

# Individual State Agency Fiscal Note

Revised

<b>Bill Number:</b> 1370 HB	<b>Title:</b> Securities whistleblowers	<b>Agency:</b> 102-Department of Financial Institutions
-----------------------------	---	---

## Part I: Estimates

No Fiscal Impact

### Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

### Estimated Operating Expenditures from:

Non-zero but indeterminate cost and/or savings. Please see discussion.

### Estimated Capital Budget Impact:

NONE

*The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.*

Check applicable boxes and follow corresponding instructions:

- If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- Capital budget impact, complete Part IV.
- Requires new rule making, complete Part V.

Legislative Contact: Megan Mulvihill	Phone: 360-786-7304	Date: 01/24/2023
Agency Preparation: Levi Clemmens	Phone: (360) 902-8818	Date: 02/17/2023
Agency Approval: Levi Clemmens	Phone: (360) 902-8818	Date: 02/17/2023
OFM Review: Amy Hatfield	Phone: (360) 280-7584	Date: 02/17/2023

## Part II: Narrative Explanation

### II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

*Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.*

This bill provides the Department of Financial Institutions (DFI) with the authority to make monetary awards to whistleblowers who report violations of state or federal securities laws, and provides protections to whistleblowers and internal reporters. The monetary awards would only be given to a whistleblower if the case brought to the DFI came to conclusion and fines were charged and collected by the agency. Any monetary awards allowed under this bill would be paid from the Securities Fraud Prosecution Account (Fund 06J) which entirely funded by fines collected by DFI due to violations the Securities Act. Currently Fund 06J is used to fund local prosecutions of securities fraud. The bill would add the whistleblower program and the monetary awards to the potential uses of the fine monies in this account.

The ebb and flow of cases and fines is difficult to determine in the future. The federal Securities and Exchange Commission has a similar whistleblower program and according to data published on the SEC website, its Whistleblower Office received 327 complaints from Washingtonians in an eight year period, 2011 - 2018. While this data indicates that there are Washingtonians who are willing to report potential violations, it is not possible to know if those complaints would have been reported to DFI if a state whistleblower program was in place during that period, or how many of those complaints would have resulted in fines that would have been collected by DFI and eligible for distribution as awards. Therefore, the future amounts of fines that may be collected into Fund 06J and awards made as a result of this bill are indeterminate.

Under RCW 43.320.115(4) once the balance of Fund 06J reaches a certain limit, fines collected under the Securities Act are to be distributed into the Financial Services Regulatory Account (Fund 300). This bill raises that level from \$350,000 to \$1,000,000. Raising the amount at which the distribution shifts from Fund 06J to Fund 300 will have a temporary impact of reducing the cash receipts of Fund 300 while the balance of Fund 06J builds to the new ceiling. The uncertain dollar amounts, timing, and volume of potential fines collected, cases, monetary awards, and fund balance levels cause the fiscal impact of this bill to be indeterminate.

### II. B - Cash receipts Impact

*Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.*

The future amount of fines that may be collected into the Securities Fraud Prosecution Account (Fund 06J) is indeterminate. The timing and amount of future receipts in Fund 06J is unpredictable, so the impact to cash receipts in the Financial Services Regulation Account (Fund 300) is also indeterminate.

### II. C - Expenditures

*Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.*

The monetary awards allowed under this bill would be paid from the Securities Fraud Prosecution Account (Fund 06J). The volume of whistleblower activity and the resulting monetary awards are unknown, thus the payment of these monetary awards would have an indeterminate impact on the expenditures in Fund 06J.

## Part III: Expenditure Detail

### III. A - Operating Budget Expenditures

Non-zero but indeterminate cost and/or savings. Please see discussion.

### III. B - Expenditures by Object Or Purpose

Non-zero but indeterminate cost and/or savings. Please see discussion.

**III. C - Operating FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

NONE

**III. D - Expenditures By Program (optional)**

NONE

**Part IV: Capital Budget Impact**

**IV. A - Capital Budget Expenditures**

NONE

**IV. B - Expenditures by Object Or Purpose**

NONE

**IV. C - Capital Budget Breakout**

*Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.*

NONE

**IV. D - Capital FTE Detail:** *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part IVB.*

NONE

**Part V: New Rule Making Required**

*Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.*