States Have Mandate, But Not Money, To Oversee Mid-Sized Advisors

By Editor Test *Tue, Jan 4, 2011*

California, Florida, New York and Texas will account for 35% of all the advisory firms switching over to state regulation, according to National Regulatory Services, a Connecticut consulting firm.

As states prepare to assume the federal government's role in monitoring and regulating of thousands of mid-size investment advisers in July 2011, deficit-ridden states are wondering how they'll finance their new roles, the *Wall Street Journal* reported.

The Dodd-Frank financial reform act shifted the regulation of 4,100 investment advisers, with $25 million to $100 million of assets under management, from the Securities and Exchange Commission to state regulators in an effort to improve oversight of the midsize firms.

Through September 2010, the SEC examined just 9% of the 11,888 investment advisers it currently regulates. "There are about 3,000 investment advisers that have never been examined by the SEC, and these firms will go to the top of the state examination priority list," said Robert Webster, director of communications at the North American Securities Administrators Association, a group representing state regulators.

NASAA said it is "confident" that state securities regulators will marshal the resources needed for their new role. In Texas, state regulators say investment advisers will face much greater scrutiny following the switch.

Four states—California, Florida, New York and Texas—will account for 35% of all the advisory firms switching over to state regulation, according to National Regulatory Services, a Connecticut consulting firm. But large budget deficits in those states will make shouldering a larger regulatory workload difficult.

California expects the number of investment advisers it will regulate to increase to about 3,800 this summer from 3,070 now. The state has just eight full-time staff dedicated to registering and examining investment advisers. Its request for extra resources is subject to the overall state-budget process, at a time of massive cutbacks.

In Florida, the number of advisers overseen by 75 full-time staff is expected to increase to 1,800 from 1,100 under the Dodd-Frank change. "We have asked for additional positions," said Amy Alexander, deputy director of communications at the Florida Office of Financial Regulation. "We do not know whether new positions will be approved."

New York has no regular examination program for the more than 1,500 advisers it oversees, relying instead on its extensive statutory powers under the Martin Act to punish misconduct if problems emerge.

Texas, which expects the number of investment advisers it regulates to double to about 2,400 from 1,200, has had a request for an extra 10 staff approved. The money to fund the extra staff hasn't been released.