

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
DENVER REGIONAL OFFICE
410 SEVENTEENTH STREET
SUITE 700
DENVER, COLORADO 80202

April 6, 1981

The Honorable Ruth S. Stockton
Chairperson, Senate Appropriations Committee
State Capitol Building
Denver, Colorado 80203

Dear Senator Stockton:

I have been advised that after, the Joint Budget Committee recommended removal of the Colorado Division of Securities from the list of agencies receiving funds from the general fund, the Appropriations Committee will consider and vote on "Cash Funding" for the Division. In addition, I have been advised that certain recommendations have been made that no funding whatsoever be appropriated for the Division of Securities due, in part, to the erroneous belief that such Division work is duplicative in all respects of the work of the Denver Regional Office of the Securities and Exchange Commission.

If, in fact, "Cash Funding" is not approved for the Division of Securities, such would certainly appear to have an adverse and detrimental effect on investor protection for the citizens of Colorado, the ability of legitimate businesses to raise sorely needed capital, and the integrity of the capital market in Colorado.

We all appreciate that both state and federal government budgets are presently under pressure. However, it is believed that it is short-sighted and counter-productive to the short and long term interests of a state not to provide the necessary funds for operation of an effective securities protection program.

This office stands ready to assist the states in the region to the fullest extent possible, but it cannot, under the present circumstances, fill the void which is created by either insufficient funds for, or the absence of, an effective state securities commissioner's office.

The Denver Regional Office, with its limited staff, is presently charged with, among other things, the inspection program covering broker-dealers, investment companies, investment advisers and transfer agents; the processing of filings under Regulation A and S-18, as well as the investigation and prosecution of securities fraud cases in a seven-state region stretching from Canada to the Mexican border. The explosive nature of the growth of Colorado, in particular, Denver, is reflected in the ever-increasing workload of this office. The number of filings which this office process is increasing—twenty-one new broker-dealers and ten new investment companies became registered in 1980—and our investigative workload is increasing.

In addition, it is also inevitable that due to the limited staff of the Denver Regional Office many of the frauds which have been and undoubtedly will continue to be perpetrated upon the citizens of Colorado in the "exotic" security area will have to and should be handled by a responsive Colorado Division of Securities rather than this office.

A consumer can always lift the hood of his car and tell whether it has a motor. He can also tell a washing machine from a lawn mower by sight and judge the value of each by its performance. However, an investor has none of these self-help measures available to him. No one has yet been able to figure out how to look at a stock certificate or other security and be confident that it represents a truly reputable business promotion as distinguished from a "stock job."

Moreover, it has long been recognized that the securities field, because it deals in intangibles, tends to attract many more of those bent on deceiving the public. Our experience shows that the states, because of their local presence, are in the best position to protect quickly their citizens from illicit securities promoters and others. It is axiomatic that a state without a Division of Securities, or a state with a weak division that is inadequately staffed and funded, will attract people from throughout the United States who will defraud Colorado citizens. It would certainly not appear in the best interest of the State of Colorado and its citizens to wait until there is a giant crisis or a massive securities fraud before adequately funding and staffing the Colorado Division of Securities.

As you are undoubtedly aware, Colorado, and particularly Denver, is the hub of the so-called "Hot Issue - Penny Stock Market," which has gained nationwide attention and has absorbed to a significant extent the resources of this office. This has been made possible, in part, by what appears to have been a lack of adequate funding and staffing in the past for the Colorado Division of Securities.

During the period January 1, 1979 through January 30, 1981, approximately 270 issues were offered in the Denver market after filing with the Commission, with an aggregate offering price of \$660,580,000. Additional information available to this office indicates that approximately 883 offerings were made over the past three years pursuant to Rule 146 (which offerings were not processed by this Commission), aggregating \$1,071,431.

It is critical that small businesses have and continue to have access to the capital market to raise sorely needed funds. This means that abuses in the initial distribution of stock and in the aftermarket trading must be curtailed. Investor confidence, as well as the integrity of the over-the-counter market must be maintained to insure the success of the capital formation process in Colorado and nationally. Thus, an adequate state securities program benefits both the investor as well as the business community which depends upon public capital for its continued growth.

The above, coupled with the cuts which all federal regulatory agencies are experiencing in budget and staff, emphasizes the continued importance of the Colorado Division of Securities taking an active and effective role in the regulation of securities transactions and the protection of investors in the State of Colorado.

Hopefully, the above will emphasize the critical role which the state must play in the regulation and enforcement of securities matters in Colorado and the urgent need for a viable, well-staffed and adequately funded Division of Securities designed to provide protection for Colorado investors.

In the event you desire additional information concerning the foregoing, please feel free to contact the undersigned.

Very truly yours,

Robert H. Davenport
Regional Administrator

cc: Governor Richard D. Lamm
Senator Ralph Cole, Senate Majority Leader
Representative Ronald H. Strahle, Majority Leader
Senator Steven J. Durham
Senator James D. Beatty
Senator John R. Beno
Senator Tilman M. Bishop
Senator Leslie R. Fowler
Senator Dennis J. Gallagher
Senator Barbara S. Holme
Senator James M. Kadlecek
Senator Al Meiklejohn
Senator Paul Powers
Senator Ronald K. Stewart
Senator Maynard K. Yost
Senator Sam H. Zakhem
Senator Joel Hefley
Representative John Hamlin
Wellington E. Webb, Executive Director
Department of Regulatory Agencies
Royce Griffin, Commissioner, Division of Securities