DEPARTMENT OF BUSINESS OVERSIGHT

Ensuring a Fair and Secure Financial Services Marketplace for all Californians

January 8, 2016

Dear Senator/Assemblymember:

The Department of Business Oversight (DBO) respectfully submits the attached 2016 Report on the Broker-Dealer Investment Adviser (BDIA) Program as required by the Budget Act of 2014. Beginning in 2016, pursuant to the Budget Act, the DBO must provide the Legislature and Department of Finance an annual report on the BDIA Program by January 10 of each year.

Recognizing the need for proper oversight of broker-dealers and investment advisors, the Legislature enacted SB 538 (Chapter 335, Statutes of 2013), which authorized the DBO to collect annual registration renewal fees from broker-dealers and investment advisors to support regular examination of its licensees. Regular and periodic examinations help ensure broker-dealers, investment advisers, and their employees who perform important functions on behalf of Californians adhere to the law and their duties to investors.

Upon authorizing BDIA Program to spend the revenue from the renewal fees, the Legislature also required annual reporting on the BDIA Program. Specifically, the report includes information on the number of positions authorized and filled, the number and share of licensees examined, results and outcomes of examinations, and estimated staffing levels required to achieve legally required examination cycles for licensees under the Program.

I hope you find the report informative and useful. Please do not hesitate to contact me at (916) 324-9011 or JanLynn.owen@dbo.ca.gov, or Rohimah Moly, Legislative Deputy, at (916) 322-8899 or rohimah.moly@dbo.ca.gov, if you have questions or concerns. The report also can be found on the DBO website at dbo.ca.gov.

Sincerely,

Jan Lynn Owen
Commissioner of Business Oversight

STATE OF CALIFORNIA – BUSINESS, CONSUMER SERVICES AND HOUSING AGENCY
EDMUND G. BROWN JR., Governor

DEPARTMENT OF BUSINESS OVERSIGHT
Ensuring a Fair and Secure Financial Services Marketplace for all Californians

Report to the California State Legislature

Broker-Dealer/Investment Adviser Program

January 2016

Jan Lynn Owen

Commissioner of Business Oversight

The Department of Business Oversight (DBO) submits this report pursuant to the Budget Act of 2014 (Senate Bill 852, item 1701-001-0067). The DBO's Broker-Dealer Investment Adviser (BDIA) Program, under the Corporate Securities Law of 1968, licenses and regulates investment advisers, investment adviser representatives, broker-dealers and broker-dealer agents. Regulatory oversight helps protect the investing public from unethical and fraudulent activities and ensure California's financial services market is secure, fair and transparent. The BDIA Program carries out its oversight duties by performing detailed licensing reviews and regulatory examinations of licensees. The following table shows historical number of licensees.

Workload History
(Number of Licensees)

Workload Measure	2010-11	2011-12	2012-13	2013-14	2014-15
Investment Adviser Firms*	3,195	3,255	3,677	3,712	3,711
Investment Adviser Representatives	48,711	49,841	52,154	50,980	51,627
Broker-Dealer Firms*	3,274	3,210	3,098	3,019	2,980
Broker-Dealer Agents	279,777	284,849	278,496	278,532	281,349
Broker-Dealer Branch Offices*	17,890	17,336	17,902	18,046	18,033

*Subject to examination.

1. **Number of positions authorized and filled**

   The BDIA program has 73 authorized positions and 58 positions are filled.

2. **Number of licensees examined and share of licenses examined**

   The following table shows the number of examinations completed by fiscal year and the percentage share of the total licensees.

	Number of Licensees		Exams Completed by Fiscal Year		Percent Share of Licensees Examined	
Licensee Type	**2014-15**	**2015-16***	**2014-15**	**2015-16***	**2014-15**	**2015-16***
Investment Adviser	3,711	3,607	54	72	1.46%	2.00%
Broker-Dealer	2,980	2,894	8	12	0.27%	0.41%
Broker-Dealer branch office	18,033	17,866	10	7	0.06%	0.04%

*2015-16 results are as of December 31, 2015

3. Results and outcome of examinations

The BDIA Program conducted 72 examinations of broker-dealers and investment advisers in fiscal year 2014-15. Two cases were referred to the DBO's Enforcement Division to seek license revocation for various violations found during the examinations. The remaining 70 examinations identified various violations which each licensee took corrective action to bring them into compliance.

4. Required staffing levels

The BDIA Program has 73 authorized positions. Fifty of these positions are allocated to perform examinations, seven perform licensing functions, and 16 manage or provide support to the Program. Based on current information, the BDIA Program estimates it needs at least 239 additional examiners in order to meet the legally required four-year examination cycle.

Calculation of Required Number of Examiners for BDIA Program

	Number of firms	Exam cycle (in years)	Estimated exams per year (total DBO workload)	Average number of staff hours per exam	Total number of workload hours (DBO-wide)	Annual hours available per examiner	**Estimated total number of required examiners**
Investment Adviser	3,711	4	928	80	74,240	1,760	**42**
Broker - Dealer	2,980	4	745	100	74,500	1,760	**42**
Broker-Dealer Branches	18,033	4	4,508	80	360,640	1,760	**205**
			6,181		509,380	1,760	**289**

Additional Examination Staffing Required

Current Staffing:	
Available Examination Staff	50
Available Annual Hours per Staff	1,760
Total Available Hours	88,000
Ongoing Workload Exams (in hours)	509,380
Less: Total Current Available Staff Hours	88,000
Unmet Staff Needs (in hours)	421,380
Total Positions Needed (Unmet Need/1,760 hours)	**239**

This report can be found at www.dbo.ca.gov or by calling Rohimah Moly, Legislative Deputy, at (916) 322-8899.