

# **State of Alaska FY2006 Governor's Operating Budget**

**Dept. of Commerce, Community, and Economic Dev.  
Banking, Securities and Corporations  
RDU/Component Budget Summary**

**RDU/Component: Banking, Securities and Corporations**

*(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**

The Division of Banking, Securities and Corporations charters and examines State financial institutions, and administers the Alaska Securities Act.

**Core Services**

The Banking Section's core service is the examination of State chartered banks, State chartered credit unions, State chartered trusts companies, State licensed small loan companies, State licensed premium finance companies, State licensed Deferred Deposit Advances (Payday Lending), and BIDCOs.

The Securities Section administers the Alaska Securities Act, which includes the registration of securities, broker/dealers and investment advisors.

The Securities Section investigates complaints and at times issues enforcement orders and civil fines.

The Securities Section by statute provides oversight regarding the form and content of proxies issued in conjunction with corporate elections held by Alaska Native Settlement Act Corporations.

End Results	Strategies to Achieve Results
<p><b>A: Maintain a safe and sound banking system.</b></p> <p><u>Target #1:</u> Ensure that no banks fall into receivership.  <u>Measure #1:</u> Number of banks that fall into receivership.</p>	<p><b>A1: Examine State chartered institutions.</b></p> <p><u>Target #1:</u> Complete 100% of examinations of State chartered institutions on or before statutory deadlines.  <u>Measure #1:</u> Percentage of examinations completed on or before statutory deadlines.</p>
End Results	Strategies to Achieve Results
<p><b>B: Compliance with the Alaska Securities Act.</b></p> <p><u>Target #1:</u> 100% of regulated brokers, dealers and Investment Advisors are in compliance with the Alaska Securities Act.  <u>Measure #1:</u> Percentage in compliance.</p> <p><u>Target #2:</u> Identify and take action towards two unregistered brokers, dealers or investment advisors per year.  <u>Measure #2:</u> Number of unregistered brokers, dealers or investment advisors identified.</p>	<p><b>B1: Take regulatory action when necessary.</b></p> <p><u>Target #1:</u> In the event of an inappropriate rating, regulatory action is taken 100% of the time.  <u>Measure #1:</u> Percentage of action taken.</p> <p><b>B2: Examine for compliance.</b></p> <p><u>Target #1:</u> 100% of regulated brokers, dealers and Investment Advisors are examined within a two-year period.  <u>Measure #1:</u> Percentage examined within two-year period.</p> <p><b>B3: Examine brokers, dealers and investment advisors with respect to compliance with the Alaska Securities Act.</b></p> <p><u>Target #1:</u> 80% of all brokers, dealers and Investment advisors practicing in Alaska have received training on the</p>

	<p>Alaska Securities Act.  <b>Measure #1:</b> Percent with training.</p> <p><b>B4: Take proactive measures to identify unregulated entities.</b></p> <p><b>Target #1:</b> 100% of brokers, dealers and investment advisors advertising in Alaskan Newspapers are checked against list of registered entities.  <b>Measure #1:</b> Percent checked against list of registered entities.</p> <p><b>B5: Take action on complaints of unregistered entities.</b></p> <p><b>Target #1:</b> 100% of complaints are investigated within 15 days of receipt.  <b>Measure #1:</b> Percentage investigated within 15 days.</p>
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**Major Activities to Advance Strategies**

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| <ul style="list-style-type: none"> <li>• FINANCIAL INSTITUTIONS:</li> <li>• Complete examinations on time by careful scheduling of staff and training staff to current standards.</li> <li>• SECURITIES SECTION:</li> <li>• Further develop the capability to accept securities filings electronically and provide public access to information on the Internet.</li> </ul> | <ul style="list-style-type: none"> <li>• Improve investor protection by maintaining a regular examination schedule of the sales practices of state investment advisers and broker-dealers.</li> <li>• Investigate complaints and take appropriate formal and informal action to enforce securities laws.</li> <li>• Educate the investing public through investor education, financial literacy and curriculum support in school programs, and web-based information.</li> </ul> |
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**FY2006 Resources Allocated to Achieve Results**

<p><b>FY2006 Component Budget: \$2,369,300</b></p>	<p><b>Personnel:</b></p> <table style="width: 100%;"> <tr> <td>Full time</td> <td style="text-align: right;">25</td> </tr> <tr> <td>Part time</td> <td style="text-align: right;">0</td> </tr> <tr> <td><b>Total</b></td> <td style="text-align: right;"><b>25</b></td> </tr> </table>	Full time	25	Part time	0	<b>Total</b>	<b>25</b>
Full time	25						
Part time	0						
<b>Total</b>	<b>25</b>						

**Performance Measure Detail**

**A: Result - Maintain a safe and sound banking system.**

**Target #1:** Ensure that no banks fall into receivership.  
**Measure #1:** Number of banks that fall into receivership.

**Number of banks fallen into receivership.**

Year	YTD
2004	0

**Analysis of results and challenges:** From FY04 to date, no banks fell into receivership.

A goal of the Division is to maintain a safe and sound banking system. The Division conducts examinations and investigates when appropriate. This process is designed to minimize the number of banks that fall into

receivership.

**A1: Strategy - Examine State chartered institutions.**

**Target #1:** Complete 100% of examinations of State chartered institutions on or before statutory deadlines.

**Measure #1:** Percentage of examinations completed on or before statutory deadlines.

**Percentage of Exams Completed on Time**

Year	YTD
2004	82%

**Analysis of results and challenges:** The Banking Section was short one examiner for about 6 months of FY04. The section is caught up as of this date and with the addition of another examiner, should be able to achieve the 100% goal of on-time examinations.

**B: Result - Compliance with the Alaska Securities Act.**

**Target #1:** 100% of regulated brokers, dealers and Investment Advisors are in compliance with the Alaska Securities Act.

**Measure #1:** Percentage in compliance.

**Analysis of results and challenges:** This is a new measure and will be calculated starting in FY04.

No administrative orders were issued and there was substantial compliance.

By statute, the Division licenses broker-dealers, investment advisors. It reviews application for new licenses and either approves or rejects those applications. It conducts field examinations of licensed entities and individuals. It also conducts investigations into allegations of sales activities by unlicensed securities sellers. It can issue a cease and desist order when unregistered sales take place.

During FY04 the State of Alaska participated in the world wide Merrill Lynch settlement and received approximately \$4.1 million in additional revenues.

**Target #2:** Identify and take action towards two unregistered brokers, dealers or investment advisors per year.

**Measure #2:** Number of unregistered brokers, dealers or investment advisors identified.

Year	YTD
2004	2

**Analysis of results and challenges:** The Division took administrative action against two unregistered entities during FY04.

The Alaska Securities Act provides for registration of broker-dealers and investment advisors and recognizes federal registration. The Division investigates allegations that securities are being offered for sale or sold by unregulated sellers.

**B1: Strategy - Take regulatory action when necessary.**

**Target #1:** In the event of an inappropriate rating, regulatory action is taken 100% of the time.

**Measure #1:** Percentage of action taken.

**Analysis of results and challenges:** There was no need for regulatory action.

**B2: Strategy - Examine for compliance.**

**Target #1:** 100% of regulated brokers, dealers and Investment Advisors are examined within a two-year period.  
**Measure #1:** Percentage examined within two-year period.

**Analysis of results and challenges:** The Division examines broker-dealers and investment advisors. It conducts examinations to monitor compliance with the Alaska Securities Act.

From FY02 through FY04 the Division examined 80% of broker-dealers and investment advisors

**B3: Strategy - Examine brokers, dealers and investment advisors with respect to compliance with the Alaska Securities Act.**

**Target #1:** 80% of all brokers, dealers and Investment advisors practicing in Alaska have received training on the Alaska Securities Act.

**Measure #1:** Percent with training.

**Analysis of results and challenges:** Eighty percent of the broker dealers and investment advisors are in substantial compliance with training practices as determined by examination by the Division.

**B4: Strategy - Take proactive measures to identify unregulated entities.**

**Target #1:** 100% of brokers, dealers and investment advisors advertising in Alaskan Newspapers are checked against list of registered entities.

**Measure #1:** Percent checked against list of registered entities.

**Percentage Examined**

Fiscal Year	YTD
FY2004	100%

**Analysis of results and challenges:** The Division has begun to review advertisements for security offerings and then checks those offerings in Alaska against its list of registered securities and entities.

**B5: Strategy - Take action on complaints of unregistered entities.**

**Target #1:** 100% of complaints are investigated within 15 days of receipt.

**Measure #1:** Percentage investigated within 15 days.

**Analysis of results and challenges:** One hundred (100%) percent of investigations are initiated within 15 days of receipt.

The Division reviews complaints from investors. It investigates their complaints for compliance with the Alaska Securities Act.

**Key Component Challenges**

The Banking Section will be completing its self-evaluation and begin its audit by the Conference of State Bank Supervisors (CSBS) required for obtaining program accreditation and examiner certification by the CSBS. This accreditation will permit state examinations to be accepted by the Federal Deposit Insurance Corporation (FDIC) and would put Alaska on par with 44 out of 50 states have already achieved their nationally recognized accreditation status with CSBS.

The Securities Section is monitoring recent and continuing changes in the securities field, such as insurance companies and financial institutions providing a wider range of products to the public. The continuing developments will require additional training of existing staff, increasing efforts in educating the public, and an increasing effort in protecting the public from fraudulent and other illegal activities.

In January 2005, the Banking Section will begin regulating businesses that provide short-term cash advance loans, generally against a consumer's next paycheck. The loans are commonly referred to as "payroll advances" and/or "pay-day loans" and/or "deferred deposit advances." Since these businesses were not previously regulated, implementing a positive and effective program that promotes businesses and protects the public is always a challenge. Thirty-nine states are now regulating these types of businesses.

## **Significant Changes in Results to be Delivered in FY2006**

Increasing and improving investor/consumer awareness of fraudulent business practices.

Implementation of the regulating of businesses providing short-term cash advance loans, i.e. payroll advances, pay-day loans, deferred deposit advances.

## **Major Component Accomplishments in 2004**

### **Banking Section**

One major piece of legislation passed in the first session of the 23rd Legislature. HB 159 relieved the Division of its responsibility to examine the Commercial Fishing and Agricultural Bank (CFAB), which no longer has State funds and is not a depository banking institution. This elimination of the CFAB examination allowed the Division to concentrate on examinations of other types of financial institutions.

In addition, there were three major packages advertised for revisions to regulations. One of the packages was for regulations, which are still undergoing changes, to accompany the Revised Alaska Trust Company Act that was passed in the last session of the 22nd Legislature. The other two regulation packages, one for banking (also still a work in progress), and the other contained amendments to miscellaneous chapters in Title 6, address other legislation that was also passed in that session, and to address other changes needed to modernize banking regulations.

The second session of the 23 Alaska Legislature saw the passage of SB272 (Deferred Deposit Advances), to which the division is in the process of receiving comments on proposed regulations for that act and hiring two new staff (one examiner and one clerk).

### **Securities Section**

Participation in the nationwide Merrill Lynch class action lawsuit that resulted in a \$4.1 million settlement payment to the State.

In FY 2004, the section registered 1,245 broker-dealers, 47,156 agents, 32 state investment advisers, 491 federal covered advisers, and 403 investment adviser representatives. During this time period there were 34 general securities complaints lodged and 15 complaints involving ANCSA corporations.

Of these, 30 were resolved without order or hearing. During FY2004, 14 orders were issued. Ten were ended by consent agreements. Two hearings were requested, though none were held and the matters resolved.

Fines of \$5,000 were imposed by temporary order and \$3,880,050 in fines were levied under final orders or consents. The section took actions that resulted in \$24,998 being returned to an investor and collected \$3,875,050 of the fines imposed.

The section started to conduct field examinations of brokerage firms, and has begun to work with the federal Securities and Exchange Commission on interstate enforcement cases and in identifying possible securities violations.

## Statutory and Regulatory Authority

AS 06	Banks and Financial Institutions
AS 06.50.600	Deferred Deposit Advances (Payday Lending)
AS 10.13	Alaska BIDCO Act
AS 34.55	Land Sales Act
AS 44.33.020 (11)	Community Development Quota
AS 44.33.113	Community Development Quota
AS 44.81	Examination of CFAB
AS 45.55	Supervision of Filing of Securities
AS 45.55	Proxy Solicitations of Native Corporations
AS 45.57	Public Disclosure Takeovers
3 AAC 08.305-365	Proxy Solicitations of Native Corporations

### Contact Information

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**Banking, Securities and Corporations  
Component Financial Summary**

*All dollars shown in thousands*

	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
<b>Non-Formula Program:</b>			
<b>Component Expenditures:</b>			
71000 Personal Services	1,530.2	2,147.8	1,903.5
72000 Travel	92.3	112.8	106.8
73000 Services	483.8	522.5	327.2
74000 Commodities	51.2	24.4	9.4
75000 Capital Outlay	5.7	24.2	22.4
77000 Grants, Benefits	0.0	0.0	0.0
78000 Miscellaneous	0.0	0.0	0.0
<b>Expenditure Totals</b>	<b>2,163.2</b>	<b>2,831.7</b>	<b>2,369.3</b>
<b>Funding Sources:</b>			
1007 Inter-Agency Receipts	16.0	0.0	0.0
1156 Receipt Supported Services	2,147.2	2,831.7	2,369.3
<b>Funding Totals</b>	<b>2,163.2</b>	<b>2,831.7</b>	<b>2,369.3</b>

**Estimated Revenue Collections**

Description	Master Revenue Account	FY2004 Actuals	FY2005 Management Plan	FY2006 Governor
<b>Unrestricted Revenues</b>				
Receipt Supported Services	51073	8,818.9	7,752.1	7,752.1
Unrestricted Fund	68515	5,155.7	1,193.6	1,193.6
<b>Unrestricted Total</b>		<b>13,974.6</b>	<b>8,945.7</b>	<b>8,945.7</b>
<b>Restricted Revenues</b>				
Interagency Receipts	51015	16.0	0.0	0.0
Receipt Supported Services	51073	2,147.2	2,831.7	2,369.3
<b>Restricted Total</b>		<b>2,163.2</b>	<b>2,831.7</b>	<b>2,369.3</b>
<b>Total Estimated Revenues</b>		<b>16,137.8</b>	<b>11,777.4</b>	<b>11,315.0</b>

**Summary of Component Budget Changes  
From FY2005 Management Plan to FY2006 Governor**

*All dollars shown in thousands*

	<u>General Funds</u>	<u>Federal Funds</u>	<u>Other Funds</u>	<u>Total Funds</u>
<b>FY2005 Management Plan</b>	<b>0.0</b>	<b>0.0</b>	<b>2,831.7</b>	<b>2,831.7</b>
<b>Adjustments which will continue current level of service:</b>				
-Transfer Corporation Section from Banking, Securities and Corporations to Occupational Licensing	0.0	0.0	-700.8	-700.8
-FY 05 Bargaining Unit Contract Terms: GGU	0.0	0.0	17.1	17.1
-FY06 Cost Increases for Bargaining Units and Non-Covered Employees	0.0	0.0	59.4	59.4
<b>Proposed budget increases:</b>				
-Kodak Archive Write Electronic Storage Equipment	0.0	0.0	60.0	60.0
-ADN 850053 New Exempt CDQ Manager Position (PCN 08-X104) Established by Revised Program	0.0	0.0	101.9	101.9
<b>FY2006 Governor</b>	<b>0.0</b>	<b>0.0</b>	<b>2,369.3</b>	<b>2,369.3</b>

**Banking, Securities and Corporations  
Personal Services Information**

Authorized Positions		Personal Services Costs		
	<u>FY2005</u>	<u>FY2006</u>		
	<u>Management</u>	<u>Governor</u>		
	<u>Plan</u>			
Full-time	31	25	Annual Salaries	1,395,569
Part-time	0	0	COLA	19,005
Nonpermanent	0	0	Premium Pay	7,678
			Annual Benefits	660,991
			<i>Less 4.84% Vacancy Factor</i>	<i>(100,743)</i>
			Lump Sum Premium Pay	0
<b>Totals</b>	<b>31</b>	<b>25</b>	<b>Total Personal Services</b>	<b>1,982,500</b>

**Position Classification Summary**

Job Class Title	Anchorage	Fairbanks	Juneau	Others	Total
Administrative Clerk II	0	0	1	0	1
Administrative Clerk III	1	0	2	0	3
Administrative Manager I	0	0	1	0	1
Analyst/Programmer III	0	0	1	0	1
Analyst/Programmer IV	0	0	1	0	1
Business Reg Examiner	0	0	1	0	1
CDQ Manager	0	0	1	0	1
Dev Spec I, Option A	0	0	1	0	1
Dev Spec II, Option A	0	0	1	0	1
Division Director	1	0	0	0	1
Financial Instit Exam I	0	0	1	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
Internal Auditor II	0	0	1	0	1
Investigator III	2	0	0	0	2
Secretary	0	0	1	0	1
Securities Examiner I	1	0	2	0	3
Securities Examiner II	0	0	1	0	1
<b>Totals</b>	<b>7</b>	<b>0</b>	<b>18</b>	<b>0</b>	<b>25</b>