

Investment Adviser Newsletter

Continuing Education for Investment Advisers in 2024

Continuing education program
enters its 2nd year.

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Contact Us

If you have questions, send us an email or give us a call.

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Connect with DFI on Social Media

Visit the DFI's Social media profiles on [Facebook](#), [X, formally Twitter](#) and [LinkedIn](#) for information on the agency's activities, personal finance tips, investor education, scam warnings, and other timely news to help protect investors. Please feel free to share any content that you find useful, and "like" or "follow" our social media profiles so that you can receive future posts in your social media newsfeeds.

IAR CE Program Enters Its Second Year

Congratulations to those who successfully completed their continuing education for 2023 and are now working to complete their 12 credits for 2024! A small number of our registered investment adviser representatives did not yet complete their 2023 CE and as a result, have a CE status of “IAR CE Inactive” with a registration status of “Approved-Pending IAR CE.” This means that the IAR can continue to conduct business but must complete 2023 CE by the end of 2024; otherwise, the IAR is not eligible to renew his or her registration for 2025.

If you have not yet done so, please set up your [Financial Professional Gateway \(FinPro\) account](#). While course completions are reported by the CE provider, a FinPro account



includes a transcript of all completed courses and will give you access to monitor your progress in completing continuing education. The important benefits of a FinPro account include the following:

- You can review your transcript prior to selecting a new course as each course has a unique course ID number and may be taken only once for CE credit. This becomes more critical as you accrue multiple years of continuing education.
- You can verify that a CE provider has reported your course completion.
- You can track the number of credits received for Products/Practice and Ethics/Professional Responsibility since you need exactly 6 in each category.
- FINRA can send you via email reminders and notifications relating to your IAR CE status, especially toward the end of the year.

The Division has created a new 1 credit IAR CE course regarding the exam process, including common exam deficiencies. The course, titled “They’re Coming! (To Conduct An Exam),” is posted on the [NASAA website in the list of Wisconsin courses](#).

If you have any questions regarding the CE program, please reach out to our Division at (608) 266-2139.



Annual Compliance Calendar

Advisers occasionally ask us when the deadline is for renewing their RIA, or whether there is an annual requirement for updating their Form U4. There are also internal documents that should be reviewed and updated on a periodic basis in order to maintain compliance with the regulations that apply to state-registered investment advisers. Isn't there an easier way to keep track of all of this?

Each advisory business is different, so you may have additional requirements, but below is a basic rundown of IA filing and compliance requirements:

Annually:

- File Form ADV (Parts 1 and 2) within 90 days of firm's fiscal year end ([DFI-Sec 5.04\(3\)\(b\)](#)).
- Offer or deliver Form ADV Parts 2A & 2B, and your Privacy Policy to clients ([DFI-Sec 5.05\(8\)\(c\)](#)).
- Complete 12 credit hours of continuing education (each registered rep) ([DFI-Sec 11.02](#)).
- Review and update supervisory procedures, client agreement, website, and other internal documents as needed to ensure they contain the most accurate material information.
- December: Renew firm, registered reps, and any branch offices through IARD.
- File your firm's business entity Annual Report with DFI. For foreign entities, file by March 31st. For domestic entities, file by the end of the quarter of your anniversary incorporation date:

Incorporation Date	Annual Due Date
January 1st thru March 31st	March 31st
April 1st thru June 30th	June 30th
July 1st thru September 30th	September 30th
October 1st thru December 31st	December 31st

Periodically:

- Verify contracted client fee matches the fee amount being deducted.
- Change passwords on your firm's devices, email, and other online platforms.

Material changes:

- Within 30 days--Update your Form ADV Part 1, Part 2, and/or U4 ([DFI-Sec 5.04\(3\)\(a\) & \(c\)](#)).
 - Send a copy of your updated ADV Part 2 to clients ([DFI-Sec 5.05\(8\)\(f\)](#)).



Annual Compliance Calendar Continued...

- Review and update supervisory procedures, client agreement, website, and other internal documents as needed.

Feel free to print out and customize the Compliance Calendar at the end of the newsletter to help you track your firm's compliance schedule.

Corporate Transparency Act: FinCen Beneficial Ownership Information Reporting

Congress enacted the Corporate Transparency Act (CTA) in 2021. One component of the Act requires companies to report beneficial ownership information (BOI) to the Financial Crimes Enforcement Network (FinCEN) under the US Department of the Treasury.

Discussing the CTA, Secretary of the Treasury Janet Yellen noted,

Corporate anonymity enables money laundering, drug trafficking, terrorism, and corruption. It harms American citizens and puts law-abiding small businesses at a disadvantage. Having a centralized database of beneficial ownership information will eliminate critical vulnerabilities in our financial system and allow us to tackle the scourge of illicit finance enabled by opaque corporate structures.

This new reporting is a substantive change for businesses and carries a potential penalty of up to \$500 per day for not fulfilling the requirements. In short, this is worth taking seriously and not putting off until the filing deadline.

The act states that **reporting companies** need to identify **beneficial owners** and file **initial reports** for each owner to FinCEN's **BOI E-Filing System** by **the reporting deadline**. That's a lot – so, let's break this down by each element.

Which companies qualify as **reporting companies**? For business entities that are formed in the US as a corporation, limited liability company, or any other entities created by the filing of a document with a secretary of state or any similar office in the US – they are likely subject to the reporting requirements.

Corporate Transparency Act Continued...

Notably, there are 23 categories of entities that are explicitly exempt from the reporting requirements. Those include, “broker or dealer in securities,” “insurance company,” “accounting firm,” and “Investment company or investment adviser” among others. If you’re puzzled why we’re discussing this at all if investment advisers are exempt from the requirements, unfortunately – only SEC registered investment advisers are exempt. State registered investment advisers need to fulfill the BOI requirements of the act unless their firm also falls into one of the other exempt categories. Carefully review FinCEN’s [Small Entity Compliance Guide](#) to see if your firm might be covered by one of the exemptions.

Next, who qualifies as a **beneficial owner**? FinCEN defines a beneficial owner as, “an individual who either directly or indirectly: (1) exercises substantial control over the reporting company, or (2) owns or controls at least 25% of the reporting company’s ownership interests. This should be a fairly straightforward calculation for many of our one or two person state registered advisers. For firms with more complicated corporate structures, FinCEN defines, “substantial control” as individuals who: (1) are senior officers of the firm, (2) have the authority to appoint or remove officers or a majority of directors at the company, or (3) are important decision-makers for the company. FinCEN has provided more details on this determination in [section D. of their FAQs](#).

Now let’s discuss what’s included in the **initial reports**. The initial reports cover information about both the reporting company and the beneficial owners. FinCEN created the below chart detailing the filing requirements.

Reporting Company

- Full legal [name](#)
- Any [trade name](#) or “doing business as” (DBA) name
 - » Report all trade names or DBAs.
- Complete current U.S. [address](#)
 - » Report the address of the principal place of business in United States, or, if the reporting company’s principal place of business is not in the United States, the primary location in the United States where the company conducts business.
- State, Tribal, or foreign [jurisdiction of formation](#)

Each Beneficial Owner and Company Applicant

- Full legal [name](#)
- [Date of birth](#)
- Complete current [address](#)
 - » Report the individual’s residential street address, except for company applicants who form or register a company in the course of their business, such as paralegals. For such individuals, report the business street address. The address is not required to be in the United States.
- Unique identifying [number](#) and issuing [jurisdiction](#) from, and [image](#) of, **one** of the following non-expired documents:
 - » U.S. passport
 - » State driver’s license
 - » Identification document issued by a state, local government, or tribe
 - » **If an individual does not have any of the previous documents**, foreign passport

Corporate Transparency Act Continued ...

Now let's go over where these initial reports get made – to **FinCEN's BOI E-Filing System**.

FinCEN created the [BOI E-Filing System](#) as an online portal to upload your firm's information. It's important to note that this is not a publicly available database. The information you provide will only be accessible to federal, state, and local officials who are investigating issues of national security, intelligence, or law enforcement.

To reduce the burden of this new rule, there is no cost associated with filing BOI to FinCEN. Additionally, there isn't any requirement to file annual amendments. Updates are only required when the information previously reported changes and needs to be updated. Those updated reports need to be filed within 30 days of the change.

And lastly, what is the **reporting deadline**? The timing of when companies need to file initial reports fall within three buckets:

- (1) For companies that were registered before January 1, 2024 – reports are due by January 1, 2025. **The vast majority of our state registered firms fall under this category.**
- (2) For firms that were created between January 1, 2024 and January 1, 2025 – reports are due within 90 days of the firm's effective date.
- (3) For companies created after January 1, 2025 – reports will be due within 30 days of firm's effective date.

While the bad news is that your firm very likely needs to comply with these new rules, the good news is that you still have sufficient time to gather the required information and report to FinCEN.



Cybersecurity Best Practices

Investment advisers increasingly use electronic communications and store their data via electronic or digital means, including on the cloud. While going digital has reduced time spent on manual recordkeeping and physical storage space, it has opened up new avenues for hackers to access and steal data.

Below are some basic cybersecurity best practices to minimize the risks to your firm by protecting access to your information.

Update passwords – Passwords should be required on all devices and changed routinely. Don't use the same password for multiple logins. It's best to use passwords of at least 16 characters. Try to be creative, using special characters and numbers, and avoiding common terms. If you find it difficult to keep track of passwords, consider purchasing

software to store and generate your passwords.

Install software updates – Make sure to install software patches so that attackers can't take advantage of known problems or vulnerabilities. Software enhancements roll out on a regular basis and it's advisable to turn on automatic updates if available. Check with your IT team to confirm you are on the latest software version.

Obtain reputable antivirus software – Having an antivirus software application is an important protective measure against known malicious threats on your laptop or desk computers. Antivirus software can automatically detect, quarantine, and eliminate various types of malware, and warn you of dangerous emails or websites.

Be cautious of unexpected emails – Phishing has run rampant and doesn't seem to be slowing down. Make sure to beef up your email filters and manually review unusual emails. Look for misspellings in the subject matter line or sender's address. Also do not click on any email links or attachments from someone you don't know or that you weren't expecting.

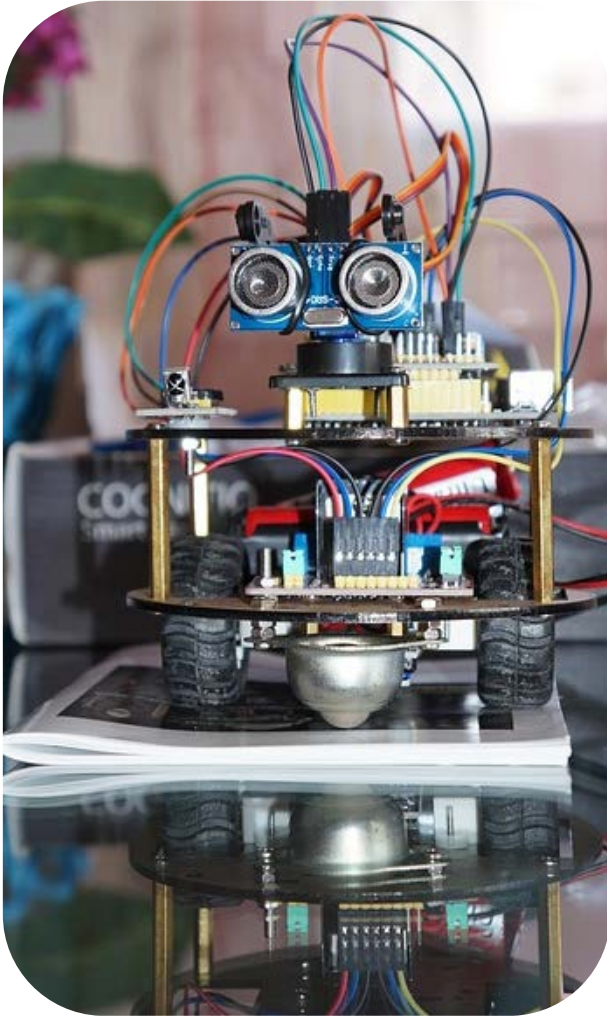
Use multi-factor authentication – If your custodian or other financial entities offer the option of multi-factor authentication, please utilize it. While it can be somewhat annoying to follow a second step to log in, such as entering a separate code during the login process, multi-factor authentication greatly increases the security of your accounts.

Looking for more information? NASAA has a [Cybersecurity Checklist and Guidance](#) on its website within the [resources for Investment Advisers](#). FINRA also has a [Small Firm Cybersecurity Checklist](#).



NASAA Investor Alert: Artificial Intelligence (AI) and Investment Fraud

The North American Securities Administrators Association (NASAA) along with the Securities and Exchange Commission (SEC) Office of Investor Education and Advocacy and the Financial Industry Regulatory Authority (FINRA), recently issued an investor alert covering the increase of investment fraud associated with artificial intelligence (AI). We encourage you to read the investor alert [here](#). A few excerpts from the alert are highlighted below:



Unregistered/Unlicensed Investment Platforms Claiming to Use AI

First and foremost, investors should remember that federal, provincial, and state securities laws generally require securities firms, professionals, exchanges, and other investment platforms to be registered. A promoter's lack of registration status should be taken as a prompt to do additional investigation before you invest any money. Numerous unregistered and unlicensed online investment platforms, as well as unlicensed and unregistered individuals and firms, are promoting AI trading systems that make unrealistic claims like, "Our proprietary AI trading system can't lose!" or "Use AI to Pick Guaranteed Stock Winners!". In reality, these scammers are running investment schemes that seek to leverage the popularity of AI. Be wary of claims even from registered firms and professionals – that AI can guarantee amazing investment returns. Investment claims that sound too good to be true usually are. And remember: Fraudsters typically deploy multiple, sophisticated persuasion techniques to make their pitches seem real. Claims of high guaranteed investment returns with little or no risk are classic warning signs of fraud.

Investing in Companies Involved in AI

It might seem exciting to invest in AI-focused companies that claim they are leaders in developing or using this emerging technology. Companies might make claims about how AI will affect their business operations and drive profitability. While rapid technological change can create investment opportunities, bad actors often use the hype around new technological developments, like AI or crypto assets, to lure investors into schemes. These bad actors might use catchy AI-related buzzwords and make claims that their companies or business strategies guarantee huge gains.

NASAA Investor Alert: Artificial Intelligence (AI) and Investment Fraud Continued...

Red flags of these types of scams include high-pressure sales tactics by unregistered individuals, promises of quick profits, or claims of guaranteed returns with little or no risk. False claims about a public company's products and services relating to AI also might be part of a [pump-and-dump](#) scheme where fraudsters profit at the expense of unsuspecting investors.

In a pump-and-dump scheme, promoters try to “pump” up, or increase, the stock price of a company by spreading positive, but false, information, usually online through ads, fake news coverage, or social media promotions. These rumors often cause many investors to buy the stock, driving the price of the stock up. Then the promoters or others working with them “dump” their own shares before the hype ends. Typically, after the promoters profit from their sales, the stock price drops, and the remaining investors lose most of their money.

Microcap stocks, some of which are penny stocks or nano cap stocks, may be particularly vulnerable to investment schemes, including scams involving AI-related claims. Microcap stocks are low-priced stocks issued by the smallest of companies. There is often limited publicly available information about microcap companies' management, products, services, and finances. This can make it easier for fraudsters to spread false information about a company and profit at the expense of unsuspecting investors.



Always remember your fiduciary duty to your clients when making investment recommendations. Does any potential investment in AI align with the client's investment profile? Have you performed adequate due diligence on the investment? Have you documented your due diligence? Am I relying on “hype” from celebrity endorsers or paid influencers to make my investment decisions?

NASAA Releases Enforcement Report

The North American Securities Administrators Association (NASAA) released its [2023 Enforcement Report](#), which describes efforts undertaken by state securities regulators to protect investors from financial fraud. NASAA President, Claire McHenry, stressed the importance of investor confidence and pledged continued efforts to combat fraudulent activities.

In 2022, state enforcement actions resulted in nearly \$1 billion of monetary relief through 1,163 enforcement actions, consisting of criminal, civil and administrative measures. The enforcement actions included \$702 million in restitution for investors and \$223 million in fines, as well as prison sentences.

The report highlights the increasing use of technology in financial fraud. Cases involving social media and other internet scams increased to 172 cases opened in 2022, compared to 127 during the previous year. Enforcement actions involving digital assets increased by nearly 30%.

State regulators also took action against 271 investment advisers and 98 broker-dealers and agents, ensuring compliance and integrity among registered individuals. In 2022, regulators revoked 57 registrations, barred 63 individuals and 31 firms from the industry, and suspended an additional 42 registrants.

Protection of older investors is also highlighted in the report. In 2022, regulators opened 680 investigations and filed 133 enforcement actions involving at least one older investor.

The NASAA 2023 Enforcement Report underscores the efforts of state securities regulators to adapt to emerging challenges posed by social media, digital assets, and other evolving fraud tactics. It also highlights the importance of regulatory vigilance and collaboration in maintaining market integrity and investor confidence.

ENFORCEMENT ACTIONS

ADMINISTRATIVE CASES

825

CIVIL CASES

59

CRIMINAL CASES

136



RESPONDENTS IN ADMINISTRATIVE CASES

2037

DEFENDANTS IN CIVIL CASES

119

DEFENDANTS IN CRIMINAL CASES

162

DFI Enforcement News

The Division Pursues Digital Asset Cases

The Division of Securities is responsible for administering and enforcing the state's securities laws. The Division continues to be busy investigating complaints and issuing Administrative Orders involving cryptocurrency or other digital assets including the "pig butchering" scams we discussed in our [2023 Spring Newsletter](#).

Here is a list of some recent Orders issued by our Enforcement Bureau:

[GSB Gold Standard Bank d/b/a GSPartners](#) has been engaging in an international scheme to illegally sell fraudulent investments tied to a metaverse, liquidity pools, staking platforms and digital assets that can purportedly yield highly lucrative returns. DFI's news release is available [here](#).

[Etalbit d/b/a/Etalbit.com](#) holds itself out as, among other things, an online cryptocurrency trading and investment services. Etalbit is not registered to do business in Wisconsin.

[Actuary Forex Global Limited](#) purports to be a Wisconsin-based cryptocurrency services firm offering cryptocurrency investment plans under the trade name "Actuary Forex."



[Tradestation Crypto, Inc.'s](#) digital asset trading accounts had a feature that accrued and paid interest to customers on certain digital asset balances in their accounts (the "Interest Feature"). The offer and/or sale of the Interest Feature within digital assets trading accounts maintained by customers as described in the Order constitutes the offer and/or sale of a security as defined in Wis. Stat. § 551.102(28). During the offering period, Tradestation's offer and sale of securities in Wisconsin that were unregistered, or did not meet an exemption for registration, violated Wis. Stat. § 551.301. DFI's news release is available [here](#).

[Exchangehousellc.com d/b/a Exchange House, LLC](#) has been identified as the respondent in complaints received by the Division concerning companies reselling timeshare ownership for exorbitant advance fees.

To view and search all enforcement actions, please visit our [website](#).

Compliance Calendar

January

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy

February

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy

March

- Update firm bookkeeping records and download bank statements
- Review and file Form ADV Part 2A and 2B annual amendment on IARD*
- Verify client billing accuracy
- Offer or deliver firm Privacy Policy and Form ADV Part 2 to clients
- Review and file Form ADV Part 1 annual amendment on IARD*
- Change passwords

April

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy

May

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy

June

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy
- Change passwords

July

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy

August

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy

September

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy
- Change passwords

October

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy

November

- Update firm bookkeeping records and download bank statements
- Verify client billing accuracy

December

- Update firm bookkeeping records and download bank statements
- Renew state registration through IARD (firm, branches, reps)
- Verify client billing accuracy
- Review and update firm's Compliance Procedures
- Change passwords
- Review and update firm's Business Continuity and Succession Plan
- Ensure 12 credit hours of IAR Continuing Education is complete
- Review and update client agreement, website, and other internal documents

Important Contacts

WI Division of Securities: (608) 266-2139; DFISecurities@dfi.wisconsin.gov

IARD Help Desk: (240) 386-4848

Elder Abuse Hotline: (833) 586-0107

* Form ADV must be filed within 90 days of the end of your firm's fiscal year. For most firms this means filing by March 31st, however if your fiscal year ends sometime other than December 31st, be sure to adjust your deadline date as needed.