities on the governmental fund statements.

#### Fund Balance Components

Fund balances for governmental funds are classified as nonspendable, restricted, committed, assigned or unassigned in the fund financial statements.

#### Nonspendable Fund Balance Component

The nonspendable fund balance includes amounts not available to be spent because they are either not in spendable form or legally or contractually required to be maintained intact.

#### Restricted Fund Balance Component

The restricted fund balance includes those resources that have constraints placed on their use through external parties or by law through constitutional provisions.

#### Committed Fund Balance Component

The committed fund balance can be used only for specific purposes pursuant to constraints imposed by a formal action of the Texas Legislature, the state’s highest level of decision making authority.

#### Assigned Fund Balance Component

The assigned fund balance includes amounts constrained by the state’s intent to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the Texas Legislature or a body (for example, a budget or finance committee) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

#### Unassigned Fund Balance Component

The unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that was not assigned to other funds and was not restricted, committed or assigned to specific purposes within the general fund.

### INTERFUND ACTIVITIES AND TRANSACTIONS

The Agency has the following types of transactions between funds:

1. Transfers: Legally required transfers that are reported when incurred as ‘Transfers In’ by the recipient fund and ‘Transfers Out’ by the disbursing fund.

**STATE SECURITIES BOARD (312)**

2. Reimbursements: Reimbursements are repayments from funds responsible for expenditures or expenses to funds that made the actual payment. Reimbursements of expenditures made by one fund to another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund. Reimbursements are not displayed in the financial statements.
3. Interfund receivables and payables: Interfund loans are reported as interfund receivables and payables. If repayment is due during the current year or soon thereafter it is classified as "Current"; repayment for two (or more) years is classified as "Non-Current."
4. Interfund Sales and Purchases: Charges or collections for services rendered by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund. The composition of the Agency's interfund activities and balances are presented in Note 12.

**NOTE 2: CAPITAL ASSETS**

Changes in Capital Assets for the year ended August 31, 2021:

**Governmental Activities**

Depreciable/Amortizable Asset Type	Balance 9/1/20	Adjustments	Additions	Deletions	Balance 8/31/21
Furniture and Equipment	\$82,138.64	-	-	-	\$82,138.64
Less Accumulated Depreciation	(\$71,315.79)	-	(\$3,693.72)	-	(\$75,009.51)
Computer Software	\$9,073.80	-	-	-	\$9,073.80
Less Accumulated Amortization	(\$9,073.80)	-	-	-	(\$9,073.80)
Governmental Activities, Capital Assets	<u>\$10,822.85</u>	=	<u>(\$3,693.72)</u>	=	<u>\$7,129.13</u>

**NOTE 3: DEPOSITS, INVESTMENTS, AND REPURCHASE AGREEMENTS**

(Not applicable to this Agency.)

**NOTE 4: SHORT-TERM DEBT**

(Not applicable to this Agency.)

**STATE SECURITIES BOARD (312)****NOTE 5: LONG-TERM LIABILITIES**

The Agency has no long-term notes or loans payable, claims or judgments outstanding or pending, pollution remediation obligations, or liabilities payable from restricted assets.

**Employees Compensable Leave**

If a state employee has had continuous employment with the state for at least six months, the state employee is entitled to be paid for all unused vacation time accrued in the event of the employee's resignation, dismissal, or separation from State employment. Expenditures for accumulated annual leave balances are recognized in the period paid or taken in governmental fund types. For these fund types, the liability for unpaid benefits is recorded in the Statement of Net Assets. Both an expense and a liability for business-type activities are recorded in the proprietary funds as the benefits accrue to employees. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits. This obligation is usually paid from the same funding source(s) from which the employee's salary or wage compensation was paid.

The Agency's monetary liability for compensable future absences as of August 31, 2021, as computed by multiplying the ending balances by the year-end average hourly salary rate for all employees, were as follows:

	<u>Balance</u> <u>8-31-20</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>8-31-21</u>	<u>Due Within</u> <u>One Year</u>	<u>Due</u> <u>Thereafter</u>
Compensable Leave:	\$924,952.98	\$659,648.10	(\$734,517.11)	\$850,083.97	\$470,206.69	\$379,877.28

**NOTE 6: BONDED INDEBTEDNESS**

(Not applicable to this Agency.)

**NOTE 7: DERIVATIVE INSTRUMENTS**

(Not applicable to this Agency.)

**STATE SECURITIES BOARD (312)****NOTE 8: LEASES****OPERATING LEASES**

Included in the expenditures reported in the financial statements are the following amounts of rent paid or due under operating lease obligations:

Fund Type	Amount
General Revenue	\$136,461.66

Future minimum lease rental payments under non-cancelable operating leases having an initial term in excess of one year are as follows:

Year Ended	August 31, 2022	136,163.16
Year Ended	August 31, 2023	108,640.18
Year Ended	August 31, 2024	57,596.88
Year Ended	August 31, 2025	53,951.88
Year Ended	August 31, 2026	13,487.97
5 Year Increment	September 1, 2026 to August 31, 2031	0.00

Total Minimum Future Lease Rental Payments:	<u>\$369,840.07</u>
--	---------------------

- The Agency has multiple lease obligations. As of August 31, 2021, the Agency's longest lease obligation is set to expire on November 30, 2025.

**CAPITAL LEASES**

The Agency has no current long-term capital leases.

**NOTE 9: PENSION PLANS AND DEFINED CONTRIBUTION PLAN**

The State has joint contributory retirement plans for a vast majority of its employees. The Agency participates in the plans administered by the Employees Retirement System of Texas. Future pension costs are the liabilities of the Retirement System. The System does not account for each state agency separately. Annual financial reports prepared by the System include audited financial statements and actuarial assumptions and conclusions.

**NOTE 10: DEFERRED COMPENSATION**

State employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in the TEX. GOV'T CODE ANN., Chapter 609. Two plans are available for employees' deferred compensation plans. Each plan is administered by the Employees Retirement System.

**STATE SECURITIES BOARD (312)****NOTE 11: POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

(Not applicable to this Agency.)

**NOTE 12: INTERFUND ACTIVITY AND TRANSACTIONS**

As explained in Note 1, in the portion titled, Interfund Activities and Balances, there are numerous transactions between funds and agencies. At year-end, amounts to be received or paid, relative to this agency, are reported as:

- Interfund Receivables or Interfund Payables
- Due from other Agencies or due to other Agencies
- Legislative Transfers In or Legislative Transfers Out

Individual balances and activity at August 31, 2020:

Current Portion	Current Interfund Receivable	Current Interfund Payable
GENERAL (01)	-0-	-0-
Non-Current Portion	Non-Current Interfund Receivable	Non-Current Interfund Payable
GENERAL (01)	-0-	-0-
	Due From Other Agencies	Due To Other Agencies
GENERAL (01)	-0-	-0-

**NOTE 13: CONTINUANCE SUBJECT TO REVIEW**

Pursuant to the Texas Sunset Act, the Agency will be abolished effective September 1, 2031 unless continued in existence as provided by the Act. If abolished, the Agency may continue until September 1, 2032 to close out its operations.

**NOTE 14: ADJUSTMENTS TO FUND BALANCES AND NET POSITION**

(Not applicable to this Agency.)

**NOTE 15: CONTINGENCIES AND COMMITMENTS**

(Not applicable to this Agency.)

**STATE SECURITIES BOARD (312)****NOTE 16: SUBSEQUENT EVENTS**

(Not applicable to this Agency.)

**NOTE 17: RISK MANAGEMENT**

The State Securities Board is exposed to a variety of potential civil claims resulting from the performance of its duties. The Agency assumes substantially all risks associated with tort and liability claims due to the performance of its duties. Currently there is no purchase of commercial insurance nor is the Agency involved in any risk pools with other government agencies. The agency does participate in the Statewide Automobile Insurance Program and Statewide Property Insurance Program facilitated by the State Office of Risk Management.

The Agency's liabilities are reported when it is both probable that a loss has occurred, and the amount of that loss can be reasonably estimated.

**NOTE 18: MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Agency has no special or extraordinary items to report.

**NOTE 19: THE FINANCIAL REPORTING ENTITY**

(Not applicable to this Agency.)

**NOTE 20: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

(Not applicable to this Agency.)

**NOTE 21: N/A****NOTE 22: DONOR RESTRICTED ENDOWMENTS**

(Not applicable to this Agency.)

**NOTE 23: EXTRAORDINARY AND SPECIAL ITEMS**

This Agency has no special or extraordinary items to report.

**STATE SECURITIES BOARD (312)**

**NOTE 24: DISAGGREGATION OF RECEIVABLE AND PAYABLE BALANCES**

(Not applicable to this Agency.)

**NOTE 25: TERMINATION BENEFITS**

(Not applicable to this Agency.)

**NOTE 26: SEGMENT INFORMATION**

(Not applicable to this Agency.)

**NOTE 27: SERVICE CONCESSION ARRANGEMENTS**

(Not applicable to this Agency.)

**NOTE 28: DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES**

(Not applicable to this Agency.)

**NOTE 29: TROUBLED DEBT RESTRUCTURING**

(Not applicable to this Agency.)

**NOTE 30: NON-EXCHANGE FINANCIAL GUARANTEES**

(Not applicable to this Agency.)

**NOTE 31: TAX ABATEMENTS**

(Not applicable to this Agency.)

**NOTE 32: GOVERNMENTAL FUND BALANCES**

(Not applicable to this Agency.)

### **III. COMBINING STATEMENTS**

**STATE SECURITIES BOARD (312)****Exhibit J-1 – Combining Statement of Changes in Assets and Liabilities****Agency Funds**

August 31, 2021

	<u>Beginning Balance</u> <u>September 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u> <u>August 31, 2021</u>
UNAPPROPRIATED RECEIPTS				
<u>Child Support Deduction (0807)</u>				
<u>U/F (0807)</u>				
<b>ASSETS</b>				
Cash in Treasury	<u>\$840.00</u>	<u>\$10,080.00</u>	<u>\$10,080.00</u>	<u>\$840.00</u>
Total Assets	<u>\$840.00</u>	<u>\$10,080.00</u>	<u>\$10,080.00</u>	<u>\$840.00</u>
<b>LIABILITIES</b>				
Funds Held for Others	<u>\$840.00</u>	<u>\$10,080.00</u>	<u>\$10,080.00</u>	<u>\$840.00</u>
Total Liabilities	<u>\$840.00</u>	<u>\$10,080.00</u>	<u>\$10,080.00</u>	<u>\$840.00</u>
TOTALS – ALL AGENCY FUNDS				
<b>ASSETS</b>				
Cash in State Treasury	<u>\$840.00</u>	<u>\$10,080.00</u>	<u>\$10,080.00</u>	<u>\$840.00</u>
Total Assets	<u>\$840.00</u>	<u>\$10,080.00</u>	<u>\$10,080.00</u>	<u>\$840.00</u>
<b>LIABILITIES</b>				
Funds Held for Others	<u>\$840.00</u>	<u>\$10,080.00</u>	<u>\$10,080.00</u>	<u>\$840.00</u>
Total Liabilities	<u>\$840.00</u>	<u>\$10,080.00</u>	<u>\$10,080.00</u>	<u>\$840.00</u>

#### **IV. ADDENDA**

## **I. Agency Overview**

### **Governing Board**

The Securities Board was created with the Texas Securities Act by the 55<sup>th</sup> Legislature in 1957. The agency is overseen by a governing board comprised of five members appointed by Governor Abbott, with the advice and consent of the Senate, for six-year staggered terms. The Board establishes the policies of the agency and meets periodically to update agency rules to ensure that investors remain adequately protected while preventing unreasonable burdens or barriers on legitimate capital formation.

The Board appoints a Securities Commissioner who serves at the pleasure of the Board and is charged with the administration of the Act and management of the day-to-day operations of the agency. Travis J. Iles was appointed to the position of Securities Commissioner in 2017 and has served Texas investors and businesses in various capacities across agency programs for the past 20 years.

Members of the Board serving Texas as of August 31, 2021:

<b>Board Member</b>	<b>City</b>	<b>Term Expiry</b>
E. Wally Kinney, Chair	Comfort	January, 2025
Kenny Koncaba	Friendswood	January, 2023
Robert R. Belt	Houston	January, 2023
Melissa Tyroch	Belton	January, 2025
Ejike E. Okpa	Dallas	January, 2027

### **Statute**

Under the requirements of The Securities Act, Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581-45, the mission of the State Securities Board is to protect investors. Consistent with that mission, The Securities Act is construed and implemented to encourage capital formation, job formation, free and competitive securities markets and to minimize burdens on issuers and persons subject to the Act, especially small businesses.

A healthy and productive capital market requires the agency maintain a carefully balanced and measured regulatory approach. A harsh and unyielding regulatory system limits incentives for businesses to raise capital in Texas and creates barriers for Texas businesses to access funds necessary to grow their businesses and create new jobs. Conversely, an overly lenient regulatory system fosters an environment in which actions by unscrupulous promoters can damage investor confidence, thereby inhibiting investments, and eroding legitimate businesses’ access to needed capital.

Texas is an exceptionally large and robust market for securities issuers, securities dealers, agents, and investment advisers. Long-term customer demands for the services provided by the State Securities Board continue to increase, due to the strength of the Texas economy and population growth. The public’s dependence on the securities markets to meet personal financial goals is creating a trend of increasing numbers of firms and individuals seeking registration. The majority

of firm and individual registrants are not in Texas but seek registration to access Texas’ vibrant economy.

The strong Texas economy also makes Texas investors an attractive target for promoters of fraudulent investment schemes. These schemes divert capital that would otherwise be available for legitimate economic development and threaten public confidence in securities markets and securities professionals.

As Comptroller Hegar reported to the Legislature on November 4, 2021, “[t]he Texas economy rebounded strongly from the deep but short recession caused by the onset of the COVID-19 pandemic, and we project continued expansion of the Texas economy in this biennium.” What is also projected—Texas investors will continue to face a direct and increased threat. This threat will likely exist as Texas continues its role in leading the nation during the economic recovery.

Banks are robbed because that is where the money is and the same holds true to explain why so many criminal opportunists flock to the Lone Star State to prey upon Texas investors. The ability of legitimate Texas businesses seeking capital to grow their businesses and create Texas jobs is hindered by such criminal activity. Unscrupulous promoters have recognized economic uncertainty and market losses as an opportunity to lure many investors to their schemes.

Since March 2020, Texas investors have faced unprecedented perils foisted upon them by fraudsters. During this period, I entered more than 75 administrative orders across all agency programs to redress violations of the Securities Act—the majority of these actions taken against fraudulent enterprises. The agency’s law enforcement program continued to successfully secure indictments, arrests, and convictions. The agency also led our state and federal counterparts in thwarting a precious metals scheme targeting senior citizens aptly described by the Commodity Futures Trading Commission as “historic.”<sup>1</sup> The civil enforcement action was the largest joint filing between the CFTC and state regulators in history.

#### Agency Programs

To implement the Securities Act, the State Securities Board maintains strategies for: 1) Law enforcement; 2) Registration of securities; 3) Registration of securities dealers, agents, investment advisers, and investment adviser representatives; and 4) Inspections of registered dealers and investment advisers.

The agency’s registration and inspections and compliance programs provide key gatekeeper and ongoing oversight functions for our registered community. The Texas Department of Public Safety and the Federal Bureau of Investigation have long recognized the law enforcement program as a

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<sup>1</sup>Don’t Mess with Texas, She Has A Lot of Friends—The CFTC, Texas, and 29 Other States Join Forces to Stop \$185 Million Precious Metals IRA and Bullion Scheme Targeting Seniors—<https://www.ssb.texas.gov/news-publications/don%25E2%2580%2599t-mess-texas-she-has-lot-friends-%25E2%2580%2593-cftc-texas-and-29-other-states-join-0>.

“criminal justice agency,” which maintains a primary focus on investigating unregistered criminal opportunists who all too often stalk vulnerable populations, including our retirees and elderly.

#### The Law Enforcement Program

Since 1957, the State Securities Board has placed a premium on proactive efforts to detect and prevent violations of the Act, including fraud committed in connection with the sale of securities by unregistered dealers. The agency aggressively pursues administrative, civil, or criminal actions against firms or individuals who violate provisions of the Act.

In assessing the need for and type of enforcement action, consideration is given to several factors, including the severity of the offense, violation, or deficiency; extent and persistence of the conduct; harm to the public; cooperation received in resolving the matter; efforts undertaken to mitigate harm; history of previous violations; need to deter similar conduct; and ability to make harmed investors whole and provide justice.

The agency allocates significant resources to the criminal prosecution of individuals who engage in fraud in connection with the sale of securities, while continuing to effectively execute its other regulatory responsibilities. In the Sunset Advisory Commission’s Staff Report for the 86<sup>th</sup> Legislature, the agency was found to dedicate “appropriated resources in a responsible manner that supports prosecution of securities crimes while being mindful of its other statutory responsibilities.”

The agency refers criminal matters to district attorneys and United States attorneys in Texas. Agency attorneys are routinely appointed as special prosecutors to assist in drafting indictments, presenting cases to grand juries, and conducting felony trials for securities fraud and related penal offenses. Agency financial examiners and accountants regularly perform source and use analyses of voluminous and complex financial records and proceed to testify as fact, expert, and summary witnesses in these prosecutions. But for the work of the law enforcement program, many criminal opportunists would never be brought to justice.

#### The Registration Program

The agency’s registration staff reviews all applications to register securities for sale in Texas. The primary function of this review is to ensure that investors have access to full and fair disclosure of all material investment information to inform the investor’s decision-making process; the issuer and investor share in the results of the venture; prices being asked for the securities are reasonable; conflicts of interest are minimized; and promotional expenses are reasonable. For issuers seeking a multi-state registration of securities, the agency participates in a coordinated review program administered by the North American Securities Administrators Association (NASAA). Besides establishing uniform review standards, coordinated review expedites the registration process, saving the issuer time and money. The agency also processes a much larger volume of filings to permit securities to be sold in Texas where registration is not required under the Act. Throughout agency programs, staff provide leadership roles within NASAA and the agency maximizes

resources through its active participation in the association, which provides numerous training and educational opportunities for agency staff at little to no taxpayer cost.

Besides reviewing securities registrations and filings, the registration program also reviews and processes the applications for registration and renewal for firms and individuals selling securities or rendering investment advice in Texas. This process includes a thorough examination of each application with an emphasis on the proposed plan of business, financial condition, and disciplinary history of the applicants. For the agency to maintain proper oversight, each registrant must timely amend its registration information when an event occurs that causes previous information provided on the application to become inaccurate.

The agency participates in the Central Registration Depository (CRD) and Investment Adviser Registration Depository (IARD) systems. Together, these systems, developed by NASAA, the U.S. Securities and Exchange Commission, and the Financial Industry Regulatory Authority (FINRA), allow dealers and investment advisers to apply electronically for registration of their agents and representatives in all desired states via a single form filed at a central location. Texas was a leader in developing these systems and Texas registrants benefit greatly by having access to the systems, including the ability to both submit uniform standardized application forms and pay registration and renewal-related fees electronically.

#### The Inspections & Compliance Program

Financial examiners in the agency’s inspections program conduct periodic compliance examinations of the activities and books and records of registered firms. The primary focus of this important work is conducted on firms not subject to oversight by other regulatory authorities, which are approximately 1,500 state-registered investment advisers (those having up to \$100 million in investor assets under management), with main offices in Texas, and securities dealers who are not members of FINRA. The inspections program assists these registrants in achieving heightened regulatory compliance for the benefit of their Texas clients.

#### Agency Performance - Fiscal Year 2021:

Enforcement	<b>449</b> law enforcement investigations opened <b>93%</b> of law enforcement actions successful
Registration	<b>66,097</b> , securities registration and notice filings reviewed <b>527,678</b> securities dealer, agent, investment adviser, and investment adviser representative registration and notice filings reviewed
Inspections	<b>313</b> registered securities dealers and investment advisers examined of the <b>1,500+</b> securities dealers and investment advisers examined solely by agency [as of September 2021]
Deposits made to General Revenue Fund	<b>~\$191,289,160.39 [+ \$14M from fiscal 2020]</b>

Appropriations for Administering and Enforcing the Act	~\$7,797,290.00 [2453% - GR Deposits vs Appropriations]
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### Licensing Structure & Fees

While the agency deposits substantial funds to the General Revenue Fund yearly, its Board has been ever diligent in monitoring and reducing the fees assessed to its registrants. The Act’s five Section 35.A fees must offset funds appropriated for the administration and enforcement of the Act. Texas Gov’t Code, Section 316.045.

Since 2015, the Board has been proactive in reducing fees paid by its occupational licensees. The 35.A.(2), (3), (4), and (5) fees, which affect registered dealers, investment advisers, and their agents and representatives, are at their statutory minimums. The remaining 35.A.(1) fee was reduced by Board action in May 2018 by 30% (\$70).

### Occupational Licensing – Original & Renewal Fees

Fee Description / Registrant Type / Statutory Citation	Current Fee / Statutory Maximum	Fee Revenue Deposit – 100%
<i>Original Dealer/Investment Adviser Application:</i> Act § 35.A.(2)	<b>\$75 / \$100</b>	General Revenue Fund
<i>Dealer/Investment Adviser Renewal:</i> Act § 35.A.(3)	<b>\$40 / \$100</b>	General Revenue Fund
<i>Original Agent / Investment Adviser Representative Application:</i> Act § 35.A.(4)	<b>\$35 / \$100</b>	General Revenue Fund
<i>Agent / Investment Adviser Representative Renewal:</i> Act § 35.A.(5)	<b>\$20 / \$100</b>	General Revenue Fund

Each of these occupational licensing fees, reflected in the table above, are not only at their statutory minimum, as set by the 77<sup>th</sup> Legislature in 2001, but also reflect 1991 registrant fee levels.

The agency is proud to count its fees for securities industry professionals amongst the lowest in the country. Each of the agency’s securities industry professional fees is set at an amount *in the lowest quartile* of the national average for equivalent occupational licensees. Increases to these fees could be made while remaining at an amount *in the lowest quartile* of the national average for equivalent occupational licensees.

### Turnover

The State Auditor’s Office has prepared turnover analyses on the agency for the fiscal years of 2016, 2018, and 2020. During those years, the agency’s turnover rate was 20.8%, 19.6%, and 15.1% respectively. During fiscal year 2020, the agency lost 13 staff members. Current staffing

levels are at approximately 78 full-time employees (staffing levels comparable to and below 1998/1999 levels – actual agency FTEs of 80 as of August 31, 1998). Governor Abbott’s office and the 86<sup>th</sup> Legislature took meaningful first steps to address employee attrition and increased funding going forward will be necessary to improve employee retention and the continuation of agency performance and results.

Aside from turnover difficulties, the agency will be challenged in the next five years as seasoned team members become eligible for retirement. The agency’s succession planning focuses on cross-training employees to ensure an appropriate redundancy of experience and skills. However, the success of this effort will depend in large part on the agency’s ability to retain younger, experienced professionals that can develop institutional knowledge to move into leadership positions. Compensation resources are a central component to the agency’s success in managing employee attrition.

#### Sunset Advisory Commission

Work began on the agency’s Sunset Advisory Commission review in 2017. The agency is pleased to report fulsome implementation of Sunset management action items and statutory changes.

The agency’s need for increased funding and the importance of the agency’s work was recognized by Sunset Advisory Commission Staff in their report to the 86<sup>th</sup> Legislature:

- *[T]he State Securities Board plays a critical role in protecting Texas residents from fraudulent or negligent practices by securities professionals and criminal opportunists.*
- *The agency is the state’s expert on enforcing state and federal securities laws and it cannot easily or quickly replace the expertise of seasoned financial examiners and attorneys.*
- *[A]s the agency’s workload increases and criminals constantly create new schemes to defraud the public, the agency and the state could feel the effects of the agency’s struggle to retain qualified staff.*
- *While the board is a well-run agency that contributes \$150 million in excess fee revenue to the state through its regulation, its greatest long-term challenge is...the loss of the staff’s cultivated expertise to higher paying national regulators.*
- *[T]he State Securities Board remains a needed agency that effectively carries out its mission to protect investors and ensure a healthy and productive securities market.<sup>2</sup>*

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<sup>2</sup> *State Securities Board Staff Report – June 2019, Summary of Sunset Staff Recommendations, Page 1 (pdf pg. 17)*  
<https://www.sunset.texas.gov/public/uploads/files/reports/State%20Securities%20Board%20Staff%20Report%20with%20Final%20Results.pdf>.

As part of the Sunset Advisory Commission review, Sunset staff considered, among other things: whether the licensing requirements provided the least restrictive form of regulation that will adequately protect the public; the extent to which the regulatory objective could be achieved through market forces, private or industry certification and accreditation programs or enforcement of other law; and the extent licensing criteria ensure applicants have requisite skill sets and competencies that correlate with the public interest and the impact of those criteria on applicants including those with moderate or low incomes. See generally, Section 325.0115, Texas Government Code, *Criteria for Review of Certain Agencies*.

The agency submitted a status report on implementation efforts to the Sunset Advisory Commission on March 15, 2019. Agency staff and the Board continued extensive efforts to implement the statutory changes and management action items subsequent to this report.

The agency submitted an implementation status report to the State Auditor’s Office and Sunset Advisory Commission on September 21, 2020.<sup>3</sup> The Sunset Advisory Commission Report on Implementation of 2019 Sunset Recommendations was provided to the 87<sup>th</sup> Legislature in January 2021 (the State Securities Board’s compliance report can be found at the bottom of page 3—5 of 5 statutory changes implemented).<sup>4</sup>

## **II. Significant Changes to SSB Policy**

The agency is pleased to report there have been no significant changes to policy. Policymaking has continued with its traditional thoughtful, measured, and fair regulatory approach.

## **III. Significant Changes in Service Delivery**

The SSB reports no substantive changes to its performance of statutory responsibilities. Day-to-day operations have continued uninterrupted since March 2020 and the agency is pleased to report its Austin office never closed due to COVID-19.

## **IV. COVID-19**

### **Initial Response**

The agency monitored and assessed the COVID-19 pandemic beginning in the early stages of the outbreak – January 2020. The agency relied on resources and information provided by Governor Abbott’s Office, the Texas Department of State Health Services, the Centers for Disease Control and Prevention, the Texas Department of Emergency Management, and the Texas Department of Public Safety, among other resources.

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<sup>3</sup> Agency Report to SAO and Sunset – [https://www.ssb.texas.gov/sites/default/files/2021-11/Sunset\\_Implementation\\_Report.pdf](https://www.ssb.texas.gov/sites/default/files/2021-11/Sunset_Implementation_Report.pdf).

<sup>4</sup> Sunset Compliance Report – [https://www.ssb.texas.gov/sites/default/files/2021-11/Sunset\\_Compliance\\_Report\\_Implementation.pdf](https://www.ssb.texas.gov/sites/default/files/2021-11/Sunset_Compliance_Report_Implementation.pdf).

With Governor Abbott’s pandemic disaster declaration on Friday, March 13, 2020, the agency finalized its *COVID-19 – Agency Assessment, Response & Mitigation Efforts – March 13, 2020 Report* which became effective on March 16, 2020.

#### Pandemic Impact on Agency Duties and Responsibilities

All agency clients and stakeholders have been served with minimal disruption and the agency continued efforts to provide resources and accommodations to financial industry participants and Texas investors. While the pandemic has changed how certain agency programs and responsibilities are delivered, it has not hurt the performance of these duties or required a reallocation of agency resources or funding.

#### Workload

While the agencies deposits to General Revenue during the pandemic are fairly described as elevated and its fiscal 2021 General Revenue deposits reached a high-water mark as compared to fiscal 2016 to present, the agency’s law enforcement program workload similarly outpaced performance measures with a marked increase. Economic uncertainty and perceived market opportunities have made many investors more susceptible to bad actors and their nefarious schemes.

### **V. Other Significant Externalities**

A continued increase in long-term customer demands for the State Securities Board’s services are expected, driven by the strength of the Texas economy and population and the increasing public participation in the securities markets to help meet personal savings, retirement, or other financial goals.

In every region of Texas, the State Securities Board provides services to investors, applicants, registrants, and issuers seeking to raise capital to expand their businesses. To effectively meet the service requirements of these customers and to help facilitate the law enforcement and inspections strategies of the agency, the State Securities Board maintains offices in Austin, Dallas, Houston, Corpus Christi, and Lubbock. It continues to maintain a San Antonio field presence at no-state cost after prior restructuring initiatives.

Approximately 80% of the staff of the State Securities Board are attorneys, financial examiners, accountants, information technology specialists, and other professionals. To effectively protect Texas investors without unduly inhibiting the ability of legitimate issuers and dealers to raise capital, agency employees must be well-educated, knowledgeable, and adequately trained to make prompt and accurate assessments and recommendations about complex plans of business, illegal sales practices, and compliance with regulatory requirements. The agency ensures that employees receive targeted training and have ongoing support to effectively perform the agency’s work.

Securities regulation in the United States comprises federal, state, and self-regulatory entities employing legal, analytical, inspection, and investigation professionals. This regulatory structure lends itself to movement of staff to positions in the industry and between regulators based on compensation packages. Although salaries for professional positions at the State Securities Board

are not competitive with those of individuals performing related work in the private sector, the agency seeks to maintain a salary structure that is more competitive with similar positions at other state and federal financial regulators. The agency loses qualified, experienced staff to other regulators and industry based on salary levels. This is directly attributable to deficiencies in the agency’s appropriations, making it impossible for it to compete with the salaries offered by other regulators with a presence in Texas such as the U.S. Securities and Exchange Commission and the Financial Industry Regulatory Authority.

Continued growth in the workload of the State Securities Board and the increasing complexity of investment schemes offered to the public will require the agency to continue to improve its methods of processing and evaluating information. Because much of the information received by the State Securities Board, including evidence obtained with investigations and inspections, is in electronic format, the agency must maintain modern equipment, software, and methodologies to effectively process and analyze this information. The State Securities Board continuously seeks to take advantage of new technologies to enhance workplace productivity and collaboration, reduce technology operating costs, and improve redundancy of critical information.

The Law Enforcement and Inspections strategies account for approximately 65% of the State Securities Board’s cost of operations. Unlike other strategies of the agency, the Law Enforcement and Inspections strategies employ a range of methodologies and incur case-dependent variable expenses as part of the complex work necessary to accomplish their objectives.

Governor Abbott and the 85<sup>th</sup> Legislature enacted important legislation establishing Section 45 of the Securities Act, effective September 1, 2017, designed to enhance protections for vulnerable victims. It was widely supported by industry stakeholders and their regulatory counterparts. Implementing this legislation has, however, strained agency resources in unanticipated ways. The number of reports submitted—2018 – **128**; 2019 – **212**; 2020 – **332**; 2021 – **414**.

Fraudulent, securitized digital asset schemes promoted to the Texas investing public first emerged in significant fashion during fiscal 2018 and required a heightened re-direction of the agency’s limited resources towards this new threat to Texas investors. In fact, the State Securities Board was the first state securities regulator to initiate a public action against a fraudulent cryptocurrency scheme. This threat was re-invigorated by the economic disruption arising from the pandemic and fueled in part by an increased reliance upon the Internet and social media platforms by the investing public. The convergence of this illegal market and the successful implementation of vulnerable victim reporting requirements continue to strain agency resources.

Previously reported changes in federal law have preempted state securities registration requirements for certain offerings and enabled securities issuers to make unregistered sales to the public through general solicitation. A continuing result is that the agency must expend additional resources to promptly identify fraudulent offerings made to the public through its market surveillance initiatives.

## **VI. Administrator Statement—Miscellanea Items**

### **Background Checks**

Under the authority of the Texas Government Code, Section 411.139, the State Securities Board is entitled to obtain criminal history record information to evaluate the qualifications of applicants for registration under the Texas Securities Act, evaluate the conduct of persons registered under the Texas Securities Act, and evaluate the qualifications of applicants for employment.

The agency obtains such information directly from the Texas Department of Public Safety (DPS) through a secure DPS website using usernames and passwords assigned by DPS. Access is restricted to certain employees within the agency having specific job duties related to evaluating application and registration information. Information obtained under this procedure is protected from disclosure to unauthorized personnel or to the public under state law.

Pursuant to changes to Chapter 53, Texas Occupations Code (Consequences of Criminal Conviction) arising from the 86<sup>th</sup> Legislature and HB 1342, agency rules were amended, internal procedures updated, and a link was placed on the agency’s website for the State Auditor’s Office (SAO) Applicant Best Practices Guide.<sup>5</sup>

### **Special Provisions Relating to Military Applicants**

Pursuant to additions to Chapter 55, Texas Occupations Code, (Special Provisions Relating to Military Applicants) arising from the 86<sup>th</sup> Legislature and SB 1200, the agency conformed applicable rule sections and created two new forms for qualifying individuals to use to implement the statutory requirements. Similarly, the agency has completed rulemaking relating to certain military applicants to implement HB 139 arising from the 87<sup>th</sup> Legislature.

### **Statewide ERP (CAPPS) System**

The Comptroller of Public Accounts identified the State Securities Board as an agency that will transition to the Centralized Accounting and Payroll/Personnel System (CAPPS) and the agency did so beginning September 1, 2018. The agency intends to absorb costs associated with this CAPPS conversion and continues to implement CAPPS functionalities.

### **Recodification of The Securities Act**

Effective January 1, 2022, the Securities Act will be relocated from the Texas Revised Civil Statutes to Title 12 of the Texas Government Code. The Board completed rulemaking to signal this change to industry participants and will make available a disposition chart to track the non-substantive changes made through the codification process. The Legislative Council and the agency’s Office of General Counsel worked tirelessly and expertly on this multi-year project.

## **X. Section 3.F Report for Attorney General Review**

Effective administration and enforcement of The Securities Act dictates that the agency’s law enforcement program provide assistance to prosecutorial offices. The agency only investigates and provides assistance in matters within its jurisdictional authority under the Act. The agency’s law

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<sup>5</sup> <https://www.ssb.texas.gov/securities-professionals/dealer-adviser-registration>.

enforcement program has long been recognized as a “criminal justice agency” by the Texas Department of Public Safety and the Federal Bureau of Investigation.

Without the agency’s work, criminal opportunists would not be held accountable for their crimes and their victims would not receive their day in court. Sadly, these crimes frequently wipe out Texas investors’ life savings, college funds, and nest eggs. All too often the victims of these predators are retirees and elderly Texans with limited opportunities to recoup their losses.

As a result of the Sunset Advisory Commission’s review of the agency for the 86<sup>th</sup> Legislature, new agency reporting requirements were created relating to the agency’s provision of prosecutorial assistance. These statutory changes may be found in Sections 2.J and 3 of the Act. The agency is responsible for providing information necessary for the Attorney General to review, at least biennially, the assistance to state prosecutorial offices by the agency.

The agency began reporting this information to General Paxton’s office for fiscal year 2019 and has elected to furnish this information on an annual basis. This year’s report is designed to continue previous reporting efforts.

The spreadsheet to follow is designed to reflect the universe of cases pending during fiscal 2021, resolved during the fiscal year, or newly initiated for all matters in which the agency is providing assistance. We have included our assistance in state and federal prosecutions to complete the case roster.

For prosecutorial assistance provided in new criminal matters initiated or commenced after August 31, 2019, assistance provided by the agency’s law enforcement program was done in conformity with Section 3 of the Act. Agency assistance in prosecutions during the most recently concluded fiscal year was done in a manner to ensure the agency had requisite resources to initiate or continue assistance in the criminal matter with respect to staffing levels and other resource needs.

The law enforcement program has implemented a process to make resource assessments at the time a decision to provide prosecutorial assistance is made and documents this determination as well as any change in circumstances dictating a reconsideration of the original resource assessment.

As the Sunset Advisory Commission report to the 86th Legislature found, the new reporting requirement ‘would ensure the agency continues to use its appropriated resources in a responsible manner that supports prosecution of securities crimes while being mindful of its other statutory responsibilities.’”

A general overview of the law enforcement program’s effective use of appropriated funds in pursuit of its execution of administrative, civil, and criminal redress for Texas victims can be found at - <https://www.ssb.texas.gov/news-publications/news-releases>, <https://www.ssb.texas.gov/news-publications/enforcement-actions-administrative>, and <https://www.ssb.texas.gov/news-publications/enforcement-actions-criminal-civil>.

The agencies application of resources in its law enforcement program is also determined by the General Appropriations Act allocations of funds across agency strategies and programs in furtherance of its performance goals of protecting Texas investors and ensuring access to capital for legitimate Texas business.

The law enforcement program’s good work has been a major contributor in Texas being considered a preeminent state securities regulator by sister state securities agencies.

## **XI. Coda**

The agency appreciates the time, consideration, and service of state leadership and remains committed to serving our Texas investors, businesses, and registered financial professionals. We share leadership’s optimism the Texas economy will continue to lead the nation. Capital formation and stern but measured and fair regulatory oversight will be integral as Texas continues to lead.

The State Securities Board’s key functions will be necessary for the long-term health and viability of the capital markets in Texas. Each of the agency’s programs is inter-related and fulfills an integral component of the regulatory structure that protects investors and facilitates transparency, efficiency, and the integrity of the capital markets in Texas. The agency’s measured regulatory approach maintains investor confidence, promotes capital formation, and makes Texas and the State Securities Board an exemplar for sister securities regulators.

For additional information:

**Travis J. Iles**

Securities Commissioner

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Addenda to Addenda Follows – Section 2.J & 3 – *Agency Case Roster of Criminal Matters Assisted – Fiscal 2021.*

DEFENDANT	INDICTMENT DATE(S)	CONVICTION DATE	DOLLAR AMOUNT PROSECUTED	COUNTY	NUMBER OF SP APPOINTED	NUMBER OF FE ASSISTING	NUMBER OF ATTORNEYS ASSISTING	PENALTY/NOTES
Clifford McCrary	10/14/20	TBD	N/A	DALLAS	0	0	2	Cause No. F2000469 and F2000460 in the 282nd District Court of Dallas County on 1 aggregated count of Securities Fraud including 4 transactions and 1 aggregated count of Theft including 4 transactions.
Wilson Alejandro Montoya	11/30/20	TBD	NA	DALLAS	0	0	0	*REPORTED LATE* ACTUAL DATE 12/18/19. Cause Numbers F1900779 through F1900781 in the 194th District Court of Dallas County on 1 count of aggregated Securities Fraud including 26 transactions and 1 count of aggregated Theft including 26 Transactions and 1 count of Money Laundering. Note: These are being reported late due to the indictments being sealed until the defendant was arrested which was on 11/24/20.
Jesus Nelson Christian aka Nelson Christian	12/10/20	TBD	N/A	NUECES	1	0	1	Cause Number 20FC-5320H in the 347th District Court of Nueces County on 1 aggregated count of Theft including 160 transactions and 1 count of Engaging ni Organized Criminal Activity.
Mark Andrew Simon	12/10/20	TBD	N/A	NUECES	1	0	1	Cause Number 20FC-5321H in the 347th District Court of Nueces County on 1 aggregated count of Theft including 160 transactions and 1 count of Engaging ni Organized Criminal Activity.
Anthony Gary Garza	12/10/20	TBD	N/A	NUECES	1	0	1	Cause Number 20FC-5322H in the 347th District Court of Nueces County on 1 aggregated count of Theft including 75 transactions and 1 count of Engaging ni Organized Criminal Activity.
Sameer Praveen Sethi	01/04/21	TBD	N/A	FED/SHERMAN	1	0	0	*REPORTED LATE* ACTUAL DATE 03/12/20. Cause Number 4:20-cr-77 in the United States District Court, Eastern District of Texas, Sherman Division, on 1 aggregated count of Wire Fraud including 8 transactions, 1 count of aggregated count of Mail Fraud including 8 transactions, and 1 count of Engaging in Monetary Transactions with Funds Derived from Specified Unlawful Activity. Note: Reported late due to indictments being sealed until defendant's arraignment on 12/18/20.
Sara Hancock	01/20/21	TBD	N/A	DALLAS	0	1	0	Cause Numbers F2100005 and F2100006 in the 203rd District Court of Dallas County on 1 aggregated count of Misapplication of Fiduciary Property including 22 transactions and 1 count of aggregated Securities Fraud including 22 transactions.
Sanders, Dennis Keith	05/16/19	02/24/21	\$880,617.50	BRAZOS	2	1	0	Cause Numbers 19-02158-CRF-85, 19-02159-CRF-85 and 19-02160-CRF-85 in the 85th District of Brazos County plead guilty and convicted on 1 aggregated count of Money Laundering including 2 transactions, 1 aggregated count of Theft including 3 transactions and 1 aggregated count of Securities Fraud. Sentenced to serve 10 years Deferred Adjudication and complete 1,000 hours of community services. Ordered to pay \$419,192.50 in restitution of which 15,000.00 was paid as up front restitution at time of sentencing.
Carl William Pollock	03/11/21	TBD	N/A	TRAVIS	2	1	0	Cause Number D1DC21900021 in the 167th District Court of Travis County on 1 aggregated count of securities fraud including 46 transactions, 1 aggregated count of theft including 45 transactions, and 2 counts of money laundering.
Stuart Roy Miller	03/11/21	TBD	N/A	TRAVIS	2	1	0	Cause Number D1DC21900022 in the 167th District Court of Travis County on 1 aggregated count of securities fraud including 10 transactions, 1 aggregated count of theft including 10 transactions, and 2 counts of money laundering.
Steven Gary Todoroff	03/29/21	TBD	N/A	HARRIS	0	1	0	Cause Numbers 1716605, 1716605, and 1716607 in the 338th District Court of Harris County on 1 count of aggregated theft including 6 transactions. 1 count of aggregated securities fraud including 6 transactions, and 2 counts of money laundering.
Kramer, Juan Enrique	04/07/21	TBD	N/A	FED/SAN ANTONIO	0	0	1	Cause Number SA21CR0154FB in the United States District Court Western District of Texas, San Antonio Division on 1 aggregated count of conspiracy to commit wire fraud including 1 transaction and 1 aggregated count of wire fraud including 4 transactions.
Adriana Pastor	04/07/21	TBD	N/A	FED/SAN ANTONIO	0	0	1	Cause Number SA21CR0154FB in the United States District Court Western District of Texas, San Antonio Division on 1 aggregated count of conspiracy to commit wire fraud including 1 transaction and 1 aggregated count of wire fraud including 1 transaction.
Noel Olguin	04/07/21	TBD	N/A	FED/SAN ANTONIO	0	0	1	Cause Number SA21CR0154FB in the United States District Court Western District of Texas, San Antonio Division on 1 aggregated count of conspiracy to commit wire fraud including 1 transaction and 1 aggregated count of wire fraud including 1 transaction.
Karina Hernandez	04/07/21	TBD	N/A	FED/SAN ANTONIO	0	0	1	Cause Number SA21CR0154FB in the United States District Court Western District of Texas, San Antonio Division on 1 aggregated count of conspiracy to commit wire fraud including 1 transaction and 1 aggregated count of wire fraud including 1 transaction.
Jefferson K Villines III	05/04/21	TBD	N/A	KENDALL	0	1	1	Cause Numbers 8301 - 8303 in the 451st District Court of Kendall County on 1 aggregated count of securities fraud including 12 transactions, 1 count of money laundering, and 1 aggregated count of theft including 13 transactions.
Christopher Matthew Meredith	12/18/18	06/03/21	\$7,700,000.00	FED/AUS	0	1	0	Cause No. A19CR-039RP in the United States District Court of Texas, Western District plead guilty to 1 count of Securities Fraud. Sentence to serve 168 months in the Federal Bureau of Prisons and 3 years supervised release. Note: all other counts dismissed.
Richard Gregory Tilford	06/21/18	06/08/21	\$1,418,750.00	COLLIN	4	1	0	Cause Number 296-81936-2018 through 296-81938-2018 in the 296th District Court of Collin County found guilty on 1 aggregated count of Securities Fraud including 14 transactions, 1 aggregated count of sale of Unregistered Securities including 6 transactions, and 1 aggregated count of Sale of Securities by an Unregistered Dealer or Agent including 6 transactions. Sentenced to serve 40 years TDCJ confinement for the Securities Fraud and ordered to serve 10 years TDCJ confinement for each count of the sale of Unregistered Securities and Sale of Securities by an Unregistered Dealer or Agent. All sentences will run concurrently. Note: All other counts dismissed.
Robert Joseph Mangiafico Jr.	06/30/20	06/29/21		COLLIN	3	1	0	Cause Number 296-85043-2019 in the 296th District Court of Collin County on Evading Arrest and Possession with Intent to Distribute trial. Sentenced to serve 63 years TDCJ confinement Note: Mangiafico's trial for evading arrest and possession with intent to distribute was scheduled before the trial related to the TSSB's securities fraud investigation. At the behest of the Collin County District Attorney's office, TSSB attorneys assisted in the punishment phase of the evading arrest and possession with intent to distribute trial. This was an economical proposition believing the TSSB could present evidence at punishment sufficient to ensure justice was done across all Mangiafico's criminal activity. At the trial, the TSSB attorney's presented evidence of securities fraud and theft and these allegations were found true by the court, which meant they would be factored into Mangiafico's sentence.
Joseph Seth Foster	08/23/17	07/29/21	\$324,400.00	MIDLAND	0	1	2	Cause Number CR46899 441st District Court of Midland County found guilty on 1 aggregated count of Securities Fraud including 4 transactions and 1 aggregated count of Theft including 4 transactions. Sentenced to serve 11 years TDCJ confinement.
Ronald Llewellyn James	02/26/15	08/02/21		COLLIN	5	1	0	Cause Number 380-80433-2015 in the 380th District Court of Collin County plead guilty to 1 aggregated count of Securities Fraud including 55 transactions. Sentenced to serve 5 TDCJ confinement suspended and placed on community supervision for 5 years. Per a plea deal all other charges were dropped along with the cases against his son Donald L. James under cause numbers 380-80429-2015 through 380-80432-2015.