

# SECURITIES

Spring 2003

*bulletin*



For the past several years, one week in April has been designated as Facts on Saving and Investing Week. One of the goals is to educate the public about the importance of saving, investing, managing finances and preparing for retirement. Just a few years ago, the stock market was rising at an incredible rate and investors were making money in the market like never before. Americans who traditionally held their funds in savings, checking and money market accounts, ventured into the stock market and other forms of investments. Unfortunately, many people lost money both in the legitimate market and to unscrupulous con-artists peddling exotic investments.

Even though investors have suffered financial setbacks and might be discouraged from investing, most experts agree that future financial security requires a plan of action that includes not only saving but investing as well. Investors need set goals and objectives based on answers to these questions:

- What are my primary investment priorities?
- Am I interested in long-term growth or in generating quick profits?
- Do I plan to use investments for tax savings or as a primary source of income?
- How much risk am I willing to take?
- How much of my investment can I afford to lose?

Discuss this with a reputable financial professional who understands your situation and has the know-how and credentials to offer financial advice. Once you choose a financial professional, contact the Securities Department to confirm whether the individual is properly registered in Illinois and if he or she has a disciplinary history. The department also can provide investment guides and information regarding investor rights.

*Jesse White*

**Jesse White**  
Secretary of State



## Secretary White proposes new limited registration exemption

Under provisions of Section 5 of the Illinois Securities Law of 1953, all securities offered or sold, unless deemed exempt under Section 3 or sold or offered within transactions as defined in Section 4, must be registered with the Illinois Securities Department and sold by salespersons and firms that are also registered. Canadian self-directed retirement accounts controlled by Canadian citizens who are temporary residents in Illinois are affected by this requirement by being prohibited from transacting any sales or purchases for these types of accounts while in Illinois.

To resolve this dilemma, Secretary of State Jesse White has proposed a new limited registration exemption for dealers, salespersons and the securities involved in these types of transactions. The proposal was submitted to the Illinois General Assembly's Joint Committee on Administrative Rules in February. This legislation is in line with previous actions in numerous other states that have approved similar exemptions.

The three elements of the proposed exemption are outlined below:

- a) A broker-dealer who is a resident of Canada and who has no office or other physical presence in this State is exempted from the broker-dealer registration requirements in Section 8 of the Act, provided the broker-dealer:
  - 1) is registered with or is a member of a self-regulatory organization in Canada, stock exchange in Canada or the Bureau des services financiers;
  - 2) maintains in good standing its provincial or territorial registration and its registration with or membership in a self-regulatory organization in Canada, stock exchange in Canada or the Bureau des services financiers; and
  - 3) effects or attempts to effect transactions in securities only:
    - (A) with or for a person from Canada who is temporarily present in this State with whom the Canadian person had a bona fide business-client relationship before the person entered this state;
    - (B) with or for a person present in this State whose transactions are in a Canadian self-directed tax advantaged retirement account of which the person is the holder or contributor.
- b) Salesperson registration under Section 8 of the Act is not required if the salesperson:
  - 1) represents a Canadian broker-dealer acting in accordance with the provisions of subsection (a) of this Section; and
  - 2) is registered and maintains in good standing the agent's provincial or territorial registration.
- c) An offer or sale of a security is exempt from the securities registration requirements of Section 5, 6 and 7 of the Act if the offer or sale is effected by a Canadian broker-dealer acting in accordance with the provisions of subsection (a) of this Section.

**IN  
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- NEW LIMITED REGISTRATION EXEMPTION •
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- AUDIT DIVISION REPORT •
- LEGAL NOTES FROM THE DIRECTOR •

## Seven Securities Department employees take early retirement

Two Chicago employees and five Springfield employees of the Securities Department retired in December as part of the State of Illinois' early retirement initiative.

**Bob Bonges** — A nine-year employee with the department, Bob brought 25 years of legal experience with him in 1993 when he came on board as a legal advisor.

**Paul Gall** — An employee of the state for seven years, Paul was a Chicago police officer before joining the department, where he worked as an enforcement investigator.

**Ruth Ann Brown** — A 33-year veteran of the Secretary of State's office, Ruth Ann joined the department as a fiscal officer in 1999.

**Bill Hanner** — A 33-year Securities Department employee, Bill came on board soon after college and rose to the position of senior examiner in Registration.

**Rose Huddleston** — A 17-year veteran of the department, Rose worked as support staff for the Springfield Enforcement Section.

**Kirby Kitner** — A 13-year Securities Department employee, Kirby was senior auditor at the Springfield office.

**Helen Leonard** — Joining the department as a typist over 35 years ago, Helen rose through the years to the position of senior examiner for Registration.

The Securities Department will greatly miss all these retirees and wishes each of them a happy and healthy retirement.


## Enforcement Conference • May 2

The Securities Department's second annual Enforcement Conference will be May 2, 2003, at Brookens Library at the University of Illinois-Springfield. Registration will begin at 7:30 a.m., with the conference running from 8:30 a.m. to noon.


A series of panel discussions will be held with a focus on the changing landscape of financial fraud enforcement. Although the conference is designed as a resource for law enforcement professionals and attorneys, the general public also is invited.

You may register for the conference through April 25 by calling 800-628-7937.


## Audit Division Report




Through interviews and on-site audits, a series of questions and records examinations are being used to determine if all registered representatives understand and properly convey to their customers the differences in mutual fund classifications and breakpoint features of the mutual fund products they market.



The division is emphasizing the scheduling of investment adviser examinations, especially for larger firms under the Securities Department's registration jurisdiction. The department is focusing on ADV, customer brochures and advertising issues in addition to other issues.



Division personnel are taking a close look at firms that employ independent contractors who sell Direct Participation Programs to ensure that the firms and their contractors are meeting compliance requirements set forth by Illinois Securities Law.



Although a vast majority of the registrants the division audits are very cooperative, one of the questions that arises from time to time is whether certain correspondence may be withheld because of "attorney-client privilege." Please see Legal Notes on the back page of this newsletter for more information on this important issue.

**Illinois Securities Department**

**800-628-7937 • 888-231-1175 (Spanish line)**

# Enforcement Administrative Orders

November 2002 — January 2003

## Order of Prohibition

Alphonso J. Vruno  
1N500 Turnberry Lane  
Winfield, IL 60190

Intel Financial Inc.  
855 Second St. SW  
Calgary, Alberta  
T2P 4J8

The Heritage Foundation  
68 Royal Hospital Rd.  
Chelsea, London, SW3  
United Kingdom

The Stability Fund  
2115 Lakeshore Dr.  
Mequon, WI 53092

Legacy Financial Institute  
901 E. Grove St., Ste. D-2  
Bloomington, IL 61701

Reliance Financial Group, Inc.  
3475 Lenox Rd. NE, Ste. 400  
Atlanta, GA 30326

Reliance Financial Group, Inc.  
301 Yamato Rd., Ste. 3160  
Boca Raton, FL 33431

Donald Goldstein  
3475 Lenox Rd. NE, Ste. 400  
Atlanta, GA 30326

Donald Goldstein  
301 Yamato Rd., Ste. 3160  
Boca Raton, FL 33431

Albert Rossini  
550 Sheridan Rd.  
Winnetka, IL 60093

Synergy Alliance Group  
1025 Semoran Blvd., Ste. 1903  
Winter Park, FL 32792

Darin Knee  
1025 Semoran Blvd., Ste. 1903  
Winter Park, FL 32792

Larry W. Tanner  
1025 Semoran Blvd., Ste. 1903  
Winter Park, FL 32792

Shashin Patel  
(CRD#1043487)  
313 N. Washington St.  
Westmont, IL 60559  
or  
750 N. Rush St.  
Chicago, IL 60611

L.A. Power & Light, L.L.P.  
1355 W. Palmetto Park, Ste. 145  
Boca Raton, FL 33486

Steven Wessel  
12 S. Michigan Ave., Ste. 1800  
Chicago, IL 60603

Shrimp Growers of America, Ltd.  
6965 El Camino Real  
105-594  
Carlsbad, CA 92009

Lonnie B. McQuinstan  
2076 Ridgeline Ave.  
Vista, CA 92083

## Consent Order of Prohibition and Fine

Patrick J. Flynn  
c/o Douglas C. Tibble  
McBride Bankers & Coles  
One Mid America Plaza, Ste. 1000  
Oakbrook Terrace, IL 60181-4710

## Order of Cancellation

Rushmore Securities Corporation  
(CRD # 8392)  
13355 Noel Rd., Ste. 300  
Dallas, TX 75240

## Order of Censure and Fine

Take-A-Break Systems, Inc.  
13941 Fairhaven Rd.  
Thompson, IL 61285

J.E. Liss & Company, Inc.  
D/B/A Liss Financial Services, Inc.  
424 E. Wisconsin Ave.  
Milwaukee, WI 53202

Jerome E. Liss  
(CRD # 310709)  
5390 Sandy Beach Ln.  
Belgium, WI 53004

## Order To Cease and Desist

Millennium Nutraceuticals  
15 E. North St.  
Dover, DE 19901

Carl Kruegar  
15 E. North St.  
Dover, DE 19901

## Order of Denial

Steven C. Voss (CRD # 455857)  
9 Wharf St.  
Alexandria, VA 22314  
or  
c/o Voss & Company, Inc.  
6225 Brandon Ave., Ste. 120  
Springfield, VA 22150

## Order of Revocation

William K. Wilson  
(CRD # 1370065)  
810 E. Shady Way, Unit 114  
Arlington Heights, IL 60005

Rick Lynn Burnett  
(CRD # 2131056)  
4135 S. Lake Ct.  
Decatur, IL 62521

## Consent Order of Revocation

Kevin R. Dermody  
(CRD # 2274661)  
620 E. Prairie Ave.  
Naperville, IL 60540

Peter F. Peck, Jr.  
(CRD # 1019018)  
RR 1, Box 385  
Heyworth, IL 61745

Barbara L. Seivert  
f/k/a/ Barbara L. Schuldt  
(CRD # 4008311)  
1555 W. Diversey, Apt. 2 RE  
Chicago, IL 60614

**FACTS ON  
SAVING  
AND  
INVESTING  
WEEK**

**APRIL 13-19**



*Legal Notes*

I would like to address an issue that has arisen in a number of recent investigations — attorney-client privilege. During some investigations, broker-dealers have contended that certain documents exchanged between salespersons, compliance personnel, management and attorneys in a firm were privileged and not subject to the Securities Department's document requests. In such instances, the department has requested a privilege log along with an explanation of the document and why it is privileged.

The department has taken the position that, pursuant to Illinois law, the state has broad discovery policies that look to the ultimate ascertainment of the truth. Attorney-client privilege is limited for the corporate client — including broker-dealers — to the extent reasonably necessary to achieve this fact-finding purpose. The burden of showing facts that give rise to the attorney-client privilege rests on the one who claims it. The claimant must show that 1) the document originated in a confidence that it would not be disclosed, 2) was made to an attorney acting in his or her legal capacity for the purpose of securing legal advice or services and 3) that it remained confidential. Furthermore, Illinois follows the control group test and only communications made by top management, who make the final decisions, are held privileged — not those made by employees whose positions are merely advisory.

To ensure the integrity of the securities industry, we urge that broker-dealers make every effort to comply with any document requests by the department. If an attorney-client dispute is not resolved, the Securities Department has the authority to pursue subpoena enforcement or other actions through the court system.

Tanya Solov  
Director, Illinois Securities Department