

INVESTOR AND SMALL BUSINESS TOWN MEETINGS

EXECUTIVE SUMMARY

The Securities and Exchange Commission's Office of Inspector General conducted a limited audit of town meetings held during June 1999 in Seattle, Washington; Portland, Oregon; and Kansas City, Missouri. Generally, we found that the town meetings we reviewed complied with the guidelines, funds spent were reasonable and allowable, and individual firms or investment products were not mentioned inappropriately. As described below, at the Portland investor meeting, one sponsor distributed business cards, a mutual fund company (unrelated to the meeting) opened a booth nearby, and certain educational materials were not pre-approved by the Office of Investor Education and Assistance (OIEA), as required. OIEA and the Division of Corporation Finance (CF) have concurred with our recommendations (See Appendix A).

SCOPE AND OBJECTIVES

The Securities and Exchange Commission's Office of Inspector General conducted a limited audit of town meetings held during June 1999 in Seattle, Washington; Portland, Oregon; and Kansas City, Missouri. The audit was performed in accordance with generally accepted government auditing standards from June to September 1999. During our review, we interviewed Commission staff, reviewed supporting documentation, and attended the Portland and Kansas City town meetings.

Our purpose was to provide the Commission with negative assurance ¹ concerning compliance with the Commission's town meeting guidelines. Specifically, our objectives were to determine whether the funds spent by the Commission and the sponsors ² in organizing the town meetings were reasonable and allowable, and whether individual firms or investment products were inappropriately mentioned (except as part of a speaker's biography) in any of the following:

¹ Negative assurance means that no material instances of non-compliance came to our attention during the limited audit.

² As used in this report, the term "sponsor" includes sponsors, co-sponsors, and steering committee members. Sponsors may pay a pro rata portion of town meeting expenses. However, the Commission will not accept contributions from Self Regulatory Organizations or individual firms.

- Speeches by the Chairman or others (*e.g.*, state securities regulators),
- Invitations to the public,
- Newspaper articles or advertisements,
- Logos on name tags worn by Commission staff, sponsors, or other individuals,
- Educational materials distributed at the Town meeting,
- Flyers, banners or signs at the Town meeting, and
- Promotional items given to the attendees (*e.g.*, pens, coasters).

BACKGROUND

The Commission conducts town meetings for both investors and for small businesses. Since 1994, 32 investor and 13 small business town meetings have been held. The Seattle and Portland town meetings mentioned above were for investors, while the Kansas City town meeting was for small businesses.

OIEA organizes investor town meetings. The purpose of the meetings is to teach investors how to safely and confidently participate in the securities markets. Another purpose is to identify investor concerns and problems.

At the start of these meetings, the Chairman typically provides investors with some tips on being a smart investor, followed by a question and answer session. Then, investors choose which of several concurrent seminars to attend. The seminars are presented by the meeting sponsors and cover a variety of investment topics (*e.g.*, Successful Investing, Understanding Bonds, etc.).

CF organizes small business town meetings. They discuss the requirements involved when a small business raises capital through the sale of securities. The meetings also let the Commission hear about the concerns and problems facing small businesses. The meeting consists of a panel discussion with a senior Commission representative (*e.g.*, the Chairman, a Commissioner, or the Director of CF), US Small Business Administration representative, state regulators, attorneys in private practice, and others.

OIEA and CF seek sponsors to pay for and promote the town meeting. OIEA and the sponsors will provide the educational materials for the investor town meetings. CF will provide the educational materials for the small business town meetings. OIEA sponsors may include the local media, investment groups (*e.g.*, the American Savings Education Council, the Investment Company Institute, etc.), and government agencies. CF sponsors may include the local Chamber of Commerce and government entities.

Sponsor contributions are voluntary and not fixed in amount. A financial contribution is not a requirement for participating in a town meeting as a sponsor.

Total costs for the three meetings were approximately \$14,500 (Seattle \$5,400, Portland \$7,600, and Kansas City \$1,500). The Commission contributed \$1,200.³

AUDIT RESULTS

During the limited audit described above, no material instances of non-compliance with the Commission's town meeting guidelines came to our attention. However, some of our observations form the basis for recommendations to improve future meetings.

IMPROPER SOLICITATION

Business Cards Distributed

At the Portland investor town meeting, we observed members of a sponsoring organization distributing personal business cards. The members verbally told us that they could be trusted with investment funds because they attended the meeting and mentioned that its booth was located next to federal agencies (*e.g.*, the Federal Trade Commission, U.S. Treasury) as evidence of their trust-worthiness.

When we informed OIEA staff, they immediately spoke with a member of the sponsoring organization, who put away the business cards. OIEA indicated that a similar problem occurred at the Seattle investor town meeting.⁴ According to OIEA, they detected the problem at the Seattle investor town meeting, early on when a staff member walked around to check out the exhibits.

The Commission's town meeting guidelines indicate that "sponsors, co-sponsors and participants may not endorse, nor appear to endorse, any financial services company, professional, activity or product at a town meeting..." Distribution of business cards and pamphlets, and verbal endorsement of a company appear to violate the guidelines.

OIEA indicated an oversight in the training of a new member of its staff could have contributed to the Portland incident. OIEA sends a letter describing acceptable practices at town meetings to the national headquarters of sponsors, who then communicate with their local chapter. Inadvertently, the letter sent for these

³ These costs do not include Commission staff hours and expenses (travel, photocopying, and postage) or free publicity provided by local media. One sponsor, for the Kansas City meeting, provided the meeting area (including the audio/visual equipment) and contributed for a reception. These costs are not included in the \$14,500.

⁴ According to OIEA, a sponsor distributed personal business cards and pamphlets at the Seattle investor meeting. The pamphlets rated the environmental friendliness of certain public companies and encouraged investors to review a company's environmental record before investing. OIEA had the sponsor stop distributing these materials.

meetings omitted the endorsement prohibition. However, this organization had previously participated in town meetings and should have known of the prohibition.

Uninvited Mutual Fund Company

At the Portland investor town meeting, the Oregon chapter of the American Institute of Certified Public Accountants (AICPA) was simultaneously holding a meeting in the convention center. A mutual fund company opened a booth in the general vicinity of the town meeting and the Oregon AICPA meeting, along with other exhibitors' booths. The mutual fund company informed us that it was not part of the investor meeting nor the Oregon AICPA meeting. OIEA staff stated that they were unaware that the mutual fund company would open the booth. While the mutual fund company did nothing wrong, investors could have been misled by its proximity to the town meeting.

RECOMMENDATION A

OIEA and CF staff should discuss the prohibitions with new sponsors and the local chapters of the sponsors, and continue to periodically walk around the town meeting exhibit booths to ensure that sponsors comply with Commission guidelines and to monitor nearby activities (like the uninvited mutual fund company discussed above).

RECOMMENDATION B

OIEA and CF should, at venues where the town meeting is not the only event, ask that the Chairman's (or other Commission representative's) speech contain a general disclaimer that the Commission is not endorsing particular firms, products, services, professionals, etc. CF should also insert a similar disclaimer in their town meeting invitations.⁵

EDUCATIONAL MATERIALS AND SERVICES

One sponsor at the Portland investor town meeting provided investors with a catalog of educational materials for sale at cost. The educational materials were designed for classroom use by teachers. Also, one sponsor during a seminar distributed a newspaper article with details about several credit counseling (debt management) services which were unrelated to the sponsor. Although the services are nonprofit, there are charges for their services. We did not observe either of these materials or services being sold at the town meeting.

OIEA staff stated that they had previously approved the distribution of the newspaper article at other Commission education events, but had not seen the catalog prior to its distribution at the town meeting. According to the Commission's guidelines, "...No advertising or sale of financial products or services will be permitted. Exceptions may be made, in the sole discretion of the SEC, for the sale

⁵ OIEA has a disclaimer in their invitations.

of educational materials, if such materials are sold at cost and are pre-approved by us.” According OIEA, they would have approved the catalog. Nevertheless, OIEA is revising its letter to sponsors to more clearly indicate that prior approval is required to sell, or advertise the sale of, educational materials.