

Strengthening Our Partnership with States and Other Jurisdictions to Protect Investors and Promote Market Integrity



Commissioner Jaime Lizárraga

NASAA 2023 Public Policy Symposium Keynote Remarks

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Thank you, NASAA President Hartnett, for that kind introduction.

It is a pleasure to be here today to address NASAA's Annual Public Policy Symposium, my first time doing so since being sworn in last July. [\[1\]](#)

Today, the SEC is at the forefront of addressing critical investor protection issues – from climate and ESG disclosures, to private fund oversight, to cybersecurity, to market resiliency. These reforms are aimed at benefiting the investing public and our markets, a goal that all of us share.

The reforms also reflect the spirit of NASAA's founding commitment to protect investors and promote market integrity, in jurisdictions across the U.S., Canada, and Mexico.

NASAA's creation preceded Congress' enactment of the first federal securities statute, the Securities Act of 1933, by about 14 years.

In the great American tradition of forming a professional association, state securities regulators came together in the year 1919 to become more effective advocates for their interests as well as those of the investing public they were given the responsibility to protect.

The speculative boom of the "Roaring Twenties," a time of rapid technological change and unprecedented developments in mass production, culminated in the market crash of 1929.

In the absence of a federal law framework to protect investors, the states filled the void. By 1931, before there was an SEC, every state had adopted a blue sky law.

Blue sky laws enshrined the same basic principles that are the bedrock of our system today: to be sold, securities must either be registered or qualify for an exemption; and, sellers who offer securities fraudulently must be held accountable.

State and federal securities regulators share a unique and critically important role in continuing to uphold these fundamental principles.

Having been raised in southern California, the term "blue sky laws" has a certain resonance. Putting aside the unresolved debate about the true origins of the term, to me, it conveys a sense of sunny optimism. The same

optimism that working families are channeling when they invest in our markets with the hope of building a brighter future.

That's where our work and our partnership makes a meaningful difference. Consistent with the laws Congress gave us, and those that your jurisdictions gave you, our job is to ensure investors have the information they need to make the most informed investment decisions, so that they can have the confidence to invest in markets that operate with integrity.

Whether you represent a jurisdiction that has adopted some version of a NASAA-developed Uniform Securities Act, or a state or jurisdiction that offers merit regulation, all of us share the common responsibility of ensuring we're up to the task of protecting investors against marketplace abuses.

In the last two decades, the markets' size, complexity, reliance on technology and interconnectedness with other financial hubs around the globe has changed drastically. As securities regulators, we share the responsibility of keeping up with that change to fulfill our mission – protecting investors, maintaining fair and orderly markets, and promoting broad-based capital formation.

Our securities law framework is timeless, dynamic, and adaptable to change. A key question for all of us here today is: how can we work smarter within that framework and in the face of rapid change to deliver long-lasting protections for the investing public?

So as you gather to discuss today's agenda, you will be leveraging NASAA's long history in working tirelessly to elevate the discussion on responsible capital formation. This is an area where we – individually and together – can continue to make meaningful progress.

To me, promoting responsible capital formation means fostering transparency in both public and private markets.

It means working smarter to facilitate access to capital for smaller businesses and entrepreneurs in underrepresented communities that have historically been left out.

It means pursuing robust enforcement, a powerful deterrent against market misconduct.

It means ensuring that Regulation Best Interest lives up to its name.

It means strengthening our commitment to protect investors regardless of the specific technology used in the issuance or transfer of securities.

And it means meeting investor demand for accurate, reliable, and standardized disclosures in areas such as climate and ESG.

As in all of the areas of our work, there is room for improvement in the transparency of private markets. The SEC is undertaking reforms through updates to Form PF and private fund adviser regulation, among others. It is my hope that these reforms can provide greater visibility into private markets.

Another question that is ever-present in our work is: how can our capital formation mission reach the smallest of the smallest businesses in our most underserved communities, so that they, like other businesses that are better served by the current system, also have the opportunity to meaningfully raise growth capital that lifts them and the communities they serve? I encourage you to bear this question in mind in your discussions today.

Robust enforcement is a powerful deterrence tool. According to NASAA's 2022 Enforcement Report, state securities regulators obtained more than \$145 million in fines, representing a 313 percent increase from the previous year.

Like NASAA's members, the SEC has to work with limited resources relative to the size and complexity of our capital markets. Approximately 4,500 staff members oversee a \$100-trillion capital market, representing 38 percent of the capital markets worldwide.

It is a daunting task. I am strongly supportive of ensuring that those who conduct this important, painstaking and highly scrutinized work receive the support they merit. Their work protects the public.

The staff's dedication to our mission means more money can go back to harmed investors. Their work ensures that those who violate the federal securities laws are held accountable, without fear or favor.

To cite a few numbers, in FY 2022, the SEC filed 760 total enforcement actions, a 9 percent increase over the prior year. Civil penalties, disgorgement, and pre-judgment interest totaled almost \$6.5 billion, the most on record in SEC history.

All of us are familiar with the adage that if it's too good to be true, it probably is. That adage plays out in our space all too often. In my time at the Commission, we have voted on numerous cases involving Ponzi, pyramid, and other fraudulent schemes. Some of these schemes specifically target seniors, service-members, ethnic and religious minorities, and other vulnerable groups.

These are some of the saddest cases that come before us because, more often than not, wronged investors are unable to recoup their losses.

NASAA has made considerable progress on this front. In 2021, you developed a model law to help victims achieve restitution in such situations. That is investor protection at its finest.

In 2021, NASAA also embarked on a nationwide survey aimed at determining the efficacy of Regulation Best Interest. This survey found that broker-dealers still needed to make considerable strides to implement and comply with this regulation, flawed as it is.

You deserve much credit for raising the bar of compliance among market participants and for promoting the benefits that Regulation Best Interest could bring to the retail investor. NASAA's ongoing engagement on the implementation of Regulation Best Interest is important to ensure that investors can feel confident and protected when they invest in our markets.

Modernized, comparable, and reliable disclosures on issues that matter to investors' investment and voting decisions are also key aspects of our mission. The SEC's proposed rules on ESG- and climate-related disclosures address these issues directly.

In the issuer climate rule, the SEC has aimed to provide the standardization and comparability that investors are asking for.

Investors with \$130 trillion in assets under management have requested that companies disclose their climate risks.

And according to the Governance and Accountability Institute, 96 percent of S&P 500 companies published sustainability information in 2021.

The U.S. Forum for Sustainable and Responsible Investment reported that the "U.S. sustainable investment universe" had increased more than 25 times, from \$639 billion in 1995 to \$17.1 trillion in 2020.

The SEC has also proposed enhanced ESG disclosures by funds and advisers.

These disclosures would provide investors with qualitative and quantitative decision-useful information on how a fund or adviser takes into account ESG factors in its decision-making.

And the SEC has proposed a fund names, "truth-in-advertising" rule.

These proposed rules would help provide comparable and decision-useful ESG disclosures, and would require funds and advisers to stand behind their ESG claims.

In combination, the climate and ESG proposed rules are part of our ongoing efforts to modernize the disclosure framework to keep up with investor demand and to increase transparency in our markets so that investors have the tools they need to allocate their capital.

In the process of modernizing our rules, it is essential to safeguard the public trust and to work tirelessly to place the public interest and that of working families who invest in our markets above all others.

Both NASAA and the SEC were formed during a time of staggering and uncontrolled fraud and abuse in the financial marketplace. Blue sky laws and the federal securities laws from the Roosevelt era have served our

country well. The work of the Commission and that of state, territorial, and provincial regulators in providing for truthful disclosures and fair and honest dealings in capital markets is more relevant than ever.

Since my arrival at the Commission, we have proposed or adopted over a dozen rulemakings. From critical rules on how mutual fund investors receive information about their investments and how mutual funds vote their proxies, to Dodd-Frank Act rules on pay-for-performance and executive compensation clawbacks, to insider trading reforms. All of these meaningful improvements have the potential to strengthen investor protections and market integrity.

If there's one key lesson from the 2008 financial crisis, the worst since the Great Depression, it is that effective oversight and updated rules are essential to fostering market integrity and vibrant, liquid markets so that investors can invest with confidence.

The lessons from that time remind us all that our rules must be as robust and current as possible and as protective as possible of the investing public. We must also ensure that we're doing our best to communicate the benefits of these protections to the public. I urge you to bear these important principles in mind in your discussions today.

Our partnership to achieve meaningful, significant, and long lasting investor protection is a permanent project, one that has served, and will continue to serve, the public interest well.

Together, we oversee tens of thousands of market participants but our job, our duty through our partnership, is to protect millions of investors.

I look forward to continuing to work smarter with you to elevate the interests of the investing public above all others.

Thank you for this opportunity, for your commitment to investor protection, and for all that you do in your respective jurisdictions to serve the public interest.

[\[1\]](#) The thoughts I express today are my own, and do not necessarily reflect the views of my fellow Commissioners or the staff at the SEC.