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FOR DISCUSSION ONLY

UNIFORM SECURITIES ACT (2002)

NATIONAL CONFERENCE OF COMMISSIONERS

ON UNIFORM STATE LAWS

April 19-21, 2002
Washington, D.C.

WITH PREFATORY NOTE AND REPORTER'S NOTES

The ideas and conclusions set forth in this draft, including the proposed statutory language and any comments or reporter's notes, have not been passed upon by the National Conference of Commissioners on Uniform State Laws or the Drafting Committee. They do not necessarily reflect the views of the Conference and its Commissioners and the Drafting Committee and its Members and Reporters. Proposed statutory language may not be used to ascertain the intent or meaning of any promulgated final statutory proposal.

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PREFATORY NOTE

There are two versions of the Uniform Securities Act currently in force.

The Uniform Securities Act of 1956 ("1956 Act") has been adopted at one time or another, in whole or in part, by 37 jurisdictions.

The Revised Uniform Securities Act of 1985 ("RUSA") has been adopted in only a few States.

Both Acts have been preempted in part by the National Securities Markets Improvement Act of 1996 ("NSMIA") and the Securities Litigation Uniform Standards Act of 1998.

The need to modernize the Uniform Securities Act is a consequence of a combination of the new federal preemptive legislation, significant recent changes in the technology of securities trading and regulation, and the increasingly interstate and international aspects of securities transactions.

The approach of this Act is to use the substance and vocabulary of the more widely adopted 1956 Act, when appropriate. The Act also takes into account, RUSA, federal preemptive legislation, and the other developments that are described in this Note and the Official Comments.

The Act has been reorganized to follow the National Conference of Commissioners on Uniform State Laws ("NCCUSL") Procedural and Drafting Manual 15-41 (1997).

This is a new Uniform Securities Act. Amendment of the earlier 1956 Act or RUSA would not be wise given the different versions of the 1956 Act enacted by the States and the determination to seek enactment in all state jurisdictions of the new Uniform Securities Act after it is adopted by the National Conference.

The Act is solely a new Uniform Securities Act. It does not codify or append related regulations or guidelines. The Act also authorizes State Administrators to adopt further exemptions without statutory amendment (*see, e.g.,* Section 203).

The Act includes headings for the subsections as an aid to readers Unlike section captions, subsection headings are not a part of the official text itself. Each jurisdiction in which this Act is introduced may consider whether to adopt the headings as a part of the statute and whether to adopt a provision clarifying the effect, if any, to be given to the headings. The Act also has been conformed to current style conventions.

The Drafting Committee reviewed several drafts in meetings between 1998 and 2002. The Committee had the assistance of advisors, consultants, and observers from several interested groups,

including, alphabetically, the American Bar Association, the Certified Financial Planner Board of Standards, the Financial Planning Association, the Financial Planning Board of Standards, the Investment Company Institute, the Investment Counsel Association of America, the National Association of Securities Dealers, Inc., the North American Securities Administrators Association, the Securities and Exchange Commission, and the Securities Industry Association. In addition, the Reporter and the Chair met on several occasions with committees or representatives of these and other groups.

UNIFORM SECURITIES ACT (2002)

ARTICLE 1

TITLE AND DEFINITIONS

SECTION 101. SHORT TITLE. This [Act] may be cited as the Uniform Securities Act.

Reporter's Notes

Prior Provision: 1956 Act Section 416; RUSA Section 804.

SECTION 102. DEFINITIONS. In this [Act], unless the context otherwise requires:

(1) "Administrator" means the [insert ~~name~~ title of administrative agency or official].

(2) "Agent" means an individual, other than a broker-dealer, who represents a broker-dealer in effecting or attempting to effect purchases or sales of securities or represents an issuer in effecting or attempting to effect purchases or sales of the issuer's ~~own~~ securities, except that a partner, officer, or director of a broker-dealer or issuer, or an individual occupying a similar status or performing similar functions, is an agent only if the individual otherwise comes within the term. The term does not include:

(A) an individual acting for an issuer who restricts participation to:

(i) preparing written communications;

(ii) responding to inquiries; or

(iii) performing ministerial or clerical work;

(B) an individual acting for an issuer with respect to an offering or purchase of the issuer's own securities or those of the issuer's parent or any of the issuer's subsidiaries if:

(i) the individual primarily performs, or is intended primarily to perform upon completion of the offering, substantial duties for or on behalf of the issuer, the issuer's parent, or any of the issuer's subsidiaries otherwise than in connection with transactions in the issuer's own securities; and

(ii) the individual is not compensated in connection with such participation by the payment of commissions or other similar remuneration based either directly or indirectly on transactions in the issuer's own securities; or

(C) an individual the administrator, by rule or order, specifies.

~~The term does not include:~~

~~(A) an individual who represents a broker-dealer in effecting transactions in this State limited to those described in Section 15(h)(2) of the Securities Exchange Act of 1934;~~

~~(B) an individual acting for an issuer with respect to an offering or purchase of the issuer's own securities or those of the issuer's parent or any of the issuer's subsidiaries if:~~

~~(I) the individual primarily performs, or is intended primarily to perform upon completion of the offering, substantial duties for or on behalf of the issuer, the issuer's parent, or any of the issuer's subsidiaries otherwise than in connection with transactions in the issuer's own securities; and~~

~~(ii) the individual's compensation is not based, in whole or in [material] part, upon the amount of purchases or sales of the issuer's own securities; or~~

(3) "Bank" means:

(A) a banking institution organized under the laws of the United States;

(B) a member bank of the Federal Reserve System;

(C) any other banking institution [including a savings institution], whether incorporated or

not, doing business under laws of a State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under the authority of the Comptroller of the Currency pursuant to the first section of Public Law 87-722 (12 U.S.C. 92a), and which is supervised and examined by a state or federal agency having supervision over banks, and which is not operated for the purpose of evading this [Act]; and

(D) a receiver, conservator, or other liquidating agent of any institution or firm included in subparagraphs (A), (B), or (C).

(4) "Broker-dealer" means a person engaged in the business of effecting transactions in securities for the account of others or for the person's own account. The term does not include:

(A) an agent ~~[acting on behalf of the broker-dealer]~~;

(B) an issuer;

[(C) a [bank or savings institution] if its broker-dealer activities are limited to those specified in subsections 3(a)(4)(B)(i) through (vi) and (viii) through (~~ix~~ x),3(a)(5)(B), and 3(a)(5)(C) of the Securities Exchange Act of 1934;]

(~~C~~ D) an international bank; or

(~~D~~ E) a person the administrator, by rule or order, specifies.

[(5) "Depository institution" means

(A) a bank~~,~~ or

(B) a savings institution, ~~or~~ trust company, or credit union that is organized or chartered under the laws of a State or of the United States, authorized to receive deposits, and supervised and examined by an official or agency of a State or the United States if its deposits or share accounts are

insured by the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund, or a successor authorized by federal law. ~~The term also includes a credit union organized and supervised under the laws of this State, whose deposits and share accounts are insured.~~ The term does not include:

(A) an insurance company or other organization primarily engaged in the insurance business;

(B) a Morris Plan bank;

(C) an industrial loan company; or

(D) a similar bank or company unless its deposits are insured by a federal agency.]

(6) "Federal covered investment adviser" means a person registered under the Investment Advisers Act of 1940.

(7) "Federal covered security" means a security that is or upon completion of a transaction will be a covered security under Section 18(b) of the Securities Act of 1933 or rules or regulations adopted under Section 18(b).

(8) "Filing" means the receipt of a record by the administrator or a designee of the administrator.

(9) "Fraud," "deceit," and "defraud" include, but are not limited to, common law deceit.

(10) "Guaranteed" means guaranteed as to payment of all principal and all interest.

(11) "Institutional investor" means any of the following, whether acting for itself or for others in a fiduciary capacity:

(A) a depository institution or international bank;

(B) an insurance company;

(C) a separate account of an insurance company;

(D) an investment company as defined in the Investment Company Act of 1940;

(E) a broker-dealer registered under the Securities Exchange Act of 1934;

(F) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of $25,000,000 or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under this [Act], a depository institution, or an insurance company;

(G) a plan established and maintained by a State, a political subdivision of a State, or an agency or instrumentality of a State or a political subdivision of a State for the benefit of its employees, if the plan has total assets in excess of $25,000,000 or its investment decisions are made by a [duly designated public official] or by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under this [Act], a depository institution, or an insurance company;

(H) a trust, if it has total assets in excess of $25,000,000, its trustee is a depository institution, its participants are exclusively plans of the types identified in subparagraph (F) or (G), regardless of size of assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans;

(I) an organization described in Section 501(c)(3) of the Internal Revenue Code, or a

corporation, Massachusetts or similar business trust, limited liability company, limited liability partnership, ~~or~~ partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $25,000,000;

(J) a small business investment company licensed by the Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958 with total assets in excess of $25,000,000;

(K) a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940 with total assets in excess of $25,000,000;

~~[~~(L) ~~an~~ a federal covered investment adviser acting for its own account; or ~~registered under the Investment Advisers Act of 1940~~ with investments under management in excess of $100 million, ~~whether~~ acting ~~for its own account or~~ for the accounts of others ~~on a~~ under written discretionary ~~basis~~ authority;~~]~~

(M) a "qualified institutional ~~purchaser~~ buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(H), under the Securities Act of 1933;

(N) a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) under the Securities Exchange Act of 1934;

(O) ~~any other institutional purchaser; or~~ any other institutional investor with total assets of $25 million not organized for the specific purpose of acquiring the securities offered; or

(P) any other person the administrator, by rule or order, specifies.

(12) "Insurance company" means a company organized as an insurance company whose

primary business is writing insurance or reinsuring risks underwritten by insurance companies and subject to supervision by the insurance commissioner or a similar official or agency of a State.

(13) "Insured" means insured as to payment of all principal and all interest.

(14) "International banking institution" means an international financial institution of which the United States is a member and whose securities are exempt from registration under the Securities Act of 1933.

(15) "Investment adviser" means a person that, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or the advisability of investing in, purchasing, or selling securities or that, for compensation and as a part of a regular business, issues or promulgates analyses or reports concerning securities. The term includes a financial planner or other person that, as an integral component of other financially related services, provides investment advisory services to others for compensation as part of a business or that holds itself out as providing investment advisory services to others for compensation. The term does not include:

(A) an investment adviser representative;

(B) a lawyer, accountant, engineer, or teacher whose performance of investment advisory services is solely incidental to the practice of the person's profession;

(C) a broker-dealer or its agents whose performance of investment advisory services is solely incidental to the conduct of business as a broker-dealer and who receives no special compensation for the investment advisory services;

(D) a publisher of a bona fide newspaper, news magazine, or business or financial publication of general and regular ~~and paid~~ circulation;

(E) a federal covered investment adviser;

[(F) a bank or savings institution;]

(GF) any other person that is ~~excepted~~ excluded in ~~under Section 202(a)(11) of~~ the Investment Advisers Act of 1940 from the definition of investment adviser; or

(HG) any other person the administrator, by rule or order, specifies.

(16) "Investment adviser representative" means an individual employed by or associated with ~~[or who represents]~~ an investment adviser or federal covered investment adviser and who makes any recommendations or otherwise renders investment advice regarding securities, manages accounts or portfolios of clients, determines which recommendation or advice regarding securities should be given ~~[~~,provides investment advisory services or holds out as providing investment advisory services,~~]~~ receives compensation to solicit, offering to or negotiate for the sale of or selling investment advisory services, or supervising employees who perform any of the foregoing. The term does not include an individual:

(A) whose functions are performs only clerical or ministerial acts;

(~~A~~ B) who is an agent whose performance of investment advisory services is solely incidental to the individual's conduct as an agent and who receives no special compensation for investment advisory services;

(~~B~~ C) who is employed by or associated with a federal covered investment adviser, unless the individual:

(i) has a "place of business" in this State as that term is defined by rule under Section 203A of the Investment Advisers Act of 1940 and is an "investment adviser representative" as that term is defined by rule under Section 203A of the Investment Advisers Act of 1940; or

(ii) has a "place of business" in this State ~~that~~ as that term is defined by rule under Section 203A of the Investment Advisers Act of 1940 and is not a "supervised person" as that term is definied in Section 202(a)(25) of the Investment Advisers Act of 1940; or

(D) whom, the administrator, by rule or order, specifies.

[(17) "Investment advisory services" means those services which a person, for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or the advisability of investing in, purchasing or selling securities, or that, for compensation and as part of a regular business, issues or promulates analyses or reports concerning securities.]

~~(17) "Issuer" means a person or group of persons that issues or proposes to issue its own securities, subject to the following:~~

~~(A) The issuer of a collateral trust certificate, voting trust certificate, certificate of deposit for a security, or share in an investment company without a board of directors or persons performing similar functions, is the person performing the acts and assuming the duties of depositor or manager under the trust or other agreement or instrument under which the security is issued.~~

~~(B) The issuer of an equipment trust certificate, including a conditional sales contract or similar security serving the same purpose, is the person or the person's parent to whom the equipment or property is or is to be leased or conditionally sold.~~

~~(C) The issuer of a fractional undivided interest in oil, gas, or other mineral rights is the owner of an interest in the lease or in payments out of production under a lease, right, or royalty, whether whole or fractional, who creates fractional interests for the purpose of sale.~~

(18) "Issuer" means a person that issues or proposes to issue a security, subject to the following rules:

(A) The issuer of a voting trust certificate, collateral trust certificate, certificate of deposit for a security, or share in an investment company without a board of directors or individuals performing similar functions, is the person performing the acts and assuming the duties of depositor or manager pursuant to the trust or other agreement or instrument under which the security is issued.

(B) The issuer of an equipment trust certificate, or similar security serving the same purpose, is the person by whom the property is or is to be used, or to whom the property or equipment is or is to be leased or conditionally sold, or who is otherwise contractually responsible for assuring payment of the certificate.

(C) The issuer of a fractional undivided interest in oil, gas, or other mineral rights is the owner of an interest in a lease, right, or royalty, or in payments out of production under a lease, right, or royalty, whether whole or fractional, that creates fractional interests for the purpose of an ~~[public]~~ offering.

(1~~8~~9) "Nonissuer transaction" or "nonissuer distribution" means a transaction or distribution not directly or indirectly for the benefit of the issuer.

(~~19~~20) "Offer to purchase" includes every attempt to obtain or solicit an "offer to sell" a security or interest in a security for value. ~~but~~ The term does not include a tender offer that is subject to ~~sub~~section 14(d) of the Securities Exchange Act of 1934.

(~~20~~21) "Person" means an individual, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, government; governmental subdivision, agency, or

instrumentality; public corporation; or any other legal or commercial entity.

(~~21~~22) "Place of business" of a broker-dealer, ~~or~~ an investment adviser or a federal covered investment adviser means:

(A) an office at which the broker-dealer, ~~or~~ investment adviser, or federal covered investment adviser regularly provides brokerage or investment advisory services, ~~or~~ solicits, meets with, or otherwise communicates with clients; or

(B) any other location that is held out to the general public as a location at which the broker-dealer, ~~or~~ investment adviser, or federal covered investment adviser provides brokerage or investment advisory services, ~~or~~ solicits, meets with, or otherwise communicates with clients.

(~~22~~3) "Predecessor act" means the Act repealed ~~under~~ by Section 702.

(~~23~~4) "Price amendment" means the amendment to a registration statement filed under the Securities Act of 1933 or, if no amendment is filed, the prospectus or prospectus supplement filed under the Securities Act of 1933 that includes a statement of the offering price, underwriting and selling discounts or commissions, amount of proceeds, conversion rates, call prices, and other matters dependent upon the offering price.

(~~24~~5) "Principal place of business" of a broker-dealer or an investment adviser means the executive office of the broker-dealer or investment adviser from which the officers, partners, or managers of the broker-dealer or investment adviser direct, control, and coordinate the activities of the broker-dealer or investment adviser.

(~~25~~6) "Record," except in "of record," "official record," and "public record," means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and

is retrievable in perceivable form, including, but not be limited to, a registration statement, report, application, book, publication, account, paper, correspondence, memorandum, agreement, document, computer file, microfilm, photograph, audio or visual tape, and any other writing.

(2~~6~~7) "Sale" includes every contract of sale, contract to sell, or disposition of, a security or interest in a security for value, and "offer to sell" includes every attempt or offer to dispose of, or solicitation of an offer to buy, a security or interest in a security for value. Both terms:

(A) include:

(i) security given or delivered with, or as a bonus on account of, any purchase of securities or any other thing constituting part of the subject of the purchase and ~~to have~~ having been offered and sold for value;

(ii) a gift of assessable stock involves an offer and sale; and

(iii) a sale or offer of a warrant or right to purchase or subscribe to another security of the same or another issuer, and every sale or offer of a security that gives the holder a present or future right or privilege to convert into another security of the same or another issuer, including an offer of the other security; and

[(B) do not include:

~~(i) the creation of a security interest in conjunction with a loan;~~

(~~ii~~i) a stock dividend, or equivalent equity distribution whether the corporation or other business organization distributing the dividend or equivalent equity distribution is the issuer ~~of the stock~~ or not, if nothing of value is given by stockholders or other equity holders for the dividend or equivalent equity distribution other than the surrender of a right to a cash or property dividend if each

stockholder or other equity holder may elect to take the dividend or equivalent equity distribution in cash, property, or stock;

(~~iii~~ii) an any act incident to a judicially approved reorganization in which a security is issued in exchange for one or more outstanding securities, claims, or property interests, or partly in such exchange and partly for cash; and

(~~iv~~iii) the solicitation of tenders of securities by an offeror in a tender offer in compliance with Rule 162 issued under the Securities Act of 1933.]

(28) "Securities and Exchange Commission" means the United States Securities and Exchange Commission.

(29) "Security" means a note; stock; treasury stock; security future; bond; debenture; evidence of indebtedness; certificate of interest or participation in a profit-sharing agreement; collateral trust certificate; preorganization certificate or subscription; transferable share; investment contract; voting trust certificate; certificate of deposit for a security; fractional undivided interest in oil, gas, or other mineral rights; put, call, straddle, option, or privilege on a security, certificate of deposit, or group or index of securities, ~~(~~including an interest therein or based on the value thereof~~)~~; put, call, straddle, option or privilege entered into on a national securities exchange relating to foreign currency; or, in general, an interest or instrument commonly known as a "security"; or a certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

(A) The term includes both a certificated and an uncertificated security.

(B) The term does not include an insurance or endowment policy or annuity contract

under which an insurance company promises to pay a fixed sum of money either in a lump sum or periodically for life or other specified period; or

(C) The term does not include an interest in a contributory or noncontributory pension or welfare plan subject to the Employee Retirement Income Security Act of 1974.

[(D) An investment contract involves an investment in a common enterprise with the expectation of profit to be derived through the essential managerial efforts of a person other than the investor. A common enterprise means an enterprise in which the fortunes of the investor are interwoven with and dependent upon the efforts and success of those seeking the investment or of a third party. An investment contract can include a limited partnership, a limited liability company, a limited liability partnership, or a viatical settlement agreement.]

(30) "Self-regulatory organization" means a national securities exchange registered under the Securities Exchange Act of 1934, a national securities association of broker-dealers registered under the Securities Exchange Act of 1934, a clearing agency registered under the Securities Exchange Act of 1934, or the Municipal Securities Rulemaking Board established under the Securities Exchange Act of 1934.

(31) "Sign" means:

(A) to execute or adopt a tangible symbol with the present intent to authenticate a record; or

(B) to attach or logically associate an electronic symbol, sound, or process to or with a record with the present intent to authenticate the record.

(3~~1~~2) "State" means a State of the United States, the District of Columbia, Puerto Rico, the

United States Virgin Islands, or any territory or insular possession subject to the jurisdiction of the United States.

[(3~~2~~3) "Underwriter" means a person that has purchased from an issuer with a view to, or offers or sells for an issuer in connection with, the distribution of ~~any~~ a security; participates or has a direct or indirect participation in an underwriting; or participates or has a participation in the direct or indirect underwriting. ~~of an undertaking~~. The term does not include a person whose interest is limited to a commission from an underwriter or dealer not in excess of the usual and customary distributors' or sellers' commission. In this paragraph, "issuer" includes a person directly or indirectly controlling or controlled by the issuer, and a person under direct or indirect common control with the issuer.]

Reporter's Notes

Prior Provisions: 1956 Act Section 401; RUSA 101.

1. Under Section 605(a) the administrator has the power to define by rule any term, whether or not used in this Act, as long as the definitions are not inconsistent with the Act.

2. All definitions include corresponding meanings. For example, "filing" would include "file" or "filed"; "sale" would include "sell."

3. Prefatory Phrase: "In this [Act], unless the context otherwise requires": Prior Provisions: 1956 Act Section 401 Preface; RUSA Section 101 Preface. This prefatory phrase which begins the counterpart provisions of the federal securities statutes, see, e.g., Securities Act of 1933 Section 2(a), provides the basis for the courts to take into account the statutory and factual context of each definition, see, e.g., Reves v. Ernst & Young, 494 U.S. 56 (1990); 2 L. Loss & J. Seligman, Securities Regulation 927-929 (3d ed. rev. 1999), and will allow the courts to harmonize these definitions with the counterpart federal securities definitions to the extent appropriate. Cf. Akin v. Q-L Inv., Inc., 959 F.2d 521, 532 (5th Cir. 1992) ("Texas courts generally look to decisions of the federal courts to interpret the Texas Securities Act because of obvious similarities between the state and federal laws"); Koch v Koch Indus., Inc. 203 F.3d 1202, 1235 (10th Cir. 2000) (following federal definition of materiality); Biales v. Young, 432 S.E.2d 482, 484 (S.C. 1993) ("Section 35-1-1490(2) is substantially similar to Section 12(1) of the Federal Securities Act").

4. Section 102(1): Administrator: Prior Provisions: 1956 Act Section 401(a); RUSA Section 101(1).

5. Section 102(2): Agent: Prior Provisions: 1956 Act Section 401(b); RUSA Section 101(14). Section (102)(2), in part, follows the 1956 Act definitions. The 1956 Act used the term "agent" while the RUSA Section 101(14) used the term "sales representative." Given the broader enactment of the 1956 Act, this Act also uses the term "agent."

Whether a particular individual who represents a broker-dealer or issuer is an "agent" depends upon the same factors that create an agency relationship at common law. See, e.g., Norwest Bank Hastings v. Clapp, 394 N.W.2d 176, 179 (Minn. Ct. App. 1986) (following Official Comment that establishing agency under the Uniform Securities Act "depends upon much the same factors which create an agency relationship at common law") Shaughnessy & Co., Inc. v. Commissioner of Sec., 1971-1978 Blue Sky L. Rep. (CCH) ¶71,348 (Wis. Cir. Ct. 1977) (unlicenced person who took information relevant to securities transaction and turned it over to securities agents was himself an agent).

An individual can be an agent for a broker-dealer or issuer for a purpose other than effecting or attempting to effect purchases or sales of securities and not be a statutory agent under this Act. See, e.g., Baker, Watts & Co. v. Miles & Stockridge, 620 A.2d 356, 367 (Md. Ct. App. 1993) (attorney-client relationship is generally one of agency, but that alone does not bring attorneys within securities act definition of agent).

Section 102(2) is intended to include any individual who acts as an agent, whether or not the individual is an employee or independent contractor.

The term "individual" is limited to human beings and does not include a juridical "person" such as a corporation. Cf. definition of "person" in Section 102(21). The 1956 Act Section 401(b) similarly was limited to individuals and did not include juridical persons. See, e.g., Connecticut Nat'l Bank v. Giacomi, 699 A.2d 101, 111-112 (Conn. 1997) ("agent" only includes natural persons when it used the term individual); Schpok v. Fodale, 236 N.W.2d 97, 99 (Mich. Ct. App. 1975) (agent defined to be individual which did not under the statute include a corporation).

An individual will not be considered to be an agent under Section 102(2) merely because of the person's status as a partner, officer, or director of a broker-dealer or issuer if such an individual does not effect or attempt to effect purchases or sales of securities. See, e.g., Abell v. Potomac Ins. Co., 858 F.2d 1104 (5th Cir. 1988). See also Norwest Bank Hastins v. Clapp, 394 N.W.2d 176, 178-179 (Minn. Ct. App. 1986) (lender was not an agent). Cf. Quick v. Woody, 747 S.W.2d 108 (Ark. 1988).

An individual whose functions are solely clerical or ministerial would not be an agent under Section 102(2)(A).

Section 102(2)(B) provides with respect to individuals acting for an issuer, a parent of the issuer, or subsidiary of the issuer, that such individual will not be an "agent" when such an individual acts for an issuer with respect to an offering or sale of the issuer's securities, a parent, or subsidiary when (1) the individual performs or is intended to perform substantial duties other than in connection with transactions in the issuer's own securities and (2) the individual does not receive compensation in connection with the purchase of these securities by payment of commissions in other similar remuneration. Similar provisions exist in some states today. See, e.g., Colorado Section 201(14); Illinois Securities Act Section 2.9.

An individual acting for an issuer subject to Section 102(2)(B) will not be exempted from relevant fraud and liability provisions in Article 5.

6. Section 102(3): Bank: Prior Provision: Subsection 3(a)(6) of the Securities Exchange Act of 1934. A United States branch of a foreign bank that otherwise satisfies this definition would be a bank.

7. Section 102(4): Broker-Dealer: Prior Provisions: 1956 Act Section 401(c); RUSA Section 101(2). This definition generally follows the definition of broker-dealer in the 1956 Act and RUSA. The use of the compound term is meant to include either a broker or a dealer. The recognized distinction is that a broker acts for the benefit of another while a dealer acts for itself (e.g., in buying for or selling from its own inventory).

The distinction between "a person engaged in the business of effecting transactions in securities" and an investor, who may buy and sell with some frequency and is outside the scope of this term, has been well developed in the case law. See 6 L. Loss & J. Seligman, Securities Regulation 2980-2984 (3d ed. 1990).

The 1956 Act Section 401(c) excluded from the definition of broker-dealer a person who during any 12 consecutive months did not direct more than 15 offers to buy or sell in this State. In this Act exemptions from broker-dealer registration generally are provided in Section 401(b).

The Gramm-Leach-Bliley Act, signed into law in November 1999, rescinded the exemption of banks from the definition of broker and dealer in Sections 3(a)(4) and (5) of the Securities Exchange Act of 1934. Under Section 102(4)(E), a securities administrator can exclude banks and other depository institutions, in whole or in part. There is also an exclusion in Section 102(4)(C) for bank registration as a broker-dealer for specified activities.

Section 15(h)(1) of the Securities Exchange Act of 1934, as amended by the National Securities Markets Improvement Act of 1996 preempts state law from "[establishing] capital, custody, margin, financial responsibility, making and keeping records, bonding, or financial or operational reporting requirements for brokers, dealers, municipal securities dealers, government securities brokers, or government securities dealers that differ from, or are in addition to the requirements in those areas established under [the Securities Exchange Act]." These preemptions are recognized in the substantive

broker-dealer provisions in Article 4.

8. Section 102(5): Depository Institutions: No Prior Provision.

9. Section 102(6): Federal covered investment adviser: No Prior Provision. This provision is necessitated by Section 203A of the Investment Advisers Act of 1940, added by Title III of the National Securities Markets Improvement Act of 1996, which allocates to primary state regulation most advisers with assets under management of less than $25 million. SEC registration is permitted, but not required, for investment advisers having between $25 and $30 million of assets under management and is required of investment advisers having at least $30 million of assets under management. Investment Advisers Act of 1940 Rule 203A-1. Most advisers with assets under management of $25 million or more register solely under Section 203 of the Investment Advisers Act of 1940 and not state law. This division of labor is intended to eliminate duplicative regulation of investment advisers.

10. Section 102(7): Federal covered security: No Prior Provision. The National Securities Markets Improvement Act of 1996, as subsequently amended, partially preempted state law in the securities offering and shareholder reporting areas. Under Section 18(a) of the Securities Act of 1933, no state statute, rule, order, or other administrative action may apply to:

(1) The registration of a "covered" security or a security that will be a covered security upon completion of the transaction;

(2)(A) Any offering document prepared by or on behalf of the issuer of a covered security;

(2)(B) Any proxy statement, report to shareholders, or other disclosure document relating to a covered security or its issuer that is required to be filed with the SEC or any national securities association registered under Section 15A of the Securities Exchange Act such as the National Association of Securities Dealers (NASD); or

(3) The merits of a covered security or a security that will be a covered security upon completion of the transaction.

2. Section 18(b) of the Securities Act of 1933 applies to four types of "covered securities":

(1) Securities listed or authorized for listing on the New York Stock Exchange (NYSE), the American Stock Exchange (Amex); the National Market System of the Nasdaq stock market; or securities exchanges registered with the Securities and Exchange Commission (SEC) (or any tier or segment of their trading) if the SEC determines by rule that their listing standards are substantially similar to those of the NYSE, Amex, or Nasdaq National Market System, which the SEC has done through Rule 146; and any security of the same issuer that is equal in seniority or senior to any security listed on the NYSE, Amex, Nasdaq National Market System, or other applicable securities exchange;

(2) Securities issued by an investment company registered with the SEC (or one that has filed a registration statement under the federal Investment Company Act of 1940);

(3) Securities offered or sold to "qualified purchasers." This category of covered securities will become operational only when the SEC defines the term "qualified purchaser" as used in Section 18(b)(3) of the Securities Act of 1933, by rule. To date the SEC has proposed, but not adopted, Rule 146(c) of the Securities Act of 1933; and

(4) Securities issued under the following specified exemptions of the Securities Act of 1933:

(A) Sections 4(1) (transactions by persons other than an issuer, underwriter or dealer), and 4(3) (dealers after specified periods of time), but only if the issuer files reports with the Commission under Sections 13 or 15(d) of the Securities Exchange Act;

(B) Section 4(4) (brokers);

(C) Securities Act exemptions in Section 3(a) with the exception of the charitable exemption in Section 3(a)(4), the exchange exemption in Section 3(a)(10), the intrastate exemption in Section 3(a)(11), and the municipal securities exemption in Section 3(a)(2), but only with "respect to the offer or sale of such [municipal] security in the State in which the issuer of such security is located"; and

(D) Securities issued in compliance with SEC rules under Section 4(2) (private placement exemption).

Section 18(c)(1) preserves state authority "to investigate and bring enforcement actions with respect to fraud or deceit, or unlawful conduct by a broker or dealer, in connection with securities or securities transactions."

The National Securities Markets Improvement Act, in essence, preempts aspects of the securities registration and reporting processes for specified covered securities. The Act does not diminish state authority to investigate and bring enforcement actions generally with respect to securities transactions.

The states are also authorized to require filings of any document filed with the SEC for notice purposes "together with annual or periodic reports of the value of securities sold or offered to be sold to persons located in the State (if such sales data is not included in documents filed with the Commission), solely for notice purposes and the assessment of any fee, together with a consent to service of process and any required fee." Section 18(c)(2). However, no filing or fee may be required with respect to any listed security that is a covered security under Section 18(b)(1) (traded on specified stock markets). Section 302 of this Act addresses notice filings and fees applicable to federal covered securities.

10. Section 102(8): Filing: Prior Provision: RUSA Section 101(4). The RUSA definition was revised to recognize that records may be filed in paper form or electronically with the administrator, or designees such as the Web-CRD (Central Registration Depository) or Investor Advisor Registration Depository (IARD) or successor institutions or the Securities and Exchange Commission's Electronic Data Gathering, Analysis and Retrieval System (EDGAR) or successor systems.

In the RUSA definition, the term "filed" referred to "actual delivery of a document or application." This Act substitutes the term "record" which is defined in Section 102(26) to refer broadly to "information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perishable form". This definition requires the receipt of a record. The definition does not limit filing to any specific medium such as mail, certified mail, or a particular electronic system. The definition is intended to permit an administrator to accept filings over the Internet or through a direct modem system, both of which are now used to transmit documents to EDGAR, or through new electronic systems as they evolve.

"Receipt" refers to the actual delivery of a record to the administrator or a designee and does not refer to a subsequent review of the record by the administrator. See, e.g., Fehrman v. Blunt, 825 S.W.2d 658 (Mo. Ct. App. 1992).

11. Section 102(9): Fraud, Deceit and Defraud: Prior Provisions: 1956 Act Section 401(d); RUSA Section 101(6). This definition, which is identical to the 1956 Act and RUSA, codifies the holdings that "fraud" as used in the federal and state securities statutes is not limited to common law deceit. See generally 7 L. Loss & J. Seligman, Securities Regulation 3421-3448 (3d ed. 1991).

12. Section 102(10): Guaranteed: Prior Provisions: 1956 Act Section 401(e); RUSA Section 401(a)(1). The 1956 Act definition of "guaranteed" applied generally to payment of "principal, interest, or dividends." The RUSA definition of "guaranteed," which was solely applicable to exempt securities, applied to the guarantee of "all or substantially all of principal and interest or dividends."

Section 102(10) follows the 1956 Act approach and applies generally to the guarantee of "all principal and all interest." Any method of guarantee that results in a guarantee of payment of all principal and all interest will suffice including, for example, an irrevocable letter of credit.

This definition does not address whether or not a guarantee, whether whole or partial, is itself a security. That issue is addressed by the definition of "security" in Section 102(30).

13. Section 102(11): – Prior Provisions: RUSA Section 101(5); Securities Act of 1933 Rules 144A and 501(a).

Section 102(11)(H) concludes with an except clause meant to exclude self-directed plans for individuals from this definition.

Section 102(11)(O) is meant to reach persons similar to those listed in Sections 102(11)(A)-(N), but not otherwise listed.

With respect to the exclusion of Rule 144A(1)(H) from Section 102(11)(M), the substance of Rule 144A(a)(1)(H) appears in Section 102(11)(I), but with a requirement of total assets in excess of $25,000,000.

In Section 102(11)(L), the paragraph concerning investment advisers with investments under management in excess of $100 million when acting for the accounts of others underwritten discretionary authority is intended to permit an investment adviser simultaneously to engage in batch transactions on behalf of several clients.

14. Section 102(12): Insurance company: No Prior Provision. This definition is based on Securities Act of 1933 Section 2(a)(13).

15. Section 102(13): Insured: Prior Provision: RUSA Section 401(a)(2). The RUSA definition of "insured," which was solely applicable to exempt securities, applied to the insurance of "all or substantially all of principal, interest, or dividends." Section 102(13) is applicable generally but is limited to "payment of all principal and all interest."

16. Section 102(14): International banking institution: No Prior Provision. Securities issued or guaranteed by the Internal Bank for Reconstruction and Development, 22 U.S.C. Section 286k-1(a); the Inter-American Development Bank, 22 U.S.C. Section 283h(a); the Asian Development Bank, 22 U.S.C. Section 285h(a); the African Development Bank, 22 U.S.C. Section 290i-9; and the International Finance Corporation, see 22 U.S.C. Section 282k; are treated as exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, see generally 3 L. Loss & J. Seligman, Securities Regulation 1191-1194 (3d ed. rev. 1999), and are within this term.

17. Section 102(15): Investment adviser: Prior Provisions: 1956 Act Section 401(f); RUSA Section 101(7). This term generally follows the definition in Section 202(a)(11) of the Investment Advisers Act of 1940.

The first sentence in Section 102(15) is identical to the first sentence in the 1956 Act Section 401(f) and the counterpart language in Section 202(a)(11). The RUSA definition deleted the phrases "either directly or through publications or writings" and "regular" before business. These terms have been returned to Section 102(15) because of the intention that this definition be construed uniformly with the definition in the Investment Advisers Act of 1940.

The second sentence in the term addressing financial planners is new. The purpose of this sentence is to achieve functional regulation of those financial planners who, in fact, satisfy the definition of investment adviser. Cf. Investment Advisers Act Release 1092, 39 SEC Dock. 494 (1987) (similar

approach in Securities and Exchange Commission interpretative Release). This reference is not intended to preclude persons who hold some form of formally recognized financial planning or consulting designation or certification from using this designation. The use by a person of the designation or certification as a financial planner or any designation or certification alone does not require registration as an investment adviser.

Sections 102(15)(A)-(H) are exclusions from the term "investment adviser." An excluded person can be held liable for fraud in providing investment advice, see Section 502, but would not be subject to the registration and regulatory provisions in Article 4.

Sections 102(15)(A) and (E) are new and recognize that investment adviser representatives and federal covered investment advisers are separately treated in this Act. See definitions in Sections 102(6) and 102(16); registration and exemptions in Sections 404-405.

Sections 102(15)(B), (C), and (G) are substantively identical to the 1956 Act, RUSA, and the Investment Advisers Act of 1940. The Official Comment to 1956 Act Section 401(f) quoted an opinion of the Securities and Exchange Commission General Counsel in Investment Advisers Act Release 2 on the meaning of "special compensation" included in Section 102(15)(C):

> [This clause] amounts to a recognition that brokers and dealers commonly give a certain amount of advice to their customers in the course of their regular business, and that it would be inappropriate to bring them within the scope of the Investment Advisers Act merely because of this aspect of their business. On the other hand, that portion of clause [(C)] which refers to 'special compensation' amounts to an equally clear recognition that a broker or dealer who is specially compensated for the rendition of advice should be considered an investment adviser and not be excluded from the purview of the Act merely because he is also engaged in effecting market transactions in securities. . . . The essential distinction to be borne in mind in considering borderline cases . . . is the distinction between compensation for advice itself and compensation for services of another character to which advice is merely incidental.

The 1956 Act definition added the word "paid" to the counterpart exclusion in Section 202(a)(11) of the Investment Advisers Act "to emphasize," as the Official Comment explained, "that a person who periodically distributes a 'tipster sheet' free as a way to get paying clients is not excluded from the definition as a 'publisher.'" After the 1956 Act was published, the United States Supreme Court construed the definition of investment adviser in Lowe v. SEC, 472 U.S. 181 (1985), and concluded:

> Congress did not intend to exclude publications that are distributed by investment advisers as a normal part of the business of servicing their clients. The legislative history plainly demonstrates that Congress was primarily interested in regulating the business of

> rendering personalized investment advice, including publishing activities that are a normal incident thereto. On the other hand, Congress, plainly sensitive to First Amendment concerns, wanted to make clear that it did not seek to regulate the press through the licensing of nonpersonalized publishing activities.

Id. at 185.

Responsive to this language RUSA rewrote this exclusion to provide:

> a publisher, employee, or columnist of a newspaper, news magazine, or business or financial publication, or an owner, operator, or employee of a cable, radio, or television network, station, or production facility, if, in either case, the financial or business news published or disseminated is made available to the general public and the content does not consist of rendering advice on the basis of the specific investment situation of each client.

Recent experience at the federal and state levels suggest that the RUSA approach may be too broad. The retention of the Investment Advisers Act approach provides a better balance between First Amendment concerns and protection of investors from non-"bona fide" publicizing of investment advice. The exclusion in Section 102(15)(D) is intended to exclude publishers of Internet or electronic media, but only if the Internet or electronic media publication or website satisfies the "bona fide" and "publication of general, regular, and paid circulation" requirements. Cf. SEC v. Park, 99 F. Supp. 2d 889, 895-896 (N.D. Ill. 2000) (court declined to dismiss complaint against an Internet website when there were allegations that the website was not "bona fide" or of "general and regular circulation").

The exclusion in Section 102(15)(F) is required by the National Securities Markets Improvement Act of 1996. This exclusion will reach banks and bank holding companies as described in Investment Advisers Act Section 202(a)(11)(A) and persons whose advice solely concerns United States government securities as described in Section 202(a)(11)(E).

18. Section 102(16): Investment adviser representatives: No Prior Provision. Investment adviser representatives were not required to register under the federal Investment Advisers Act, before or after the National Securities Markets Improvement Act.

Investment adviser representative is defined under Section 203A of the Investment Advisers Act of 1940 in Rule 203A-3(a).

This definition of investment adviser representative includes third party solicitors with a place of business in a state who receives compensation to solicit on behalf of federal covered investment advisers, but are not supervised persons of the federal covered investment advisers.

19. Section 102(17): Investment advisory services: No Prior Provision.

20. Section 102(18): Issuer: Prior Provisions: 1956 Act Section 401(g); RUSA Section 101(8).

1. With respect to deletion from paragraph (B) of the phrase "including a conditional sales contract," a conditional sales contract is not a security and when a conditional sales contract is the basis of an equipment trust certificate, it runs only to the trustee. It does not appear in the federal act's treatment of equipment trust certificates. That the conditional sale purchaser is the issuer is picked up in the rest of paragraph (B).

2. In paragraph (B), "or the person's parent" is deleted. This does not appear in the federal statute. The parent may or may not be an issuer. It would depend upon the deal. Where the issuer railroad, for example, is not creditworthy, the parent holding company may have to guarantee the certificates or the lease or conditional sale contract to the trustee, in which case the parent would or should also become an issuer. It is not either/or. And that would be consistent with federal law which treats a guarantor of a security or the means of payment of a security as an issuer.

3. In paragraph (B), insertion of "or who is otherwise contractually responsible for assuring payment of the certificate:" This is to take care of other forms of payment than leases or conditional sales contracts. It would also reach guarantors.

4. In paragraph (C), "an oil, gas, or other mineral lease or in payments out of production under a lease, right, or royalty" is deleted and "oil, gas, or other mineral rights" is substituted: the latter phrasing is used in the definition of "security" in Section 102(30). It is also the phrasing used in the federal act's definition of security and issuer. The reference to lease, production payment, right or royalty is picked up in the balance of paragraph (C). Cf. L. Loss, Commentary on the Uniform Securities Act 97-99 (1976) (background on 1956 Act definition of issuer).

21. Section 102(19): Nonissuer transaction or nonissuer distribution: Prior Provisions: 1956 Act Section 401(h); RUSA Section 101(9). This definition is relevant to several exempt transactions in Section 202. See, e.g., Sections 202(1)-(7).

In TechnoMedical Labs, Inc. v. Utah Sec. Div., 744 P.2d 320 (Utah Ct. App. 1987), the court declined to limit the term benefit to monetary benefit and instead held a spinoff transaction could provide direct or indirect benefits to an issuer. Id. at 323-324, *following* SEC v. Datronics Eng'r, Inc., 490 F.2d 250 (4th Cir. 1973), *cert. denied,* 416 U.S. 937; SEC v. Harwin Indus. Corp., 326 F. Supp. 943 (S.D.N.Y. 1971).

22. Section 102(20): Offer to purchase: No Prior Provision: A rescission offer under Section 510 would be an offer to purchase.

23. Section 102(21): Person: Prior Provisions: 1956 Act Section 401(i); RUSA Section 101(10). This is the standard definition used by the National Conference of Commissioners for Uniform State Laws. The use of the concluding phrase "or any other legal or commercial entity" is intended to be broad enough to include other forms of business entities that may be created or popularized in the future.

24. Section 102(22): Place of business: Prior Provision: Rules 203A-3(b) and 222-1 of the Investment Advisers Act of 1940.

25. Section 102(24): Price amendment: Prior Provision: RUSA Section 101(11). This concept concerns the registration by coordination with the Securities and Exchange Commission procedure in Section 303(d). See also Section 304(d). In the case of noncash offerings, required information concerning such matters as the offering price and underwriting arrangements is normally filed in a "price" amendment after the rest of the registration statement has been reviewed by the Securities and Exchange Commission staff. See generally 1 L. Loss & J. Seligman, Securities Regulation 542-550 (3d ed. rev. 1998).

26. Section 102(25): Principal place of business: Prior Provision: Rule 222-1(b) of the Investment Advisers Act of 1940.

27. Section 102(26): Record: Prior Provision: Uniform Electronic Transactions Act Section 2(13).

The Uniform Electronic Transactions Act §2(13) defines record in nearly identical terms. The Official Comment explains:

> This is a standard definition designed to embrace all means of communicating or storing information except human memory. It includes any method for storing or communicating information, including "writings." A record need not be indestructible or permanent, but the term does not include oral or other communications which are not stored or preserved by some means.

This term is intended to embrace new forms of records that are created or popularized in the future.

28. Section 102(27): Sale: Prior Provisions: 1956 Act Section 401(j); RUSA Section 101(13).

Both the 1956 Act and RUSA definition of "sale" are modeled on Section 2(a)(3) of the Securities Act of 1933.

Language in Section 401(j) of the 1956 Act also addressed the now rescinded SEC "no sale" doctrine and has been eliminated. Merger transactions are usually sales under Section 102(27),

but may be exempted from the securities registration requirements by Section 202(16).

Securities Act Rule 162 allows the offeror in a stock exchange offer to solicit tenders of securities before a registration statement is effective as long as no securities are purchased until the registration statement is effective and the tender offer has expired.

29. Section 102(29): Security: Prior provisions: 1956 Act Section 401(1); RUSA Section 101(16). Much of the definition in Section 102(29), like the definitions in the 1956 Act Section 401(l) and RUSA Section 101(16), is identical to the definition in Section 2(a)(1) of the Securities Act. State courts interpreting the Uniform Securities Act definition of security have often looked to interpretations of the federal definition of security. See generally 2 L. Loss & J. Seligman, Security Regulation 923-1138.19 (3d ed. rev. 1999).

The most recent amendments to Section 2(a)(1) of the Securities Act of 1933 were added by the Commodities Futures Modernization Act of 2000 which added or revised language addressing securities futures and securities puts, calls, straddles, options, or privileges to the federal act. Identical language has been included in Section 102(29) of this Act to harmonize interpretation of the federal and state definition of a "security."

Preorganization certificates or subscriptions are included in this term, obviating the need for a separate definition as in RUSA Section 402(13).

A new sentence was added in Section 102(29)(A) referring to certificated or uncertificated securities to indicate that the term is intended to apply whether or not a security is evidenced by a writing. Cf. Thomas v. State of Tex., 65 S.W.3d 38 (Tex. Crim. App. 2001) (Under Texas law evidence of indebtedness requires a writing).

Insurance or endowment policies or endowments or annuity contracts, other than those on which an insurance company promises to make variable payments are excluded from this term. Variable insurance products are also excluded in many states and are exempted from securities registration in others under provisions such as Section 201(4). When variable products are included in the definition of security and exempted from registration state securities administrators can bring enforcement actions concerning variable insurance sales practices.

In many states variable products are excluded from the definition of security. Those states which intend to exclude variable products from the definition of security should add the words "or variable" to Section 102(29)(B) so that it will read:

> (A) an insurance or endowment policy or annuity contract under which an insurance company promises to pay a fixed or variable sum of money either in a lump sum or periodically for life or other specified period; or

Section 102(29)(C) includes the exception from RUSA to the 1956 definition for "an interest in a contributory or noncontributory pension or welfare plan subject to the Employee Retirement Income Security Act of 1974." Section 102(29) also uses RUSA's "fractional undivided interest in oil, gas or other mineral rights" formulation, which originated in Section 2(a)(1) of the Securities Act of 1933, rather than the 1956 Act formulation, "certificate of interest or participation in an oil, gas or mining title." In recent years, courts interpreting Section 2(a)(1) of the Securities Act of 1933 have found certain oil, gas or mineral rights to be investment contracts (that is, securities). 2 L. Loss & J. Seligman, Securities Regulation 979-982 (3d ed. rev. 1999).

Section 102(29)(D), is based, in part, on the leading case of SEC v. Glenn W. Turner Enter., Inc., 474 F.2d 476, 482 n.7 (9th Cir. 1973), *cert. denied*, 419 U.S. 900. Under federal securities law limited liability companies and limited partnerships have been held to be investment contracts and accordingly "securities" within the meaning of Section 2(a)(1) of the Securities Act of 1933. See 2 L. Loss & J. Seligman, Securities Regulation 1028-1031 (3d ed. rev. 1999). In addition, when consistent with the court decisions interpreting the investment contract concept, see, e.g., SEC v. W.J. Howey Co., 328 U.S. 293 (1946), such instruments as limited liability partnerships or viatical settlements could also be statutory securities. This term is intended to reject the holding that a viatical contract would never be a security. See SEC v. Life Partners Inc., 87 F.3d 536 (D.C. Cir. 1996), *reh'g denied*, 102 F. 3d 587 (D.C. Cir. 1996). Investment contract can include a limited partnership, limited liability partnership, or viatical settlement agreement, among other applications. This Act includes a viatical settlement agreement to make unequivocally clear that viatical settlement agreements, which otherwise satisfy the definition of an investment contract, are securities.

30. Section 102(30): Self-regulatory organization: Prior Provision: RUSA Section 101(17). This definition was added by RUSA and is based on a counterpart provision in the Federal Securities Code. At the current time national securities exchanges are required under Section 6 of the Securities Exchange Act; national securities associations under Section 15A; clearing agencies are registered under Section 17A; and the Municipal Securities Rulemaking Board under Section 15B.

31. Section 102(31): Sign: No prior provision. This definition is intended to facilitate electronic signatures, to the extent permitted by Section 104.

32. Section 102(32): State: Prior Provisions: 1956 Act Section 401(m); RUSA Section 101(18). This is the standard definition used by the National Conference of Commissioners on Uniform State Laws. It does include territories and possessions of the United States, as well as the District of Columbia and Puerto Rico, but does not include foreign governments, their territories, or their possessions.

33. Section 102(33): Underwriter: No Prior Provision. The definition in Section 102(33) is intended to be construed consistently with the definition of underwriter in Section 2(a)(11) of the

Securities Act of 1933.

SECTION 103. REFERENCES TO FEDERAL STATUTES. "Securities Act of 1933" (15 U.S.C. Section 77a et seq.), "Securities Exchange Act of 1934" (15 U.S.C. Section 78a et seq.), "Public Utility Holding Company Act of 1935,"(15 U.S.C. Section 79 et seq.), "Investment Company Act of 1940" (15 U.S.C. Section 80a-1 et seq.), "Investment Advisers Act of 1940" (15 U.S.C. Section 80b-1 et seq.), "Employee Retirement Income Security Act of 1974," (29 U.S.C. Section 1001 et seq.) "National Housing Act," (12 U.S.C. Section 1701 et seq.), "Commodity Exchange Act" (7 U.S.C. Section 1 et seq.), "Internal Revenue Code" (26 U.S.C. Section 1 et seq.); Securities Litigation Uniform Standards Act of 1998 (112 Stat. 3227); "Small Business Investment Act of 1958" (15 U.S.C. Section 66 et seq.); and "Electronic Signatures in Global and National Commerce Act," (15 U.S.C. Section 7001 et. seq.), mean ~~the federal~~ those statutes of ~~those names~~, and the rules and regulations under the ~~-~~ose statutes, as in effect on the effective date of this [Act], [or as later amended].

Reporter's Notes

Prior Provisions: 1956 Act Section 401(k); RUSA Section 101(15).

1. There are a large number of references to other laws in this Act, particularly to the federal securities laws identified in Section 102(28) and to rules adopted by the Securities and Exchange Commission under those laws. This is because one of the main objectives of this revision of a uniform state regulatory statute is to take account of those provisions in the federal laws that are preemptive, and to coordinate with other, nonpreemptive provisions of the federal laws where coordination between federal and state securities regulators is the public interest.

2. Section 12(d) of the Uniform Statute and Rule Construction Act, adopted by NCCUSL in 1995 and enacted in one State, provides: "A statute or rule that incorporates by reference a statute or rule of another jurisdiction does not incorporate a later enactment or adoption or amendment of the other statute or rule." Nevertheless, some States permit later amendments to statutes and rules referenced in enacted legislation to become automatically effective.

3. After enactment amendments to a preemptive federal statute, to an amendment of such a statute that maintains the preemption, to rules adopted by a federal agency under a preemptive provision of a federal statute or to amendments to such rules should be enforced in all states under the Supremacy Clause of the United States Constitution. A number of such references are in this Act.

[SECTION ~~103~~ 104. ELECTRONIC RECORDS AND SIGNATURES.

The provisions of this [Act] governing the legal effect, validity, or enforceability of electronic records or signatures, and of contracts formed or performed with the use of such records or signatures conform to the requirements of Section 102 of the Electronic Signatures in Global and National Commerce Act, and supersede, modify, and limit the Electronic Signatures in Global and National Commerce Act.] This [Act], consistent with the federal Electronic Signatures in Global and National Commerce Act, ~~15 U.S.C. Section 7001 et seq., but this [Act] does not modify, limit, or supersede Section 101(c) of that Act or authorize electronic delivery of any of the notices described in Section 103(b) of that Act~~ authorizes the filing of records and signatures, when specified by provisions of this [Act] or by the administrator, by rule or order, consistent with 15 U.S.C. Section 7004(a).

Reporter's Notes

No Prior Provision. The purpose of this Section is to permit the filing of electronic signatures and electronic records.

ARTICLE 2

EXEMPTIONS FROM

REGISTRATION OF SECURITIES

Reporter's Notes

Section 201 includes exempt securities and Section 202 includes exempt transactions. Both exempt securities and exempt transactions are exempt from the securities registration, notice filing requirement of Section 302, and the filing of sales literature sections of this Act. Neither Section 201 nor Section 202 provides an exemption from the Act's antifraud provisions in Article 5, nor the broker-dealer, agent, investment adviser, or investment adviser registration requirements in Article 4.

A Section 201 exempt security retains its exemption when initially issued and in subsequent trading.

A Section 202 transaction exemption must be established before each transaction.

Neither the exempt security nor the transaction exemptions are meant to be mutually exclusive. A security or transaction may qualify for two or more of these exemptions.

Article 2 is not available to any security, transaction, or order that, although in technical compliance with a specific section in Article 2, is part of an unlawful plan or scheme to evade the registration provisions of Article 3. In such cases registration is required. Cf. Prelim. Note 6 to Regulation D adopted under the Securities Act of 1933.

SECTION 201. EXEMPT SECURITIES. The following securities are exempt from Sections 301 through 306 and 504:

(1) [**United States government and municipal securities.**] a security, including a revenue obligation or a separate security as defined in a rule under the Securities Act of 1933, issued, insured, or guaranteed by the United States; by a State; by a political subdivision of a State; by a public authority, agency, instrumentality of one or more States; by a political subdivision of one or more States; by a

person controlled or supervised by and acting as an instrumentality of the United States under authority granted by the Congress; or a certificate of deposit for any of the foregoing;

(2) [**Foreign government securities.**] a security issued, insured, or guaranteed by a foreign government with which the United States maintains diplomatic relations, or any of its political subdivisions, if the security is recognized as a valid obligation by the issuer, insurer, or guarantor;

(3) [**Depository institution and international banking institution.**] a security issued by and representing or that will represent an interest in or a direct obligation of, or be guaranteed by, a depository institution or an international banking institution;

(4) [**Insurance company securities.**] a security issued by and representing an interest in or a debt of, or insured or guaranteed by, an insurance company authorized to do business in this State;

(5) [**Public utility securities.**] a security issued or guaranteed by a railroad, other common carrier, public utility, or public utility holding company that is:

(A) a public utility holding company registered under the Public Utility Holding Company Act of 1935 or a subsidiary of a registered holding company within the meaning of that Act;

(B) regulated in respect to its rates and charges by the United States or a State; or

(C) regulated in respect to the issuance or guarantee of the security by the United States, a State, Canada, or a Canadian province or territory;

(6) [**Certain options and rights.**] a put or call option contract, warrant, or subscription right on or with respect to a federal covered security specified in Section 18(b)(1) of the Securities Act of 1933 or by rule under that provision or a security listed or approved for listing on another appropriate securities

market specified by rule by the administrator under this [Act]; or an option or similar derivative security on a security or an index of securities or foreign currencies issued by a clearing agency registered under the Securities Exchange Act of 1934 and listed or designated for trading on a national securities exchange, a facility of a national securities exchange, or a facility of a national securities association registered under the Securities Exchange Act of 1934 ~~[~~or an offer or sale of the underlying security in connection with the offer, sale or exercise of an option or other security that was exempt under this section at the time such option or other security was written or issued. For purposes of this paragraph, a derivative security is similar to an option if it has been designated ~~in Rule 9b-1 under~~ by the Securities and Exchange Commission under Section 9(b) of the Securities Exchange Act of 1934~~]~~;

(7) [**Nonprofit organization securities.**] a security issued by a person organized and operated exclusively for religious, educational, benevolent, fraternal, charitable, social, athletic, or reformatory purposes or as a chamber of commerce and not for pecuniary profit, no part of the net earnings of which inures to the benefit of a private stockholder or person, or a security of a company that is excluded from the definition of an investment company under Section 3(c)(10)(B) of the Investment Company Act of 1940, but not including a note, bond, debenture, or evidence of indebtedness unless the administrator, by rule or order, so specifies under Section 203;

(8) [**Cooperatives.**] a member's or owner's interest in, or a retention certificate or like security given in lieu of a cash patronage dividend issued by, a cooperative organized and operated as a nonprofit membership cooperative under the cooperative laws of a State, but not a member's or owner's interest, retention certificate, or like security sold to persons other than bona fide members of the cooperative; and ~~unless the administrator adopts a rule or issues an order under Section 203;~~

(~~10~~ 9) [**Equipment trust certificates.**] an equipment trust certificate in respect to equipment leased or conditionally sold to a person, if securities issued by the person would be exempt under this section or would be federal covered securities under Section 18(b)(1) of the Securities Act of 1933.

Comments

1. Section 201(1): United States government and municipal securities: Prior Provisions: 1956 Act Section 402(a)(1); RUSA Section 401(b)(1). This exemption generally follows the 1956 Act except that it adds securities "insured" by a relevant government to those "issued" or "guaranteed." RUSA, in contrast, also addressed foreign governments, which in this Act are treated separately in Section 201(2). Rule 131 issued under the Securities Act of 1933 defines securities issued under governmental obligations and is referenced by the phrase, "[a] security, including a revenue obligation or a separate security as that form is defined in a rule under the Securities Act of 1933." Separate security means a separate security used by another person and included for no additional consideration.

2. Section 201(2): Foreign government securities: Prior Provisions: 1956 Act Section 402(a)(2); RUSA Section 401(b)(2). The 1956 Act, as amended, and RUSA both reached foreign governments as specified in Section 201(2) and separately treated "a security issued, insured, or guaranteed by Canada, a Canadian province or territory, a political subdivision of Canada or a Canadian province or territory, an agency or corporate or other instrumentality of one or more of the foregoing." The separate treatment of Canadian securities is largely redundant and has been eliminated from this Section.

3. Section 201(3): Depository iinstitution and international banking institution: Prior Provision: RUSA 401(b)(3).

Section 402(a)(3) of the 1956 Act exempts specified bank and similar depository institutions; Section 402(a)(4) exempts specified savings and loan and similar thrift institution securities; and Section 402(a)(6) exempts specified credit union securities. RUSA Section 401(b)(3) combines the three types of depository institutions into a common definition (see RUSA Section 101(13)) which are adopted here as Sections 102(3) and 102(5)) and a common exemption (see RUSA Section 401(b)(3)) which is adopted in this subsection).

Banks specified in Section 3(a)(2) of the Securities Act of 1933 issue federal covered securities under Section 18(b)(4)(C) of the Securities Act of 1933.

4. Section 201(4): Insurance company securities: Prior Provisions: 1956 Act Section 402(a)(5); RUSA Section 401(b)(4). The issuance, insurance, or guarantee of securities by an insurance company is extensively regulated by state insurance commissions or other state agencies.

Under this Act insurance or endowment policies or annuity contracts under which an insurance company promises to pay fixed sums are excluded from the definition of a security in Section 102(29).

A variable annuity or other variable insurance product would be considered a security under this Act and under federal securities law. See SEC v. Variable Annuity Life Ins. Co. of Am., 359 U.S. 65 (1959); SEC v. United Benefit Life Ins. Co., 387 U.S. 202 (1967).

A variable annuity or other variable insurance product issued by an investment company registered with the Securities and Exchange Commission under the Investment Company Act of 1940 would be a "federal covered security," see Section 102(7), and subject to the notice filing requirements of Section 302. See Lander v. Hartford Life & Annuity Ins. Co., 251 F.3d 101 (2d Cir. 2001).

A variable annuity or other variable insurance product not issued by a registered investment company would be exempted by Section 201(4), but would be subject to the antifraud provisions in Article 5.

5. Section 201(5): Public utility securities: Prior Provisions securities: 1956 Act Section 401(a)(7); RUSA Section 401(b)(5). Both the 1956 Act and RUSA include references, omitted here, to the Interstate Commerce Commission, whose enabling legislation subsequently was repealed. Public utilities covered by this exemption are subject both to the federal Public Utility Holding Company Act and to state utility regulation.

6. Section 201(6): Certain options and rights: No Prior Provision. The 1956 Act Section 402(a)(8) provided an exemption for securities listed on the New York, American, Midwest (now Chicago), or other stock exchanges, senior or substantially equal securities of the same issuer, and any security called for by listed or approved subscription rights or warrants, or any warrant or right to purchase or subscribe to any security exempted by Section 402(a)(8).

RUSA essentially retained this exemption in Section 401(b)(7) and added securities designated for inclusion in the National Market System by the National Association of Securities Dealers in Section 401(b)(8) and specified options issued by a clearing agency registered under the Securities Exchange Act of 1934 in Section 401(b)(9).

In 1996 Congress enacted the National Securities Markets Improvement Act and provided in Section 18(b)(1) that securities listed on the New York, American or Nasdaq Stock Exchange, or designated by rule of the Securities and Exchange Commission, as well as any security of the same issuer that is equal in seniority or senior to any of these securities will be a federal covered security. Under Rule 146 the SEC has designated as federal covered securities under Section 18(b)(1) Tier I of the Pacific Exchange; Tier I of the Philadelphia Stock Exchange; and The Chicago Board Options Exchange on condition that the relevant listing standards continue to be substantially similar to those of the New York, American, or Nasdaq stock exchanges. See Reporter's Note to Section 102(7). A federal covered

security subject to Section 18(b)(1) of the Securities Act of 1933 will not be subject to the securities registration requirements of Sections 301 and 303 through 306.

The exemption in Section 201(6) addresses specified options, warrants, and rights that are not federal covered securities under Section 18(b)(1) of the Securities Act of 1933, but generally would have been exempted under RUSA. The 1956 Act, which was narrower, was drafted before the computerized Nasdaq Stock Exchange began trading the National Market List and the development of standardized options markets.

The final clause of Section 201(6) makes clear that any offer or sale of the underlying security that occurs as a result of the offer or sale of an option or other derivative security exempted under this provision or as the result of the exercise of the option or other derivative security, is covered by the exemption if the option met the terms of the exemption at the time such derivative security was written (sold) or issued. The sale of the underlying security when an option is exercised would be exempt even if the underlying security is not at that time subject to any exemption under the Act. This is consistent with existing precedent under federal law suggesting that the legality of the sale of an underlying security when exercised an option should be determined by the status of the security at the time the option was written rather than at the time of exercise. See, e.g., H. Kook & Co., Inc. v. Scheinman, Hochstin & Trotta, Inc., 414 F.2d 93 (2d Cir. 1969). Any transaction in an underlying security that results from the offer, sale or exercise of any derivative security issued by a registered clearing agency and traded on a national securities exchange or association is exempt if the derivative security when written was exempt under Section 201(6).

The Securities and Exchange Commission has adopted Rule 9b-1 under Section 9(b).

7. Section 201(7): Nonprofit Organization Securities: Prior Provision: Section 3(a)(4) of the Securities Act of 1933. Section 402(a)(9) of the 1956 Act and Section 401(b)(10) of RUSA exempt specified nonprofit securities. Both are modeled on Section 3(a)(4) of the Securities Act, which was subsequently amended.

Section 3(a)(4) is not treated as a federal covered security in Section 18(b)(4)(C), although a separate Section 3(a)(13) exemption which addresses certain church plan securities is a federal covered security under Section 18(b)(4)(C).

RUSA included an optional notice and review requirement for nonprofit securities in Section 401(b)(10) "if at least ten days before a sale of the security the person has filed with the administrator a notice setting forth the material terms of the proposed sale and copies of any sales and advertising literature to be used and the administrator by order does not disallow the exemption within the next five full business days." As of June 2001, 49 jurisdictions included a nonprofit organization exemption. Of these 13 included a statutory notice filing requirements. See Ala. Section 8-6-10(8); District of Columbia Section 2-2664.1(8); Iowa Section 502.202(9); Kansas Section 17-1261(h); Md. Section

11-601(9)(ii); Mich. Section 451.8031(a)(8)(A); Mo. Section 409.402(a)(9); Mont. Section 30-10-104(8); Nev. Section 90.520(j); N.M. Section 58-13B-26H; N.D. Section 10-04-05.5; Okla. Section 401(a)(6); Tenn. Section 48-2-103(a)(7); Wash. Section 21.20.310 (11). In addition North Carolina authorizes its administrator "by rule or order [to] impose conditions, upon this exemption either generally or in relation to specific securities or transactions."

This exemption is of particular concern to state securities administrators. See, e.g., State Regulators Announce Dramatic Rise in Religious Scams; Tens of Thousands Lured, 33 Sec. Reg. & L. Rep. (BNA) 1189 (2001). Robert M. Lam, Chairman of the Pennsylvania Securities Commission, wrote the Reporter on November 30, 1999: "Of all the changes that have occurred at the State level, the rise of the market of debt securities of non-profit organizations has been the most significant and troublesome. . . ."

With respect to the exclusion of an investment company under subsection 3(c)(10)(B) of the Investment Company Act, the Pennsylvania Securities Commission further stated:

> Funds excluded from the definition of investment company under Section 3(c)(10) of the 1940 Act include pooled income funds, collective trust funds and collective investment funds maintained for collective investment assets of general endowment funds, assets of pooled income funds, assets exchanged for issuance of charitable gift annuities, assets of charitable remainder trusts, assets of a charitable lead trust and assets of trusts with remainder interests dedicated to charitable organizations ("Charitable Funds").
>
> Under Section 6 of the federal Philanthropy Protection Act, Congress preempted application of the registration provisions of state securities laws to issuance of securities of Charitable Funds unless states acted within three years of enactment (December 1998) to pass special state legislation cancelling federal preemption. Ten states passed such legislation (AR, CT, FL, MD, MS, NE, PA, TN, VT, VA).
>
> To the extent that any security issued by Charitable Funds would not constitute an evidence of indebtedness and be excluded from the exemption, [this] Draft presents a major issue of 20% of the states whose legislatures, as permitted by Congress, enacted specific legislation to retain jurisdiction over these securities.

The minority of states that did adopt legislation to cancel federal preemption may delete the phrase "or a security of a company that is excluded from the definition of an investment company under Section 3(c)(10) of the Investment Company Act of 1940."

6. Section 201(8): Cooperatives: Prior Provision: RUSA Section 401(b)(13). Section 201(8) is derived from RUSA Section 401(b)(13) which was included in that Act after a number of states had adopted exemptions for securities issued by cooperatives. Section 201(8) is not intended to be available

if securities are traded to the public generally.

The 1956 Act Section 402(a)(12) had instead provided: "insert any desired exemption for cooperatives." The reporter of the 1956 Act had found such sharp variation among the 18 states that then had adopted a cooperative exemption that "no common pattern can be found." L. Loss, Commentary on the Uniform Securities Act 118 (1976).

7. Section 201(9): Equipment trust certificates: Prior Provision: RUSA Section 401(b)(6). The Securities Act of 1933 Section 3(a)(6) includes a narrower exemption for railroad equipment trusts.

The Official Comment to RUSA Section 401(b)(6) explained:

> The new paragraph (b)(6) reflects the extensive development of equipment lease financing through leveraged leases, conditional sales, and other devices. The underlying premise is that if the securities of the person using such a financing device would be exempt under some other paragraph of Section 401, the equipment trust certificate or other security issued to acquire the property in question also is exempt.

SECTION 202. EXEMPT TRANSACTIONS. The following transactions are exempt from Sections 301 through 306 and 504:

(1) [**Isolated nonissuer transactions.**] an isolated nonissuer transaction, whether effected through a broker-dealer or not;

(2) [**Nonissuer transactions in specified outstanding securities.**] a nonissuer transaction by a registered agent of a registered broker-dealer, and a resale transaction by a sponsor of a unit investment trust registered under the Investment Company Act of 1940, in a security of a class that has been outstanding in the hands of the public for at least 90 days; if, at the time of the transaction:

(A) the issuer of the security is engaged in business, is not in the organization stage or in bankruptcy or receivership, and is not a blank check, blind pool, or shell company whose primary plan of business is to engage in a merger or combination of the business with, or an acquisition of, an unidentified

person ~~or persons~~;

(B) the security is sold at a price reasonably related to the current market price of the security;

(C) the security does not constitute the whole or part of an unsold allotment to or a subscription or participation by, the broker-dealer as an underwriter of the security or a redistribution; and

(D) a nationally recognized securities manual or its electronic equivalent designated by rule or order of the administrator under this [Act] or a record filed with the Securities and Exchange Commission which is publicly available contains:

(i) a description of the business and operations of the issuer;

(ii) the names of the issuer's executive officers and the names of the issuer's directors, if any;

(iii) an audited balance sheet of the issuer as of a date within 18 months or, in the case of a reorganization or merger where the parties to the reorganization or merger had the audited balance sheet, a pro forma balance sheet;

(iv) an audited income statement for each of the issuer's immediately preceding two fiscal years or for the period of existence of the issuer, whichever is shorter, or, in the case of a reorganization or merger where the parties to the reorganization or merger had the audited income statement, a pro forma income statement; and

(v) the issuer of the security has a class of equity securities listed on a national securities exchange registered under the Securities Exchange Act of 1934, or designated for trading on

the National Association of Securities Dealers Automated Quotation System, unless the issuer of the security is a unit investment trust registered under the Investment Company Act of 1940; or the issuer of the security, including its predecessors, have been engaged in continuous business for at least three years; or the issuer of the security has total assets of at least $2,000,000 based on an audited balance sheet as of a date within 18 months or, in the case of a reorganization or merger where the parties to the reorganization or merger had the audited balance sheet, a pro forma balance sheet;

(3) **[Nonissuer transactions in specified foreign securities.]** a nonissuer transaction by a registered agent of a registered broker-dealer ~~[in an equity security] [~~ in a security~~]~~ of a foreign issuer that is a margin security defined in regulations or rules adopted by the Board of Governors of the Federal Reserve System;

(4) [**Nonissuer transactions in securities subject to Securities Exchange Act reporting.**] a nonissuer transaction by a registered agent of a registered broker-dealer in an outstanding security if the ~~issuer or the~~ guarantor of the issuer of the security that files reports with the Securities and Exchange Commission under the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934; ~~[and any nonissuer transaction in an outstanding security of a consolidated subsidiary of the reporting issuer];~~

(5) [**Nonissuer transactions in specified fixed income securities.**] A nonissuer transaction by a registered agent of a registered broker-dealer in a security that

(A) is rated at the time of the transaction by a nationally recognized statistical rating organization in one of its four highest rating categories; or

(B) a security that has a fixed maturity or ~~a nonissuer transaction in a security that has a~~

~~fixed maturity or~~ a fixed interest or dividend, if:

(i) there has not been a default during the current fiscal year or within the three next preceding years or during the existence of the issuer and any predecessor if less than three years, in the payment of principal, interest, or dividends on the security; and

(ii) the issuer is engaged in business, is not in the organization stage or in bankruptcy or receivership, and is not or has not been within the past 12 months a blank check, blind pool, or shell company whose primary plan of business is to engage in a merger or combination of the business with, or an acquisition of, an unidentified person ~~or persons~~;

(6) [**Unsolicited brokerage transactions.**] a nonissuer transaction by or through a broker-dealer registered under this [Act] effecting an unsolicited order or offer to purchase;

(7) [**Nonissuer transactions by pledgees**.] a nonissuer transaction executed by a bona fide pledgee without any purpose of evading this [Act];

(8) [**Underwriter transactions.**] a transaction between the issuer or other person on whose behalf the offering is made and an underwriter, or among underwriters;

(9) [**Unit secured transactions.**] a transaction in a note, bond, debenture, or other evidence of indebtedness secured by a mortgage or other security agreement if the note, bond, debenture, or other evidence of indebtedness is offered and sold with the mortgage or other security agreement as a unit ~~as a unit~~, and there is no general solicitation or general advertisement of the transaction, and no commission or other remuneration is paid to a person not registered under this [Act] as a broker-dealer or as an agent;

(10) [**Bankruptcy, guardian, or conservator transactions.**] a transaction by an executor, administrator of an estate, sheriff, marshal, receiver, trustee in bankruptcy, guardian, or conservator;

(11) [**Transactions with ~~institutional~~ specified investors.**] an offer or sale to one or more of the following:

(A) an institutional investor;

~~[(B) a federal covered investment adviser acting for its own account]; or~~

(B) a federal covered investment adviser; or

(C) any other person the administrator, by rule or order, specifies;

(12) [**Limited offering transactions.**] a transaction under an offer to sell securities of an issuer, if the transaction does not exceed $5 million and is part of ~~an~~ a single issue in which:

(A) there are no more than ~~10~~ 25 purchasers in this State during any 12 consecutive months, other than those designated [in Rule 501(a) under the Securities Act of 1933 and] in paragraph (11);

(B) general solicitation or general advertising is not used in connection with the offer to sell or sale of the securities;

(C) No commission or ~~other~~ similar remuneration is paid or given to a person, other than a broker-dealer or agent registered under this [Act], for soliciting a prospective purchaser in this State; and

(D) ~~either~~ the seller reasonably believes that all the purchasers in this State other than those designated ~~in Rule 501(a) of the Securities Act of 1933 and~~ in paragraph (11) are purchasing for investment; ~~or, immediately before and immediately after the transaction, the issuer reasonably believes that the equity securities of the issuer are held by a total of 50 or fewer beneficial owners, wherever~~

~~located, other than those designated in Rule 501(a) under the Securities Act of 1933 and in paragraph (11) and the transaction is part of an aggregate offering that does not exceed [$1,000,000] during any 12 consecutive months;~~

(13) [**Transactions with existing security holders.**] a transaction under an offer to existing security holders of the issuer, including persons who at the time of the transaction are holders of convertible securities, options, or warrants, if a commission or similar remuneration, other than a standby commission, is not paid or given directly or indirectly for soliciting a security holder in this State;

(14) [**Offerings when registered under this [Act] and the Securities Act of 1933.**] an offer to sell, but not a sale, of a security not exempt from registration under the Securities Act of 1933 if:

(A) a registration or offering statement or similar record as required under the Securities Act of 1933 has been filed but is not effective or the offer is made in compliance with Rule 165 under the Securities Act of 1933; and

(B) no stop order of which the offeror is aware has been entered against the offeror by the administrator or the Securities and Exchange Commission, and no examination or proceeding that is public and may culminate in a stop order is known by the offeror to be pending;

(15) [**Offerings when ~~registered~~ registration has been filed, but is not effective under this [Act] and exempt from the Securities Act of 1933.**] an offer to sell, but not a sale, of a security exempt from registration under the Securities Act of 1933 if:

(A) a registration statement has been filed under this [Act], but is not effective;

(B) a solicitation of interest is provided in a record to offerees in compliance with a rule adopted by the administrator under this [Act]; and

(C) no stop order of which the offeror is aware has been entered by the administrator, and no examination or proceeding that may culminate in that kind of order is known by the offeror to be pending; ~~and~~

(16) [**Control transactions.**] a transaction involving the distribution of the securities of an issuer to the security holders of another person in connection with a merger, consolidation, exchange of securities, sale of assets, or other reorganization to which the issuer, or its parent or subsidiary, and the other person, or its parent or subsidiary, are parties;

(17) [**Rescission Offers.**] a rescission offer, sale, or purchase under ~~subsection 509(k)~~ Section 510; ~~and~~

~~[~~(18) [**Out-of-state offers or sales.**] an offer or sale of a security to a person not resident ~~of~~ in this State and not present in this State if the offer or sale does not violate a securities registration requirement or its equivalent in [or, alternatively, does not constitute a violation of] the laws of the jurisdiction in which the other offerer or purchaser is located and is not made for the purpose of evading this [Act]; and ~~is registered or exempt from registration in the other state.]~~

(19) [**Employee benefit plans.**] an offer or sale of a security issued in connection with an employees' stock purchase, savings, option, profit-sharing, pension, or similar employees' benefit plan, including any securities, plan interests, and guarantees issued under a compensatory benefit plan or compensation contract, contained in a record, established by the issuer, its parents, its majority-owned subsidiaries, or the majority-owned subsidiaries of the issuer's parent for the participation of their employees including:

(A) offers or sales of such securities to ~~insurance agents who is are the exclusive agents of the~~

~~issuer, its subsidiaries or parents, or who derives more than 50 percent of the agents' annual income from those entities; directors; general partners; and trustees if the issuer is a business trust; officers; consultants and advisors; and their family members who acquire the securities from such persons by gift or pursuant to a domestic relations order; and securities issued in connection with the employee benefit plans to former employees, directors, general partners, trustees, officers, consultants, and advisors, but only if these persons were employed by or providing services to the issuer at the time the securities were offered.~~ directors, general partners, trustees (if the issuer is a business trust), officers, or consultants and advisors;

(B) family members who acquire such securities from such persons through gifts or domestic relations orders;

(C) former employees, directors, general partners, trustees, officers, consultants and advisors if such persons were employed by or providing services to the issuer at the time the securities were offered; and

(D) insurance agents who are exclusive agents of the issuer, its subsidiaries or parents, or derive more than 50% of their annual income from those entities.

Reporter's Notes

1. Sections 202(1)-(7) are available only for nonissuer transactions. An issuer selling securities in an initial public offering or other offering may not rely on Sections 202(1)-(7). A nonissuer, however, can rely on an applicable issuer transaction exemption such as Section 202(11). The term "nonissuer transaction or nonissuer distribution" is defined in Section 102(19); the term "issuer" is defined in Section 102(18).

2. Section 202(1): Isolated nonissuer transactions: Prior Provisions: 1956 Act Section 402(b)(1); RUSA Section 402(1). The term "isolated transaction" is not defined in this Act, but left to the states to develop. Historically under state law there has been somewhat varied case law development

of the term "isolated transactions." See, e.g., Blinder, Robinson & Co., Inc. v. Goettsch, 403 N.W.2d 772 (Iowa 1987) (isolated nonissuer transaction exemption is not unconstitutionally vague); Allen v. Schauf, 449 P.2d 1010 (Kan. 1969) (regulation defined isolated transactions to not exceed four persons solicited in a 12 month period); Nelson v. State, 355 P.2d 413, 420 (Okl. Ct. Crim. App. 1960) ("[a]n isolated sale means one standing alone, disconnected from any other"); see generally 1 L. Loss & J. Seligman, Securities Regulation 125-130 (3d ed. rev. 1998).

In general this subsection is intended to cover the occasional sale by a person. It would not exempt multiple or successive transactions by a person or group, whether those be sufficient to constitute a "distribution" as that term is used for purposes of the federal securities laws, see 2 L. Loss & J. Seligman, Securities Regulation 1138.50-1138.52 (3d ed. rev. 1999), or merely too frequent to be considered "isolated" under the relevant state law.

Limited issuer offering transactions are separately addressed in Section 202(12).

3. Section 202(2): Nonissuer transactions in specified outstanding securities: Prior Provisions: 1956 Act Section 402(b)(2); RUSA Sections 402(3)-(4). This Section represents a modernization of the securities manual exemption which was included in both the 1956 Act and RUSA. NASAA adopted an amendment to the 1956 Act Section 402(b) after discussion with the Securities Industry Association and others in the securities industry. This Section generally follows the NASAA amendment.

Rule 419 issued under the Securities Act of 1933 defines a "blank check company" to be a company that "is a development state company that has no specific business plan or purpose or has indicated that its business plan is to engage in a merger or acquisition with an unidentified company or companies, or other entity or person. A "blind pool" is similar and would involve an investment in a blank check or other entity with no identified business plan or purpose. A "shell company" is also similar and would involve an entity which, to date, has no specific business assets, plan, or purpose.

4. Section 202(3): Nonissuer transactions in specified foreign transactions: No Prior Provision. The NASAA amendment that was the basis of Section 202(2) also included specified foreign nonissuer transactions subject to a manual exemption when there was disclosure of the issuer's officers and directors in the issuer's country of domicile. This subsection uses margin securities as an alternative approach to identify sufficiently seasoned foreign securities. Margin securities are required to be in compliance with Regulation T which was adopted by the Board of Governors of the Federal Reserve System.

5. Section 202(4): Nonissuer transactions in securities subject to Securities Exchange Act reporting: Prior Provision: RUSA Section 402(2). RUSA added this exemption to authorize nonissuer secondary trading in the securities of issuers that were subject to the periodic reporting requirements of the Securities Exchange Act of 1934. To bar immediate secondary trading in nonregistered initial public offerings, there was a further requirement that these securities be subject to the reporting requirements of

Sections 13 or 15(d) of the Securities Exchange Act of 1934 for not less than 90 days.

Section 18(b)(4)(A) of the National Securities Markets Improvement Act of 1996 defines nonissuer transactions under Section 4(1) of the Securities Act of 1933 ("transactions by persons other than an issuer, underwriter, or dealer") as "federal covered securities," see Section 102(7), if the issuer files reports with the Securities and Exchange Commission under Sections 13 or 15(d) of the Securities Exchange Act of 1934. Under Section 18(a) of the Securities Act of 1933 no state statute, rule, order, or other administrative action with respect to registration of securities or reporting requirements may apply to a federal covered security. To harmonize Section 202(4) with Sections 18(a) and 18(b)(4)(A) of the Securities Act of 1933, the 90 day reporting period in RUSA Section 402(2) has been removed.

6. Section 202(5): Nonissuer transactions in specified fixed income securities: Prior Provisions: 1956 Act Section 402(b)(2)(B); RUSA Section 402(4).

(A) The concept of a fixed income security rated by a nationally recognized statistical rating organization in one of its four highest rating categories is well established in federal securities law in such applications as Form S-3 adopted under the Securities Act of 1933 and the net capital Rule 15c3-1(c)(2)(vi)(F) adopted under the Securities Exchange Act of 1934. See 2 L. Loss & J. Seligman, Securities Regulation 649-653 (3d ed. rev. 1999). Nationally recognized statistical rating organizations have been identified by the Securities and Exchange Commission and include such organizations as Moody's or Standard and Poor. Rating categories typically begin with AAA and under this Act would include BBB as the fourth highest rating category.

(B) The substance of this exemption follows the 1956 Act and RUSA, but also addresses blank check and similar offerings, which became major concerns at the state and federal levels during the past two decades. Cf. Securities Act of 1933 Rule 419. See Reporter's Note to Section 202(2).

This subsection includes both debt securities with fixed maturity or a fixed interest rate and preferred stock with fixed dividend provisions.

7. Section 202(6): Unsolicited brokerage transactions: Prior Provisions: 1956 Act Section 402(b)(3); RUSA Section 402(5). Section 18(b)(4)(B) of the Securities Act of 1933 defines transactions as federal covered securities when they are subject to Section 4(4) of the Securities Act of 1933 "brokerage transactions executed upon customers' orders on any exchange or in the over-the-counter market but not the solicitation of such orders." Section 202(6) is intended to provide further exemption for nonagency transactions by dealers not within the scope of Section 4(4).

The 1956 Act Section 402(b)(3) had provided that the administrator "may by rule require that the customer acknowledge upon a specified form that the same was unsolicited, and that a signed copy of each such form be preserved by the broker-dealer for a specified period." This type of requirement is generally preempted by Section 18(a) of the Securities Act of 1933 and is viewed as unnecessary for the

limited class of dealer nonagency transactions that will be exempted by Section 202(6).

8. Section 202(7): Nonissuer transactions by pledgees: Prior Provisions: 1956 Act Section 402(b)(7); RUSA Section 402(9). This subsection is identical to the 1956 Act and substantively identical to RUSA.

9. Section 202(8): Underwriter transactions: Prior Provisions: 1956 Act Section 402(b)(4); RUSA Section 402(6). This subsection is substantively identical to the 1956 Act and RUSA.

10. Section 202(9): Unit secured transactions: Prior Provisions: 1956 Act Section 402(b)(5); RUSA Section 402(7). In recent years this exemption has been one of concern to state securities administrators. The conditions that conclude this exemption are new and are intended to address these concerns. Otherwise this exemption is substantively identical to the 1956 Act and RUSA.

11. Section 202(10): Bankruptcy, guardian, or conservator transactions: Prior Provisions: 1956 Act Section 402(b)(6); RUSA Section 402(8). This subsection is identical to that in the 1956 Act and RUSA.

12. Section 102(11): Transactions with specified investors: Prior Provisions: 1956 Act Section 402(b)(8). If the SEC adopts a rule defining "qualified purchaser" as used in Section 18(b)(3) of the Securities Act to specify certain purchasers of federal covered securities, part or all of this exemption will be redundant.

The 1956 Act contains similar but less inclusive language in Section 402(b)(8).

Section 202(11)(B) is limited to transactions for the account of a federal covered investment adviser and is not intended to reach transactions on behalf of others.

13. Section 202(12): Limited offering transaction: Prior Provisions: 1956 Act Section 402(b)(9); USA Section 402(11). The reference in the prefatory language to "a single issue" signifies that two or more issues can be"integrated" and destroy the exemption. There are two general tests for integration under the federal securities laws. First, was there a six month "buffer" before and after the issue during which no other issue was distributed? See Rule 147(b)(2) and Rule 502(a) of the Securities Act of 1933. Second, if so, integration may occur depending upon the following factors:

(i) are the offerings part of a single plan of financing;

(ii) do the offerings involve issuance of the same class of securities;

(iii) are the offerings made at or about the same time;

(iv) is the same type of consideration to be received; and

(v) are the offerings made for the same general purpose.

See generally 3 L. Loss & J. Seligman, Securities Regulation 1231-1248 (3d ed. rev. 1999).

Section 402(b)(9) of the 1956 Act and Section 402(11) of the 1985 Act provide alternative limited offering transaction exemptions. The 1956 Act was limited to offers to no more than ten persons (other than institutional investors specified in Section 402(b)(8)); all purchasers in the State had to purchase for investment; and no remuneration was given for soliciting prospective purchasers in the State. The 1985 Act, in contrast, was limited to no more than 25 purchasers (other than financial or institutional investors); no general solicitation or advertising; and no remuneration was paid to a person other than a broker-dealer for soliciting a prospective purchaser.

This Section would apply to preorganization limited offerings as well as operating company limited offerings. The Securities Act of 1933 Sections 3(b) and 4(2) also apply to both. In contrast, the 1956 Act Section 402(b)(10) and RUSA Section 402(12) use similar concepts in separate Sections to apply to preorganization limited offerings.

Section 18(b)(4)(D) of the Securities Act of 1933 defines as federal covered securities those issued under Securities and Exchange Commission rules under Section 4(2) of the Securities Act. This would include Rule 506, which uses the "accredited investor" definition in Rule 501(a). When a transaction involves Rule 506, Section 18(b)(4)(D) further provides "that this paragraph does not prohibit a state from imposing notice filing requirements that are substantially similar to those required by rule or regulation under Section 4(2) that are in effect on September 1, 1996." These notice requirements are found in Section 302(c) of this Act.

A majority of states have adopted a Uniform Limited Offering Exemption, coordinate to varying degrees with Regulation D. The authority to adopt this and other exemptive rules is provided in Section 203.

14. Section 202(13): Transactions with existing security holders: Prior Provisions: 1956 Act Section 402(b)(11); RUSA Section 402(14). Section 3(a)(9) of the Securities Act of 1933 exempts exchange offerings with existing security holders. Under Section 18(b)(4)(C) transactions subject to Section 3(a)(9) are federal covered securities. See Section 102(7). Notice requirements in the earlier 1956 Act and RUSA accordingly would be preempted by the Securities Act of 1933. See Section 18(a) of the Securities Act of 1933. Otherwise this exemption is substantively identical to the 1956 Act and RUSA.

15. Section 202(14): Offerings when registered under this [Act] and the Securities Act of 1933: Prior Provisions: 1956 Act Section 402(b)(12); RUSA Section 402(15). This exemption generally

follows the 1956 Act and RUSA. Rule 165 of the Securities Act of 1933, which was adopted in 1999, allows the offeror of securities in a business combination to make written communications that offer securities for sale before a registration statement is filed as long as specified conditions are satisfied.

RUSA Section 402(15) also had the requirement that a registration statement be filed under this Act, but not yet be effective. By eliminating this requirement this exemption will reach the offer (but not the sale) of a security that is anticipated to be a federal covered security by applying for listing on the New York Stock Exchange or other exchange specified in Section 18(b)(1) of the Securities Act of 1933, but the listing and federal covered security status has not yet become effective.

16. Section 202(15): Offerings when registration has been filed, but is not effective under this [Act] and exempt from the Securities Act of 1933: Prior Provisions: RUSA Section 402(16). A solicitation of interest document must accompany a registration by qualification as specified in Section 304(b)(13).

Oral offers may be made after a registration statement has been filed, both before and after a registration statement is effective.

This exemption does not operate unless the administration adopts a rule under 202(15)(B).

17. Section 202(16): Control transactions: Prior Provision: RUSA Section 402(17). Until 1972 mergers and similar transactions were not considered to involve sales and did not have to register under the Securities Act of 1933. In 1972 the Securities and Exchange Commission adopted Rule 145 defining many mergers and similar transactions to be sales and formally abandoned its earlier "no sale" doctrine. See 3 L. Loss & J. Seligman, Securities Regulation 1262-1280 (3d ed. rev. 1999).

Because most merger and similar transactions require shareholder approval and shareholders often have appraisal rights if they choose to dissent, the potential for abuse is less than in an offering of securities for cash. When appropriate the administrator can deny, condition, limit or revoke this exemption under Section 204. Section 202(16) does not follow the requirement in RUSA Section 402(17) that written notice of the transactions and a copy of the solicitation materials be given to the administrator 10 days before the consummation of the transaction and, that the administrator is empowered to disallow the exemption within the next 10 days.

18. Section 202(17): Rescission offers: No Prior Provisions. See Section 510 for discussion of rescission offers.

19. Section 202(18): Out-of-state offers or sales: Source of law: Colo. Section 11-51-102(7). Compare A.S. Goldmen & Co., Inc. v. New Jersey Bur. of Sec., 163 F.3d 780 (3d Cir. 1999), which held that under the United States Constitution's Commerce Clause a State could authorize a securities administrator to prevent a broker-dealer from selling securities from a State to purchasers in other States

where purchase of the securities was authorized.

20. Section 202(19): Employee benefit plans: Prior Provision: RUSA Section 401(b)(12). The 1956 Act Section 402(a)(11) was limited to investment contracts issued in connection with specified employee benefit plans if the administrator was given 30 days written notice.

In 1979, the United States Supreme Court in International Bhd. of Teamsters v. Daniel, 439 U.S. 551 (1979), held that a noncontributory, mandatory pension plan subject to the Employee Retirement Income Security Act of 1974 was not a security within the meaning of the Securities Act of 1933 or the Securities Exchange Act of 1934. The Securities and Exchange Commission staff subsequently took the position that the interests of employees in involuntary, contributory plans are not securities. Sec. Ex. Act Rel. 6188, 19 SEC Dock. 465, 473 (1980). Both contributory and noncontributory pension or welfare plans subject to the Employee Retirement Income Security Act of 1974 are excluded from the definition of security in Section 102(30).

In this definition, the term "advisors" does not mean "investment advisers," as defined in Section 102(15).

With respect to employee benefit plans that are securities, Section 202(19) provides an exemption, but follows RUSA in not limiting the exemption to investment contracts and not requiring 30 days notice to the administrator.

The conclusion of Section 202(19) is derived from Rule 701(c) issued under the Securities Act of 1933. Compliance with Rule 701 is intended to provide compliance with this exemption.

Both the 1956 Act and RUSA, for unstated reasons, treated employee benefit plans as exempt securities. There appears to be no appropriate reason to do so. Resale of employee benefit plans can occur under all appropriate section 202 transaction exemptions. Section 202(19) is not intended to provide a new method of publicly issuing securities.

The administrator, when appropriate, can deny, condition, limit, or revoke an exemption under Section 202(19).

SECTION 203. ADDITIONAL EXEMPTIONS AND WAIVERS. The administrator may exempt, by rule or order, a security, transaction, or offer, or by rule, a class of securities, transactions, or offers from any or all of the requirements of Sections 301 through 306 and 504, and may waive ~~a~~ ~~requirement~~ any or all of the conditions for an exemption ~~a security, transaction, or offer or class of~~

~~securities, transactions, or offers~~ under Sections 201 and 202. The administrator may suspend an application or revoke, by rule or order, an exemption or waiver created under this Section only prospectively.

Reporter's Notes

Prior Provision: RUSA Section 403.

1. Under this type of authority, at least 49 of 53 jurisdictions through July 2001 had adopted the Uniform Limited Offering Exemption (ULOE) or a Regulation D exemption, and 31 jurisdictions had adopted a Rule 144A exemption. The Drafting Committee did not attempt to incorporate ULOE or a Rule 144A exemption as part of this Act because of their complexity and the likelihood of periodic updating of its provisions. The Drafting Committee believes that Rule 144A, and similar exemptions in ULOE, can be most effectively implemented by rule rather than statute.

2. Under Section 203 the states would also be authorized to adopt by rule or order new exemptions as circumstances warrant for new technologies such as the Internet. Cf. NASAA Resolution Regarding Securities Offered on Internet, NASAA Rep. ¶7040 (Jan. 7, 1996).

3. It is the intent of this provision that ULOE, Rule 144A, and additional exemptions or waivers be adopted uniformly by states, to the extent this is practicable.

SECTION 204. DENIAL, SUSPENSION, CONDITION OR LIMITATION OF EXEMPTIONS.

(a) [Enforcement related power.] Except ~~to the extent that a~~ with respect to a federal covered security or a transaction ~~involves~~ involving a federal covered security, the administrator, by order, may deny or suspend application of, condition or limit~~, or revoke~~ an exemption created under Section 201(7), 201(8), or 202, or an exemption or waiver created under Section ~~or~~ 203 with respect to a specific security, transaction, or offer. ~~The~~ An order ~~must~~ may be issued in accordance with this Section solely before an enforcement proceeding under Section 603 ~~in accordance with~~ Sections or 604 ~~or 605.~~ An

order ~~issued~~ under this section may only be issued prospectively. ~~is not retroactive~~.

(b) [Knowledge of order required.] A person does not violate Section 301, 303 through 306, ~~and~~ 504, or 510 by reason of an offer to sell, offer to purchase, ~~or~~ sale or purchase effected after the entry of an order issued under this section if the person did not know, and in the exercise of reasonable care could not have known, of the order.

Reporter's Notes

Prior Provisions: 1956 Act Section 402(c); RUSA Section 404.

1. Section 204 is potentially far reaching. The ability to deny, condition, limit, or revoke the exemptions specified in Sections 201(7), 202, or 203 is adopted concomitant with the breadth of these exemptions. One or more than one security, transaction, or offer can be covered by a Section 204 order.

2. An order under Section 204 may be entered only in connection with an enforcement proceeding under Sections 603 or in accordance with Section 604. The courts have given a securities administrator decision to deny or revoke an exemption substantial deference when there was compliance with applicable due process and statutory requirements. See, e.g., Johnson-Bowles Co., Inc. v. Div. of Sec., 829 P.2d 101 (Utah Ct. App. 1992).

ARTICLE 3

REGISTRATION OF SECURITIES AND NOTICE FILINGS OF FEDERAL COVERED SECURITIES

SECTION 301. SECURITIES REGISTRATION REQUIREMENT. It is unlawful for a person to offer or sell a security in this State unless:

(1) the security is a federal covered security;

(2) the security, transaction, or offer is exempted from registration under Sections 201 through 203; or

(3) the security is registered under this [Act].

Reporter's Notes

Prior Provisions: 1956 Act Section 301; RUSA Section 301.

1. This Section is substantively identical to the 1956 Act and RUSA except for the addition of Section 301(1), which is necessitated by the National Securities Markets Improvement Act of 1996. See Section 102(7).

2. Unless a federal covered security or exempt, no sale of a security may be made in this State before the security is registered. "Sale" is defined in Section 102(27); "in this State" is addressed in Section 610; securities registration is addressed in Sections 303 through 306.

3. The Securities Act of 1933 permits certain types of offers during the "waiting period" between the filing and effectiveness of a registration statement. The exemptive provisions of Sections 202(14)-(15) operate to permit similar offers for securities that are in the process of registration under federal or state statutes or both.

4. Notice filings and fees applicable to federal covered securities, see Section 102(7), are addressed in Section 302.

SECTION 302. NOTICE FILINGS AND FEES APPLICABLE TO CERTAIN FEDERAL COVERED SECURITIES.

(a) **[Required filing of records.]** The administrator, by rule or order, may require the filing of any or all of the following records with respect to an investment company that is a federal covered security~~, that is~~ as defined in Section 18(b)(2) of the Securities Act of 1933, that is not otherwise exempt under Sections 201 to 203.:

(1) before the initial offer of ~~the~~ a federal covered security in this State, all records that are part of a federal registration statement filed with the Securities and Exchange Commission under the Securities Act of 1933 and a consent to service of process signed by the issuer [together with a fee of $____];

(2) after the initial offer of the federal covered security in this State, all records that are part of an amendment to a federal registration statement filed with the Securities and Exchange Commission under the Securities Act of 1933; and

(3) to the extent necessary or appropriate to compute fees, a report of the value of the federal covered securities sold or offered to persons located in this State, if the sales data are not included in records filed with the Securities and Exchange Commission, [together with a fee of $____].

(b) **[Notice filing effectiveness and renewal.]** A notice filing under paragraph (a) is effective for one year commencing upon the later of the notice filing or the effectiveness of the offering with the Securities and Exchange Commission. Upon expiration, a notice filing may be renewed by the issuer filing a copy of those records filed by the issuer with the Securities and Exchange Commission that the administrator, by rule or order, specifies [together with the renewal fee of $ ___]. A previously filed

consent to service of process may be incorporated by reference in a renewal. A renewed notice filing is effective upon the expiration of the filing being renewed.

(c) **[Notice filings for federal covered securities under Section 18(b)(4)(D).]** With respect to any security that is a federal covered security under Section 18(b)(4)(D) of the Securities Act of 1933, the administrator, by rule, may require ~~the~~ a notice filing by or on behalf of an issuer to include a copy of Form D, including the Appendix, as promulgated by the Securities and Exchange Commission ~~and in effect on September 1, 1996,~~ and a consent to service of process signed by the issuer no later than 15 days after the first sale of the federal covered security in this State, [together with a fee of $____; and a fee of $___ for a late filing].

(d) **[Stop Order.]** The administrator may issue a stop order suspending the offer and sale of a federal covered security ~~with~~in this State, except a federal covered security under Section 18(b)(1) of the Securities Act of 1933, if the administrator finds that there is a failure to comply with a notice filing or fee requirement of this section. If the deficiency is corrected, the stop order is void as of the time of its entry and no other penalty may be imposed by the administrator.

~~(e) The administrator, by rule or order [or otherwise], may waive any or all of the requirements of this section.~~

Reporter's Notes

No Prior Provision.

1. The little used "registration by notification" in the 1956 Act Section 302 or "registration by filing" in RUSA Section 302 are omitted from this Act because of the notice filing approach required by Section 18(b)(2) of the Securities Act of 1933 for federal covered securities.

2. For Rule 506 offerings which are denoted in Section 18(d)(4)(D) of the Securities Act of

1933, the Securities and Exchange Commission requires the filing of Form D. See Rule 503. When an issuer proceeds under Rule 506, Section 302(c) is intended to limit required state filings to no more than a requirement of filing a copy of Form D, as in effect on September 1, 1996, including the Appendix, a consent to service of process, and a fee.

3. The definition of "filing" in Section 102(8) will permit states to receive electronic filing of records under this Section.

4. An administrator may accept under this Section a signed consent electronically filed with a designee of the administrator. See Section 104.

SECTION 303. SECURITIES REGISTRATION BY COORDINATION.

(a) **[Registration permitted.]** A security for which a registration statement has been filed under the Securities Act of 1933 in connection with the same offering may be registered by coordination under this section.

(b) **[Required records.]** A registration statement and accompanying records under this section must contain or be accompanied by the following records in addition to the information specified in Section 305 and a consent to service of process complying with Section 611~~2~~:

(1) a copy of the latest form of prospectus filed under the Securities Act of 1933;

(2) if the administrator, by rule or order, requires, a copy of the articles of incorporation and bylaws or their substantial equivalents currently in effect; a copy of any agreement with or among underwriters; a copy of any indenture or other instrument governing the issuance of the security to be registered; and a specimen, copy, or description of the security;

(3) if the administrator requests, copies of any other information, or any other records filed by the issuer under the Securities Act of 1933; and

(4) an undertaking to forward each amendment to the federal prospectus, other than an

amendment that merely delays the effective date of the registration statement, promptly after it is filed with the Securities and Exchange Commission.

(c) **[Conditions for effectiveness of registration statement.]** A registration statement under this section becomes effective simultaneously with or subsequent to the federal registration statement when all the following conditions are satisfied:

(1) no stop order under subsection (d) or Section 306 or issued by the Securities and Exchange Commission is in effect and no proceeding is pending against the issuer under Section ~~408~~ 412; and

(2) the registration statement has been on file for at least 20 days or such shorter period as the administrator, by rule or order, specifies.

(d) **[Notice of federal registration statement effectiveness.]** The registrant shall promptly notify the administrator or a designee of the administrator in a record of the date and time when the federal registration statement became effective and the content of a price amendment, if any, and shall promptly file a record containing the information in the price amendment. If the notice is not timely received, the administrator may enter a stop order, without notice or hearing, retroactively denying effectiveness to the registration statement or suspending its effectiveness until compliance with this subsection. The administrator shall promptly notify the registrant of the issuance of the order by electronic means, telegram, or telephone and promptly confirm this notice by a record. If the registrant then complies with the notice requirements of this subsection, the stop order is void as of the time of its entry.

(e) **[Effectiveness of registration statement.]** If the federal registration statement becomes

effective before ~~all~~ each of the conditions in this subsection ~~are~~ is satisfied ~~and they are not or~~ or is waived by the administrator, the registration statement automatically becomes effective under this [Act] when all the conditions are satisfied or waived. If the registrant notifies the administrator of the date when the federal registration statement is expected to become effective, the administrator shall promptly notify the registrant by electronic means, telegram, or telephone and promptly confirm this notice by a record, indicating whether all the conditions are satisfied or waived and whether the administrator contemplates the institution of a proceeding under Section 306. The notice by the administrator does not preclude the institution of such a proceeding.

~~(f) The administrator, by rule or order, may waive or modify the application of a requirement of this section.~~

REPORTER'S COMMENT

Prior Provisions: 1956 Act Section 303; RUSA Section 303.

1. Registration by coordination was one of the key innovations of the 1956 Act. As in the 1956 Act, Section 303 streamlines the content of the registration statement and the procedure by which a registration statement becomes effective, but not the substantive standards governing the effectiveness of a registration statement.

2. The phrase "in connection with the same offering" does not require that the federal and state registration statements be filed simultaneously or become effective simultaneously. A registration by coordination can be filed in a state after the effectiveness of the federal registration statement as long as the administrator does not conclude that the interval was too long to consider the state registration statement "the same offering."

3. Sections 303(a)-(e) are similar to the 1956 Act except that these provisions have been modernized to include electronic filing and electronic notification. Cf. Sections 102(8), 102(26), 104. It is anticipated that this will facilitate simultaneous filing with the Securities and Exchange Commission and the states which is consistent with the uniformity intended by this Act. Simultaneous or sequential filing could be administered through a designee similar to the current Web-CRD or in conjunction with the Securities and Exchange Commission's Electronic Data Gathering, Analysis, and Retrieval (EDGAR)

system or otherwise.

4. Section 303(b) limits the administrator to requiring only the information and records filed with the Securities and Exchange Commission.

5. Sections 303(c)-(e) describe the conditions to be satisfied to achieve effectiveness of a coordinated filing. "Price amendment" is defined in Section 102(24). The administrator retains the right to test the registration statement by the substantive standards of Section 306(a) and may issue a stop or denial order if the administrator believes any of those provisions are applicable.

SECTION 304. SECURITIES REGISTRATION BY QUALIFICATION.

(a) **[Registration permitted.]** A security may be registered by qualification under this section.

(b) **[Required records.]** A registration statement under this section ~~shall~~ must contain the following information and be accompanied by the following records in addition to the information specified in Section 305~~,~~ and a consent to service of process complying with Section 611~~2~~:

(1) with respect to the issuer and any significant subsidiary, its name, address, and form of organization; the State or foreign jurisdiction and date of its organization; the general character and location of its business; a description of its physical properties and equipment; and a statement of the general competitive conditions in the industry or business in which it is or will be engaged;

(2) with respect to a director and officer of the issuer, or other person occupying a similar status or performing similar functions, the person's name, address, and principal occupation for the past five years; the amount of securities of the issuer held by the person as of a specified date 30 days before the filing of the registration statement; the amount of the securities covered by the registration statement to which the person has indicated an intention to subscribe; and a description of a material interest in a material transaction with the issuer or a significant subsidiary effected within the past three years or

proposed to be effected;

(3) with respect to persons covered by paragraph (2), the remuneration paid during the past 12 months and estimated to be paid during the next 12 months, directly or indirectly by the issuer, together with all predecessors, parents, subsidiaries, and affiliates, to all those persons in the aggregate;

(4) with respect to a person owning of record, or beneficially if known, 10 percent or more of the outstanding shares of any class of equity security of the issuer, the information specified in paragraph (2) other than the person's occupation;

(5) with respect to a promoter if the issuer was organized within the past three years, the information specified in paragraph (2), any amount paid to the promoter within that period or intended to be paid to the promoter, and the consideration for the payment;

(6) with respect to a person on whose behalf any part of the offering is to be made in a nonissuer distribution, the person's name and address; the amount of securities of the issuer held by the person as of the date of the filing of the registration statement; a description of any material interest in any material transaction with the issuer or any significant subsidiary effected within the past three years or proposed to be effected; and a statement of the reasons for making the offering;

(7) the capitalization and long term debt, on both a current and pro forma basis, of the issuer and any significant subsidiary, including a description of each security outstanding or being registered or otherwise offered, and a statement of the amount and kind of consideration, whether in the form of cash, physical assets, services, patents, goodwill, or anything else of value, for which the issuer or any subsidiary has issued its securities within the past two years or is obligated to issue its securities;

(8) the kind and amount of securities to be offered; the proposed offering price or the

method by which it is to be computed; any variation at which a proportion of the offering is to be made to a person or class of persons other than the underwriters, with a specification of the person or class; the basis upon which the offering is to be made if otherwise than for cash; the estimated aggregate underwriting and selling discounts or commissions and finders' fees, including separately cash, securities, contracts, or anything else of value to accrue to the underwriters or finders in connection with the offering, or, if the selling discounts or commissions are variable, the basis of determining them and their maximum and minimum amounts; the estimated amounts of other selling expenses, including legal, engineering, and accounting charges; the name and address of each underwriter and each recipient of a finder's fee; a copy of any underwriting or selling group agreement under which the distribution is to be made, or the proposed form of any such agreement whose terms have not yet been determined; and a description of the plan of distribution of any securities that are to be offered otherwise than through an underwriter;

(9) the estimated cash proceeds to be received by the issuer from the offering; the purposes for which the proceeds are to be used by the issuer; the estimated amount to be used for each purpose; the order or priority in which the proceeds will be used for the purposes stated; the amounts of any funds to be raised from other sources to achieve the purposes stated; the sources of the funds; and, if a part of the proceeds is to be used to acquire property, including goodwill, otherwise than in the ordinary course of business, the names and addresses of the vendors, the purchase price, the names of any persons who have received commissions in connection with the acquisition, and the amounts of the commissions and other expenses in connection with the acquisition, including the cost of borrowing money to finance the acquisition;

(10) a description of any stock options or other security options outstanding, or to be

created in connection with the offering, together with the amount of any such options held or to be held by each person required to be named in paragraph (2), (4), (5), (6), or (8), and by any person that holds or will hold 10 percent or more in the aggregate of any such options;

(11) the dates of, parties to, and general effect concisely stated of each management or other material contract made or to be made otherwise than in the ordinary course of business to be performed in whole or in part at or after the filing of the registration statement or was made within the past two years, together with a copy of the contract;

(12) a description of any pending litigation or proceeding to which the issuer is a party and which materially affects its business or assets, including litigation or a proceeding known to be contemplated by governmental authorities;

(13) a copy of any prospectus, pamphlet, circular, form letter, advertisement, or other sales literature intended as of the effective date to be used in connection with the offering and any solicitation of interest used in compliance with Section 202(15)(B);

(14) a specimen or copy of the security being registered, unless the security is uncertificated, a copy of the issuer's articles of incorporation and bylaws, or their substantial equivalents, currently in effect; and a copy of any indenture or other instrument covering the security to be registered;

(15) a signed or conformed copy of an opinion of counsel concerning the legality of the security being registered, with an English translation if it is in a language other than English, which states whether the security when sold will be validly issued, fully paid, and nonassessable and, if a debt security, a binding obligation of the issuer;

(16) the consent in a record of any accountant, engineer, appraiser, or other person

whose profession gives authority for a statement made by the person, if the person is named as having prepared or certified a report or valuation, other than a public and official record, which is used in connection with the registration statement;

(17) a balance sheet of the issuer as of a date within four months before the filing of the registration statement; a statement of income and changes in financial position for each of the three fiscal years preceding the date of the balance sheet and for any period between the close of the last fiscal year and the date of the balance sheet, or for the period of the issuer's and any predecessors' existence if less than three years; and, if any part of the proceeds of the offering is to be applied to the purchase of a business, the financial statements that would be required if that business were the registrant; and

(18) the additional information the administrator, by rule or order, specifies.

~~(c) The administrator, by rule or order, may waive any of the requirements of subsection (b).~~

(c) **[Conditions for effectiveness of registration statement.]** A registration statement under this section becomes effective 30 days, or any shorter period as the administrator, by rule or order, specifies, after the date the registration statement or the last amendment other than a price amendment is filed, if:

(1) no stop order is in effect and no proceeding is pending under Section 306;

(2) the administrator has not issued an order under Section 306(c) that effectiveness be delayed; and

(3) the ~~registrant~~ applicant or registrant has not requested that effectiveness be delayed.

(d) **[Delay of effectiveness of registration statement.]** The administrator may delay effectiveness for a single period of not more than 90 days if the administrator determines the registration

statement is not complete in all material respects and promptly notifies the applicant or registrant of that determination. The administrator may also delay effectiveness for a further period of not more than 30 days if the administrator determines that the delay is necessary or appropriate.

(e) **[Prospectus distribution may be required.]** The administrator, by rule or order, may require as a condition of registration under this section that a prospectus containing a specified part of the information specified in subsection (b) be sent or given to each person to whom an offer is made, before or concurrently with, whichever first occurs, of:

(1) the first offer made in a record to the person otherwise than by means of a public advertisement, by or for the account of the issuer or another person on whose behalf the offering is being made, or by an underwriter or broker-dealer ~~who~~ that is offering part of an unsold allotment or subscription taken by the person as a participant in the distribution;

(2) the confirmation of any sale made by or for the account of the person;

(3) payment pursuant to such a sale; or

(4) delivery of the security pursuant to such a sale.

Reporter's Notes

Prior Provisions: 1956 Act Section 304; RUSA Section 304.

1. This Section generally follows the 1956 Act and RUSA. Any security may be registered by qualification, whether or not another procedure is available. Ordinarily, however, registration by qualification will only be used by an issuer when no other procedure is available.

2. Section 304(b) originally was modeled on Schedule A of the Securities Act of 1933. Section 304(b)(17) uses the same terminology as is used currently in Regulation S-X of the Securities and Exchange Commission. Under Sections 605(a) and (c) the administrator is authorized to specify the form and content of rules and forms governing registration statements and the form and content of financial statements required under this Act.

3. Under Sections 304(b)(18) and 307 the administrator may require additional information or may waive in whole or in part or conditionally any of the requirements of Section 304(b). Section 304(b)(18), for example, authorizes the administrator to require that a report by an accountant, engineer, appraiser or other professional person be filed. Section 304(b)(18) would also authorize that securities of designated classes under a trust indenture contain additional specified information.

SECTION 305. SECURITIES REGISTRATION FILINGS.

(a) [~~Registration requirements~~ **Who may file**.] A registration statement may be filed by the issuer, ~~or~~ a person on whose behalf the offering is to be made, or a registered broker-dealer.

(b) [**Filing fee.**] A person filing a registration statement shall pay a filing fee of [$___]. When a registration statement is withdrawn before the effective date or a preeffective stop order is entered under Section 306, the administrator shall retain [$ ____] of the fee.

(c) [**Status of ~~registration statement~~ offering.**] A registration statement filed under Section 303 or 304 must specify:

(1) the amount of securities to be offered in this State;

(2) the states in which a registration statement or similar record in connection with the offering has been or is to be filed; and

(3) any adverse order, judgment, or decree entered in connection with the offering by ~~the regulatory agency in a State, by a court, or~~ a state securities regulator, ~~by~~ the Securities and Exchange Commission, or a court.

(d) [**Incorporation by reference**.] A record filed under this [Act] or the predecessor act, within five years preceding the filing of a registration statement, may be incorporated by reference in the registration statement to the extent that the record is currently accurate.

~~(e) [**Waiver of requirements.**] The administrator, by rule or order, may waive the requirement for inclusion of any information or record in a registration statement.~~

(e) [**Nonissuer distribution**.] In the case of a nonissuer distribution, information may not be required under subsection (i) or Section 304, unless it is known to the person filing the registration statement or to the person on whose behalf the distribution is to be made, or can be furnished by these persons without unreasonable effort or expense.

(f) [**Escrow and impoundment**.] The administrator, by rule or order, may require as a condition of registration that a security issued within the past five years or to be issued to a promoter for a consideration substantially ~~different from~~ less than the public offering price, or to a person for a consideration other than cash, be deposited in escrow; and that the proceeds from the sale of the registered security in this State be impounded until the issuer receives a specified amount from the sale of the security either in this State or elsewhere. The administrator, by rule or order, may specify the conditions of any escrow or impoundment required under this subsection, but the administrator may not reject a depository institution solely because of its location in another State.

(g) [**Form of subscription.**] The administrator, by rule or order, may require as a condition of registration that a registered security be sold only on a specified form of subscription or sale contract and that a signed or conformed copy of each contract be filed under this [Act] or preserved for a period of not more than three years specified in the rule or order.

(h) [**Effective period.**] Except during the time a stop order is in effect under Section 306, a registration statement is effective for one year after its effective date, or for a longer period designated in an order of the administrator during which the security is being offered or distributed in a nonexempted

transaction by or for the account of the issuer or other person on whose behalf the offering is being made or by an underwriter or broker-dealer ~~who~~ that is still offering part of an unsold allotment or subscription taken as a participant in the distribution. For the purpose of a nonissuer transaction, all outstanding securities of the same class identified in the registration statement as a registered security are considered to be registered while the registration statement is effective. A registration statement may not be withdrawn until one year after its effective date if any securities of the same class are outstanding. A registration statement may be withdrawn only with the approval of the administrator.

(i) [**Periodic reports.**] While a registration statement is effective, the administrator, by rule or order, may require the person that filed the registration statement to file reports, not more often than quarterly, to keep reasonably current the information ~~contained~~ or record in the registration statement and to disclose the progress of the offering.

(j) [**Posteffective amendments**.] A registration statement may be amended after its effective date. The posteffective amendment becomes effective when the administrator so orders. If a posteffective amendment is made to increase the number of securities specified to be offered or sold, the person filing the amendment shall pay a registration fee of [$__]. A posteffective amendment relates back to the date of the offering of the additional securities being registered, if within six months after the date of the sale, the amendment is filed and the additional registration fee is paid.

Reporter's Notes

Prior Provisions: 1956 Act Section 305; RUSA Section 305.

1. Section 305 generally follows the 1956 Act and RUSA except that earlier provisions in both Acts referring to Investment Company Act of 1940 securities, which are federal covered securities, see Section 102(7), have been deleted.

2. Section 305 is applicable both to registration by coordination, see Section 303, and registration by qualification, see Section 304.

3. Section 305(a) expressly authorizes registration by "a person on whose behalf the offering is to be made." This would permit a nonissuer, cf. Section 102(19), or a broker-dealer to file a registration statement independent of the issuer.

4. This Act is intended, to the extent practicable, to be revenue neutral in its impact on existing state law, see Comment 3 to Section 608. Accordingly, Section 305(b) does not specify what fees states should provide.

5. Section 305(c), which generally follows the 1956 Act and RUSA, does not require in Section 305(c)(3) disclosure of an order permitting the withdrawal of a registration statement. The administrator may, however, require disclosure of this information in a registration by qualification under Section 304(b)(18).

6. Section 305(c), like every other provision concerned with the content of the registration statement, must be read with Section 306(a)(1) which judges the accuracy and completeness of the registration statement as of its effective date unless an order denying effectiveness had been entered before the effective date. A registration statement must be kept current with changing developments until the effectiveness date, but a registration statement is not required to be amended after the effective date except to correct inaccuracies or deficiencies which existed as of the effective date. An administrator, however, separately may require under Section 305(j) periodic reports to keep reasonably current the information contained in the registration statement.

7. Under Section 305(d) incorporation by reference is permitted as a matter of administrative practice.

8. Section 305(e) is the substantive equivalent to provisions in the 1956 Act and RUSA. This subsection is designed to address nonissuer offerings where the seller cannot obtain certified financial statements and other normally required records. The phrase "without unreasonable effort or expense" comes from Section 10(a)(3) of the Securities Act of 1933. It is not meant to apply to expenses incidental to supplying required information required for registration in the case of a nonissuer distribution by a person in a control relationship with the issuer or otherwise having access to or contractual rights to obtain the required information. Section 305(e) only applies to registration by qualification under Section 304 and periodic reports for either registration by coordination or registration by qualification under Section 305(i).

10. Section 305(f), follows the 1956 Act and RUSA, and authorizes the administrator to require the escrow and impoundment of funds until the issuer receives a specified amount from the sale of the security in this State or elsewhere. This section is limited to a security issued within the past five years or

to be issued to a promoter for a consideration substantially different from the public offering price or to a person for a consideration other than cash. The typical distribution subject to Section 305(f) will be a relatively new promotional or speculative offering.

As of August 2001, 44 jurisdictions have adopted an escrow or impoundment provision. Alabama Section 8-6-8(b); Alaska Section 45.55.110(g); Arizona Section 44-1876; Arkansas Section 23-42-404(g); California Section 25,141; Colorado Section 11-51-302(5); Connecticut Section 36b-19(g); Delaware Section 7321; District of Columbia Section 2663.6[306](g); Florida Section 517.181; Georgia Section 10-5-6(e); Guam Section 46,305(g); Hawaii Section 485-18; Idaho Section 30-1428; Indiana Section 23-2-1-6(k); Iowa Section 502.208(7); Kentucky Section 292.380(3); Louisiana Section 51:706(D); Maine Section 10,405(6) & (7); Minnesota Section 80A.12. Subd. 5; Mississippi Section 75-71-417(a); Missouri Section 409.305(f); Nebraska Section 8-1108(2); Nevada Section 90.500(8) & (9); New Hampshire Section 421-B:15(V) & (VI); New Jersey Section 49:3-61(e); New Mexico Section 58-13B-24(G); North Carolina Section 78A-28(g): North Dakota Section 10-04-08.1(1); Ohio Section 1707.10; Oregon Section 59.085(3); Pennsylvania Section 207(g); Puerto Rico Section 875[305](g); Rhode Island Section 7-11-305(g); South Carolina Section 35-1-950; South Dakota Section 47-31A-305(g); Tennessee Section 48-2-107(f); Texas Section 9 [581-9]; Utah Section 61-1-11(7); Vermont Section 4223; Virginia Section 13.1-510(h); Washington Section 21.20.250; West Virginia Section 32-4-305(h); Wyoming Section 17-4-111(g).

Under Section 305(f) the administrator would also be authorized to order the release of impounded funds back to prospective purchasers. See, e.g., State ex rel. Ariz. Corp. Comm'n v. Bionomics Int'l, Ltd., 543 P.2d 802 (Ariz. Ct. App. 1975). However, before release of funds held in impoundment back to prospective purchasers, the administrator must afford the registrant an opportunity to be heard.

Unlike the statute in Schwaemmle Const. Co. v. Michigan Dep't of Commerce, 360 N.W.2d 141 (Mich. 1984), Section 305(g) broadly provides that the administrator "may determine the conditions of any escrow or impoundment under this subsection." As in *Schwaemmle*, this power only will operate until the impounded or escrowed funds are released.

Section 305(f) follows the 1956 Act and RUSA and provides that the administrator may not reject a depository solely because of its location in another state.

11. Section 305(g) follows the 1956 Act in authorizing the administrator to specify the form of a subscription or sale contract.

12. Section 305(h) generally follows the 1956 Act and RUSA. The term "nonissuer transaction" or "nonissuer distribution" is defined in Section 102(19). A sale by a nonissuer would have to be registered under Section 301 unless it is exempted or involves a federal covered security.

Section 202(1) exempts "isolated nonissuer transactions." When a nonissuer transaction is not exempt under Section 202(1), it may still be exempted under other transaction exemptions.

If no exemption is available for a nonissuer distribution, and it does not involve a federal covered security, the security must be registered under Article 3. Under the first sentence of Section 305(h) each registration statement remains effective for at least one year and for any longer period the administrator may determine. However, no registration statement is effective while a stop order with respect to it is in effect under Section 306.

For the purposes of a nonissuer transaction, all outstanding securities of the same class as a registered security are considered to be registered as long as the registration statement remains effective. This means that during the effective period of a registration statement under this Act all securities of the same class can be traded by anyone, including nonissuers, as if they were registered.

Section 305(h) also provides that, unless the administrator determines otherwise, a registration statement cannot be withdrawn until one year after its effective date if any securities of the same class are outstanding. This is designed to protect sellers who would be unaware of a withdrawal from being subject to civil liability.

13. Section 305(j) follows RUSA and a procedure limited to investment companies in the 1956 Act in allowing posteffective date amendments. Under Section 305(j), when a posteffective amendment increases the number of securities to be offered or sold, an additional registration fee is required.

SECTION 306. DENIAL, SUSPENSION, AND REVOCATION OF SECURITIES REGISTRATION.

(a) **[Stop orders.]** The administrator may issue a stop order denying effectiveness to, or suspending or revoking the effectiveness of, a registration statement if the administrator finds that the order is in the public interest and that:

(1) the registration statement as of its effective date or before the effective date in the case of an order denying effectiveness, an amendment under Section 305(j) as of its effective date, or a report under Section 305(i), is incomplete in a material respect or contains a statement that, in the light of the circumstances under which it was made, was false or misleading with respect to a material fact;

(2) this [Act] or a rule adopted or order issued under this [Act] or a condition ~~lawfully~~ imposed under this [Act] has been willfully violated, in connection with the offering, by the person filing the registration statement; by the issuer, a partner, officer, or director of the issuer or a person occupying a similar status or performing a similar function; a promoter of the issuer; or a person directly or indirectly controlling or controlled by the issuer; but only if the person filing the registration statement is directly or indirectly controlled by or acting for the issuer; or by an underwriter;

(3) the security registered or sought to be registered is the subject of a permanent or temporary injunction of a court of competent jurisdiction or an administrative stop order or similar order entered under any ~~other~~ federal, foreign, or other state law applicable to the offering, but the administrator may not institute a proceeding against an effective registration statement under this paragraph more than one year after the date of the order or injunction relied on, and the administrator may not enter an order under this paragraph on the basis of an order or injunction entered under the securities act of another state unless the order or injunction was based on facts that would constitute, as of the date of the order, a ground for a stop order under this section;

(4) the issuer's enterprise or method of business includes or would include activities that are illegal where performed;

(5) with respect to a security sought to be registered under Section 303, there has been a failure to comply with the undertaking required by Section 303(b)(4);

(6) the applicant or registrant has failed to pay the proper filing fee, but the administrator may enter only a stop order under this paragraph and shall void the order if the deficiency is corrected;

~~(A)~~ (7)(A) the offering ~~has~~ will work~~ed~~ or tend~~ed~~ to work a fraud upon purchasers or would so

operate; [; or

~~(7) the applicant or registration statement violates a rule adopted or order issued by the administrator under this [Act] that:~~

(B) the offering has been or would be made with unreasonable amounts of underwriters' and sellers' discounts, commissions, or other compensation, or promoters profits or participations, or unreasonable amounts or kinds of options; [or

(C) the offering is being made on terms that are unfair, unjust, or inequitable]

(b) **[Enforcement of Section 306(a)(7).]** To the extent practicable the administrator shall adopt, by rule or order, published standards that provide notice of conduct that violates subsection (a)(7).

(c) [**Institution of stop order.**] The administrator may not institute a stop order proceeding against an effective registration statement on the basis of a fact or transaction known to the administrator when the registration statement became effective unless the proceeding is instituted within 30 days after the registration statement became effective.

(d) [**Summary process.**] The administrator may summarily revoke, deny, postpone, or suspend the effectiveness of a registration statement pending final determination of an administrative proceeding. Upon the entry of the order, the administrator shall promptly notify each person specified in subsection (~~d~~ e) that the order has been entered, the reasons for the postponement or suspension, and that within 15 days after the receipt of a request in a record from the person the matter will be scheduled for a hearing. If a hearing is not requested and none is ordered by the administrator, the order remains in effect until it is modified or vacated by the administrator. If a hearing is requested or ordered, the administrator, after notice of and opportunity for hearing to each person specified in subsection (~~d~~ e), may modify or vacate

the order or extend it until final determination.

(e) [**Procedural requirements for a stop order.**] A stop order may not be entered under subsection (a) or (b) without:

(1) appropriate notice to the applicant or registrant, the issuer, and the person on whose behalf the securities are to be or have been offered;

(2) opportunity for hearing; and

(3) findings of fact and conclusions of law in a record [in accordance with the state administrative procedure act].

(f) [**Modification or vacation of a stop order.**] The administrator may modify or vacate a stop order entered under this section if the administrator finds that the conditions that caused its entry have changed or that it is otherwise in the public interest.

Reporter's Notes

Prior Provisions: 1956 Act Section 306; RUSA Section 306.

1. This Section generally follows the 1956 Act and RUSA and applies to both registration by coordination under Section 303 and registration by qualification under Section 304.

2. Section 306(a)(1) follows the 1956 Act and RUSA in testing in a suspension or revocation proceeding the completeness and accuracy of a registration statement as of the registration statement's effective date. A registration statement that becomes misleading because of a development that occurs after its effective date is not a ground for the issuance of a stop order under Section 306(a)(1). Posteffective amendments are not required except to correct inaccuracies as of the effective date. An administrator, however, may require periodic reports under Section 305(i). With respect to periodic reports under Section 305(i), a misleading report would be the basis of a stop order under Section 306(a)(1) if it is materially inaccurate as of the date it was filed.

3. On the meaning of "willfully," see Comment 2 under Section 508.

4. A violation by an issuer has the same consequences whether the issuer has filed a registration

statement or has had a local broker-dealer file it. This is not the case when the registration statement is filed by a local broker-dealer acting independently.

5. The verb "is" at the beginning of Section 306(a)(3) means that a stop order or injunction that has expired or been vacated is not the ground for action under this paragraph.

6. Section 306(a)(4) applies to activity that is conducted in a state where that activity is illegal. It does not apply if the activity is not illegal under that state's law. This paragraph is not meant to apply to activity which is lawful where conducted but would be illegal if conducted in the state where the registration statement is filed.

7. Sections 306(a)(5)-(6) follow the 1956 Act and RUSA.

8. Sections 306(a)(7) and (b) address merit regulation. Sections 306(E)-(F) of the 1956 Act addressed merit regulation by authorizing a stop order when an "offering has worked or tended to work a fraud upon purchasers or would so operate" or "the offering has been or would be made with unreasonable amounts of underwriters' and sellers' discounts, commissions, or other compensation, or promoters' profits or participation, or unreasonable amounts or kinds of options."

By 1985 a majority of states which had adopted the 1956 Act had adopted this approach to merit regulation rather than the earlier and broader "unfair, unjust or inequitable" standard that then applied in a minority of states.

RUSA Sections 306(a)(5)-(6) adopted provisions substantively identical to the 1956 Act and included in brackets an "unfair, unjust, or inequitable" alternative.

As of July 2001 46 jurisdictions had adopted a form of Section 306(a)(7) ("will tend to work a fraud or would so operate"); 35 jurisdictions had adopted a form of Section 306(a)(8)(A) ("unreasonable amounts of underwriters' and sellers' discounts, commissions, or other compensation, or promoter profits or participations, or unreasonable amounts or kinds of options"); and 16 jurisdictions had adopted a form of Section 306(a)(8)(B) ("terms that are unfair, unjust, or inequitable").

Section 306(a)(7) & (8) - Denial, Suspension and Revocation

Jurisdiction	Sect.(7) Will work or tend to work fraud	Sect. (8)(A) Unreasonable amounts	Sect. (8)(B) Unfair, unjust or Inequitable terms
Alabama Sec. 8-6-9(a)	X	X	X
Alaska Sec. 45.55.120(a)	X	X	
Arizona Sec. 44-1921	X		X[1]
Arkansas Sec. 23-42-405(a)	X	X	X
California Sec. 25410(a)	X	X	X
Colorado Sec. 11-51-306			
Connecticut 36b-20(a)	X	X	
Delaware Sec. 7308(a)	X	X	
District of Columbia Sec. 260	X	X	
Florida Sec. 517.111(1)			X
Georgia Sec. 10-5-7(a)	X		
Guam Sec. 46306(a)	X	X	
Hawaii Sec. 485-13(a)	X	X	
Idaho Sec. 30-1413	X	X	
Illinois Sec. 11 [5/11]	X		
Indiana Sec. 23-2-1-7(a)	X	X	
Iowa Sec. 502.209	X	X	
Kansas Sec. 17-1260(a)		X	X
Kentucky Sec. 292.390(1)	X	X	
Louisiana Sec. 51:707(A)	X		
Maine 10406(1)	X	X	X
Maryland ll-511(a)	X		
Massachusetts Sec. 305(A)	X	X	
Michigan Sec. 451.706(a)	X	X	
Minnesota Sec. 80A.13 Subd.l	X		X[2]
Mississippi Sec. 75-71-425	X	X	

[1] Arizona Section 44-1921(3) ". . . or would be unfair or inequitable to the purchasers."

[2] Minnesota Section 80A. 13(6) - "except with respect to securities which are being registered by notification, the terms of the securities are unfair and inequitable; provided, however, that the commissioner may not determine that an offering is unfair and inequitable solely on the grounds that the securities are to be sold at an excessive price where the offering price has been determined by arms length negotiation between nonaffiliated parties. The selling price of any security being sold by a broker-dealer licensed in this state shall be presumed to have been determined by arms length negotiation;"

Missouri Sec. 409.306(a)	X	X	X[3]
Montana Sec. 30-10-207(1)	X	X	
Nebraska Sec. 8-1109.01	X	X	X
Nevada Sec. 90.510(1)	X	X	
New Hampshire Sec. 421-B:16(b)	X	X	X[4]
New Jersey Sec. 49:3-64			
New Mexico Sec. 58-13B-25(A)	X	X	
New York Sec. 352(1)			
North Carolina Sec. 78A-29(a)(2)	X	X	
North Dakota Sec. 10-04-09	X		X
Ohio Sec. 1707.13	X		X[5]
Oklahoma Sec. 306(a)(2)	X	X	
Oregon Sec. 59.105(1)		X	X
Pennsylvania Sec. 208(a)	X	X	
Puerto Rico Sec. 876(a)(2)	X	X	
Rhode Island Sec. 7-1 l-306(a)			
South Carolina Sec. 35-l-1010(b)	X	X	
South Dakota Sec. 47-3 IA-306(a)(2)	X	X	X
Tennessee Sec. 48-2-112(a)	X		
Texas Sec. 32[581-32]	X		
Utah Sec. 61-1-12(1)	X	X	
Vermont Sec. 4211	X		X[6]
Virginia Sec. 13.1-513(a)			
Washington Sec. 21.20.280			
West Virginia Sec. 32-3-306(a)(2)			
Wisconsin Sec. 551.28(1)			
Wyoming Sec. 17-4-112(a)			
TOTALS:	**46**	**35**	**16**

[3] Missouri Section 409.306(a)(E)(ii) – "any aspect of the offering is substantially unfair, unjust, unequitable or oppressive"

[4] New Hampshire Section 421-B: 16(b)(7), ". ..except with respect to securities which are being registered by notification the terms of the securities are unfair and inequitable; provided, however, that the secretary of state may not determine that an offering is unfair and inequitable solely on the grounds that the securities are to be sold at an excessive price where the offering price has been determined by arms length negotiation between nonaffiliated parties. The selling price of any security being sold by a broker-dealer licensed in this state shall be presumed to have been determined by arms length negotiation;"

[5] Ohio Section 1707.13. ". . . that such security is being disposed of or purchased on grossly unfair terms. . ."

[6] Vermont Section 4211(5), "Is of bad business repute;"

The National Securities Markets Improvement Act of 1996 subsequently preempted merit regulation of federal covered securities. See Section 102(7).

Sections 306(a)(7) and (b) takes a different approach. Subject to the National Securities Markets Improvement Act of 1996, merit standards are retained but hortatory paragraph 306(b) encourages the administrator, to the extend practicable, to adopt, by rule or order, standards that provide notice to issuers of a state's merit standards. Notice will address one criticism of merit regulation. See generally 1 L. Loss & J. Seligman, Securities Regulation 111-124 (3d ed. rev. 1998).

Statements of Policy of the North American Securities Administrator Association that have been adopted by a state would provide notice in compliance with Section 306(b). Similarly other state rules or orders could be adopted in the future to address new types of securities as they occur.

An order under Section 306(b) can be adopted after a securities registration statement has been filed.

Under Section 306(b) an administrator, by rule or order, for example, could adopt a standard that would provide the basis for a stop order denying effectiveness to a development state company that has no specific business purpose or plan and has indicated that its business purpose or plan is to engage in a merger or acquisition with an unidentified company, entity, or person. "Blank check offerings" are subject to Rule 419 adopted under the Securities Act of 1933.

9. Section 306(c) follows the 1956 Act and RUSA and allows an administrator up to 30 days after a registration statement becomes effective to institute a stop order proceeding on the basis of a fact or transaction known when the registration statement became effective. This will avoid the necessity of an administrator issuing a stop order prematurely.

10. Sections 306(d)-(e) assure each person subject to a stop order notice, opportunity for a hearing, and written findings of fact and conclusions of law contained in a record.

11. An administrator must consider the public interest when issuing a stop order and may under Section 306(e) consider the public interest when modifying or vacating a stop order. See, e.g., TechnoMedical Lab., Inc. v. Utah Sec. Div., 744 P.2d 320, 324-325 (Utah Ct. App. 1987) (a state has a valid public interest in stopping the issuance of hundreds of thousands of public shares that did not comply with the disclosure requirements of securities registration); cf. stop orders under the Securities Act of 1933, see 1 L. Loss & J. Seligman, Securities Regulation 576-589 (3d ed. rev. 1998).

SECTION 307. WAIVER. The administrator, may waive or modify any or all of the requirements of Sections 302, 303, 304(b), or the requirement of any information or record in a registration statement.

Reporter's Note

Prior Provision: RUSA Section 303(h). Section 307 follows the 1956 Act RUSA Section 303(h) and empowers the administrator to waive or modify any of the requirements of 302, 303, 304(b), or the requirement of any information or record in a registration statement. An example would be the expedited procedures several states have adopted to coordinate with shelf registration under Rule 415 adopted under the Securities Act of 1933. In waiving or modifying requirements the administrator must make a finding satisifying the requirements of Section 605(b).

ARTICLE 4

BROKER-DEALERS, AGENTS, INVESTMENT ADVISERS, INVESTMENT ADVISER REPRESENTATIVES, AND FEDERAL COVERED INVESTMENT ADVISERS

SECTION 401. BROKER-DEALER REGISTRATION REQUIREMENT AND EXEMPTIONS.

(a) [**Registration requirement.**] It is unlawful for a person to transact business in this State as a broker-dealer, unless the person is registered under this [Act] as a broker-dealer or is exempt from registration as provided in subsection (b).

(b) [**Exemptions from registration.**] The following broker-dealers are exempt from the registration requirement of subsection (a):

(1) except as otherwise provided in subsection (c), a broker-dealer without a place of business in this State if its only transactions effected in this State are with:

(A) the issuer of the securities involved in the transactions;

(B) a broker-dealer registered or not required to be registered under this [Act];

(C) an institutional investor;

(D) a [bona fide] preexisting customer whose principal place of residence is not in this State if the broker-dealer is both registered or not required to be registered under the Securities Act of 1934 and registered under the securities act of the State in which the customer maintains a principal place of residence;

(E) a [bona fide] preexisting customer whose principal place of residence ~~was not~~

is in this State but was not in this State when the ~~customer~~ broker-dealer's customer relationship was established, ~~but who moved into this State~~, if:

(i) the broker-dealer is both registered or not required to be registered under the Securities Exchange Act of 1934 and registered under the securities laws of the State ~~from~~ in which the customer relationship ~~moved into this State~~ was established and where the customer had maintained a principal place of residence; and

(ii) within 45 days after the customer's first transaction in this State, the broker-dealer files an application for registration in this State and no further transaction is effected more than ~~60~~ 75 days after the date on which the application is filed, or, if earlier, the date on which this State notifies the broker-dealer that it has denied the application for registration or has stayed the pendency of the application for cause;

[(F) no more than three persons in this State during the previous 12 month~~s~~ period, in addition to those specified in subparagraphs (A) through (E) and under paragraph (G) if the broker-dealer is both registered or not required to be registered under the Securities Exchange Act of 1934 and registered under the securities act ~~in~~ of the State in which the broker-dealer has its principal place of business;] and

(G) any other broker-dealer the administrator, by rule or order, specifies.

~~[(2) a bank if its broker-dealer activities are limited to those specified in subsections 3(a)(4)(B)(i) through (vi) and (viii) through (ix~~x~~), 3(a)(5)(B), and 3(a)(5)(C) of the Securities Exchange Act of 1934 and sales under subsection 3(a)(5)(C) are solely to institutional investors;] and~~

~~(2) any other broker-dealer the administrator, by rule or order, exempts.~~

(2) A broker-dealer that deals solely in United States government securities and is ~~not~~ registered under the Securities Exchange Act of 1934 ~~unless the broker-dealer~~ and is subject to supervision as a dealer in government securities by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, or the Office of Thrift Supervision.

(c) [**Limits on employment or association.**] It is unlawful for a broker-dealer, or for an issuer engaged in offering or selling securities in this State, directly or indirectly, to employ or associate with an individual to engage in any activity involving securities transactions in this State if the registration of the individual is suspended or revoked or the individual is ~~or~~ barred from employment or association with a broker-dealer, an ~~or~~ issuer, ~~[~~an investment adviser or a federal covered investment adviser~~]~~ by an order of the administrator under this [Act], the Securities and Exchange Commission, or a self-regulatory organization. A broker-dealer or issuer does not violate this subsection if the broker-dealer or issuer ~~[or investment adviser]~~ did not know, or in the exercise of reasonable care could not have known, of the suspension, revocation, or bar. Upon request from a broker-dealer or issuer and for good cause shown, the administrator, by order, may modify or vacate the prohibition of this subsection. ~~with respect to an individual suspended or barred.~~

[(d) **[Foreign transactions.]** The Administrator, by rule or order, may permit:

(1) A broker-dealer that is registered in Canada or other foreign jurisdiction and has no office or physical presence in this State to effect transactions in securities with or for, induce or attempt to induce the purchase or sale of any security by:

(A) a person from Canada or other foreign jurisdiction who is temporarily

resident in this State and with whom the broker-dealer had a bona fide client relationship before the person entered the United States;

(B) a person from Canada or other foreign jurisdiction who is resident in this State and whose transactions are in a self-directed tax advantaged retirement plan in that foreign jurisdiction of which the person is the holder or contributor; or

(C) a person who is resident in this State, with whom the broker-dealer client relationship arose while the person was temporarily or permanently resident in Canada or the other foreign jurisdiction, and

(2) An agent who will be representing a broker-dealer registered under this Section to, effect transactions in securities with or for, induce or attempt to induce the purchase or sale of any security in this State as permitted for broker-dealer in Subparagraph (1).]

Reporter's Notes

Prior Provisions: 1956 Act Section 201; RUSA Sections 201-202.

1. "Broker-dealer" is defined in Section 102(4). The scope of the Section 401(a) reference "to transact business in this State" is specified in Section 610.

2. Under Section 401(a) a person can be required to register as a securities broker-dealer only if the person transacts business in securities. See, e.g., AMR Realty Co. v. State, 373 A.2d 1002 (N.J. Supr. Ct. App. Div. 1977) (requirement that the transactions involve securities).

3. Under 401(b)(1)(D)-(E) preexisting customers must be bona fide. A principle place of residence, for example, normally would be the residence where the customer spends a majority of time. These exemptions were intended to facilitate ongoing broker-customer relationships with customers who have established a second or other residence for such purposes as a winter vacation (i.e. "snowbirds").

4. Section 401(c) prohibits a broker-dealer or issuer from employing an individual in a capacity from which that person has been suspended by the administrator. Violation of this provision does not result in strict liability. In order for a broker-dealer or issuer to be liable, the broker-dealer or issuer must

have known or should have known of the administrator's order to the individual suspended or barred.

5. Section 401(d) recognizes the increasingly transnational reality of securities brokerage and permits, if the administrator adopts a rule or order, transactions by a foreign broker-dealer with a person from Canada or other foreign jurisdiction who is resident in this State. This subsection is not self-executing and is only effective if the administrator adopts a rule or order.

SECTION 402. AGENT REGISTRATION REQUIREMENT AND EXEMPTIONS.

(a) [**Registration requirement.**] (1) It is unlawful for an individual to transact business in this State as an agent unless the individual is registered under this [Act] as an agent or is exempt from registration as provided in subsection (b).

(b) [**Exemptions from registration.**] The following agents are exempt from the registration requirement of subsection (a):

(1) an individual who represents a broker-dealer in effecting transactions in this State limited to those described in Section 15(h)(2) of the Securities Exchange Act of 1934;

(~~1~~ 2) an agent acting for a broker-dealer exempt under Section 401(b);

(~~2~~ 3) an agent acting for an issuer ~~when the agent's compensation is not based in whole or in part upon the amount of purchases or sales of the issuer's own securities, for effecting purchases or sales of the issuer's securities, who~~: who is not compensated in connection with the agent's participation by the payment of commissions or other similar remuneration based either directly or indirectly on transactions in the issuer's own securities;

~~(A) effects transactions in a security of the issuer exempted by Section 201; or~~

(~~B~~ 4) an agent acting for an issuer who effects transactions in the issuer's securities exempted by Section 202; ~~[~~other than Section 202(9) and (12)~~]~~;

(~~3~~ 5) an agent acting for an issuer who effects transactions solely in federal covered securities of the issuer, except that an agent who effects transactions in a federal covered security under ~~to qualified purchasers in this State under Section 18(b)(3) or~~ 18(b)(4)(D) of the Securities Act of 1933 is not exempt if the agent is compensated in connection with the agent's participation by the payment of commissions or other similar remuneration based either directly or indirectly on transactions in the issuer's own securities; ~~any a commission or other remuneration is paid or given directly or indirectly for effecting those transactions~~;

[(~~4~~ 6) an agent acting for a broker-dealer registered in this State under Section 401(a) or exempt under Section 401(b) ~~or (c)~~ in the offer and sale of securities for an account of ~~directed by an investment adviser registered in this State or~~ a federal covered investment adviser with investments under management in excess of $100 million acting for its own account or the account of others under written discretionary authority;] or

(~~5~~ 7) any other agent the administrator, by rule or order, exempts.

(c) [**Registration effective only while employed or associated.**] The registration of an agent is ~~not~~ only effective while the agent is ~~not~~ employed by or associated with a broker-dealer registered or exempt from registration under this [Act] or an issuer that offers or sells its securities in this State.

(d) **[Limit on employment or association.]** It is unlawful for a broker-dealer, or an issuer engaged in offering, selling, or purchasing securities, to employ or associate with an agent who transacts business in this State on behalf of the broker-dealer or issuer unless the agent is registered under Section 402(a) or exempt from registration under Section 402(b). ~~under this [Act] as an agent.~~

(e) [**Limit on multiple affiliations**.] An individual may not act as an agent for more than one

broker-dealer or more than one issuer at a time, unless the broker-dealer or issuer for whom the agent acts is affiliated by direct or indirect common control or the administrator, by rule or order, so authorizes.

Reporter's Notes

Prior Provisions: RUSA Sections 201-202.

1. "Agent" is defined in Section 102(2). The scope of the Section 402(a) reference to "transact business in this State" is specified in Section 610.

2. An independent contractor must either be a broker-dealer or an agent if the individual transacts business as a broker-dealer or agent. There is no other category of activity permitted under this Act for securities broker-dealer or agent activities.

3. A broker-dealer in violation of Section 402(a)(2) may be disciplined under Section 412 or subject to an administrative enforcement action under Section 603 or 604.

4. Sections 402(b)(7) is required by the National Securities Markets Improvement Act of 1996.

5. Under Sections 402(b)(3) and (5) an agent may be exempt if acting for an issuer and receiving compensation (for example, to be a corporate executive), as long as the compensation is not a commission or other remuneration for transactions in the issuer's own securities.

6. Section 402(e) limits agents to a single employment or affiliation unless the administrator, by rule or order, authorizes multiple affiliations. In any event an agent must be registered, see Section 402(a), or exempt from registration, see Section 402(b). Registration is only effective while an agent is employed an associated with a broker-dealer or an issuer. See Section 402(c).

SECTION 403. INVESTMENT ADVISER REGISTRATION REQUIREMENT AND EXEMPTIONS.

(a) **[Registration requirement.]** It is unlawful for a person to transact business in this State as an investment adviser unless the person is registered under this [Act] as an investment adviser or is exempt from registration as provided in subsection (b).

(b) **[Exemptions from registration.]** The following investment advisers are exempt from the

registration requirement of subsection (a):

(1) an investment adviser without a place of business in this state that is registered under the securities act of the state in which the investment adviser has its principal place of business if its only clients in this State are:

(A) federal covered investment advisers, ~~registered~~ investment advisers registered under this [Act], or ~~registered~~ broker-dealers registered under this [Act];

(B) institutional investors;

(C) preexisting clients whose principal places of residence ~~is~~ are not in this State if the investment adviser is registered under the securities act of the state in which the clients maintains ~~a~~ principal places of residence; or

(D) any other client the administrator, by rule or order, specifies;

(2) an investment adviser without a place of business in this State if it has had, during the preceding 12 months, not more than five clients who are residents of this State in addition to those specified under paragraphs (1 and (3)); and

(3) any other investment adviser the administrator, by rule or order, exempts.

(c) **[Limits on employment or association.]** It is unlawful for an investment adviser, directly or indirectly, to employ or associate with an individual ~~to engage in any activity~~ who provides investment advisory services in this State if the registration of the individual is suspended or revoked, or the individual is barred from employment or association with an investment adviser, federal covered investment adviser, ~~[~~or a broker-dealer~~]~~ by an order of the administrator, unless the investment adviser ~~[or broker-dealer]~~ did not know, or in the exercise of reasonable care could not have known, of the

suspension, revocation, or bar. Upon request from the investment adviser and for good cause shown, the administrator, by order, may waive the prohibition of this subsection ~~with respect to the individual suspended or barred~~.

(d) [**Investment adviser representative registration required.**] It is unlawful for ~~any~~ investment adviser to employ or associate with an investment adviser representative who transacts business in this State on behalf of the investment adviser unless the investment adviser representative is registered under Section 404(a) or is exempt from registration as ~~[provided subsection (b) under this [Act] as an investment adviser representative.~~ under Section 404(b).

[(e) **[Foreign transactions.]** The administrator by rule or order, may permit:

(1) An investment adviser that is registered in Canada or other foreign jurisdiction and has no office or physical presence in this State to provide investment advisory services to:

(A) a person from Canada or other foreign jurisdiction who is temporarily resident in this State and with whom the investment adviser had a bona fide investment adviser client relationship before the person entered the United States;

(B) a person from Canada or other foreign jurisdiction who is resident in this State and whose transactions are in a self-directed tax advantaged retirement plan in that Canadian or other foreign jurisdiction of which the person is the holder or contributor; or

(C) a person who is resident in this state, with whom the investment adviser client relationship arose while the person was temporarily or permanently resident in Canada or other foreign jurisdiction, and

(2) An investment adviser representative who will be representing an investment adviser

registered under this Section to provide investment advisory services in this State as permitted for the investment adviser in Subsection (1).

Reporter's Notes

Prior Provisions: 1956 Act Section 201; RUSA Sections 203-204.

1. "Investment adviser" is defined in Section 102(15). The scope of the Section 403(a) reference to "transact business in this State" is specified in Section 610.

2. Excluded from the definition of investment adviser in Section 102(15)(C) is a broker-dealer who receives no special compensation for investment advisory services. Such a broker-dealer would not have to register in two different capacities in this State. A broker-dealer who does receive special compensation, on the other hand, would also meet the statutory definition of investment adviser and would be required to register in both capacities.

3. Section 403(b)(2) is required by the National Securities Markets Improvement Act of 1996 which prohibits a state from regulating an investment adviser that does not have a place of business in this State and had fewer than six clients who are state residents during the preceding 12 months.

4. Section 403(c) prohibits an investment adviser from employing an individual who is prohibited from such employment or association by the administrator. Violation of this provision does not result in strict liability. To be liable the investment adviser must have known or should have known of the administrator's order to the individual suspended or barred.

5. Regarding Section 403(e), see Comment 5 to Section 401.

SECTION 404. INVESTMENT ADVISER REPRESENTATIVE REGISTRATION REQUIREMENT AND EXEMPTIONS.

(a) **[Registration requirement.]** It is unlawful for an individual to transact business in this State as an investment adviser representative unless the individual is registered under this [Act] as an investment adviser representative or is exempt from registration under subsection (b).

(b) **[Exemptions from registration.]** The following investment adviser representatives are

exempt from the registration requirement of subsection (a):

(1) an investment adviser representative who is employed by or associated with an investment adviser that is exempt from registration under Section 403(b) or a federal covered investment adviser that is exempt from the notice filing requirements of Section 405; and

(2) any other investment adviser representative who the administrator, by rule or order, exempts.

~~(d)~~(c) [**Registration effective only while employed or associated.**] The registration of an investment adviser representative is not effective while the investment adviser representative is not employed by or associated with an investment adviser registered under this [Act] or a federal covered investment adviser that has made or is required to make a notice filing under Section 405.

~~(c) An individual may not act as an investment adviser representative for more than one investment adviser at a time unless the administrator, by rule or order, so authorizes.~~

[(d) [**Multiple affiliations.**] An individual may transact business as an investment adviser representative for more than one investment adviser or federal covered investment adviser unless the administrator, by rule or order, prohibits or limits an individual from acting as an investment adviser representative for more than one investment adviser or federal covered investment adviser.]

[~~(f)~~(e) [**Limits on employment or association.**] ~~It is unlawful for an investment adviser representative, directly or indirectly, to conduct business on behalf of a federal covered investment adviser *in this State*, if the investment adviser representative is barred or suspended from employment or association with an investment adviser by an order of the administrator under this [Act]. Upon request from the federal covered investment adviser and for good cause shown, the administrator, by order, may~~

~~waive the prohibition of this subsection with respect to the person barred or suspended.]~~ It is unlawful for an individual acting as an investment adviser representative, directly or indirectly, to conduct business in this State on behalf of an investment adviser or a federal covered investment adviser if the ~~requirement~~ registration of the investment adviser representative is suspended or revoked or the individual is barred from employment or association with an investment adviser or a federal covered investment adviser by an order of the administrator under this [Act], the Securities and Exchange Commission, or a self-regulat~~ing~~ory organization. Upon request from a federal covered investment adviser and for good cause shown, the administrator, by order, may waive the prohibition of this subsection.]

Reporter's Notes

No Prior Provision.

1. "Investment adviser representative" is defined in Section 102(16). The scope of the Section 404(a) reference to "transacts business in this State" is specified in Section 610.

2. Neither the 1956 Act nor RUSA provided for the registration of investment adviser representatives. In recent years, however, the states increasingly have done so.

3. Under this Act a sole proprietor investment adviser may register both as an investment adviser and as an investment adviser representative.

4. Section 404(c) prohibits an investment adviser representative from association with a federal covered investment adviser when such association is prohibited by an order of the administrator. Unlike similar provisions in Sections 401 and 403, there is no culpability requirement that the investment adviser representative "knows or in the exercise of reasonable care should have known" of a suspension or bar because the order should be received by the investment adviser representative. As with Sections 401 and 403, the administrator may waive this prohibition.

SECTION 405. FEDERAL COVERED INVESTMENT ADVISER NOTICE FILING REQUIREMENT.

(a) [**Notice filing requirement.**] Except with respect to a federal covered investment adviser described in subsection (b), it is unlawful for a federal covered investment adviser to transact business in this State unless the federal covered investment adviser complies with subsection (c). ~~whose only clients are those described in Section 403(b)(1)(A), (B), and (D), it is unlawful for a federal covered investment adviser to transact business in this State unless the federal covered investment adviser complies with subsection (b).~~

(b) [**Exclusions from notice filing requirement.**] The following federal covered investment advisers are not required to comply with subsection (c): ~~A federal covered investment adviser shall file a notice before acting as a nonexempt federal covered investment adviser in this State that is not excepted under subsection (a), by filing such records as have been filed with the Securities and Exchange Commission under the Investment Advisers Act of 1940, including a consent to service of process, as the administrator, by rule or order, requires, and an annual notice fee of [$___].~~

(1) a federal covered investment adviser without a place of business in this State if its only clients in this State are:

(A) federal covered investment advisers, investment advisers registered under this Act, or broker-dealers registered under this [Act];

(B) institutional investors;

(C) preexisting clients whose principal places of residence are not in this State; and

(D) other clients the administrator, by rule or order, specifies;

(2) a federal covered investment adviser without a place of business in this State if it has

had, during the preceding 12 months, not more than five clients who are residents of this State in addition to those specified under paragraph (1); and

(3) any other federal covered investment adviser the administrator, by rule or order, specifies.

(c) **[Notice filing procedure.]** ~~The administrator may require a federal covered investment adviser *that is not excepted under subsection (a)* to provide a copy of any additional record regarding the federal covered investment adviser that has been filed with the Securities and Exchange Commission under the Investment Advisers Act of 1940.~~ A federal covered investment adviser, required to file a notice under this Section, shall file with the administrator such records, including a consent to service of process, as have been filed with the Securities and Exchange Commission under the Investment Advisers Act of 1940, as the administrator, by rule or order, requires and an initial and annual notice fee of [$___].

(d) **[Effectiveness of filing.]** The notice filing is effective upon its filing.

[(e) [**Registration contingent upon employment.]** It is unlawful for any federal covered investment adviser to employ or associate with an investment adviser representative who transacts business in this State on behalf of the federal covered investment adviser unless the investment adviser representative is registered under Section 404(a) or exempt from registration under Section 404(b).]

[(f) **Cease and Desist Order.]** The administrator may issue an order directing a federal covered investment adviser to cease and desist from transacting business in this State if the administrator finds that there is a failure to comply with a notice filing or fee requirement under this Section. If the

deficiency is corrected, the cease and desist order is void as of the time of its entry and no other penalty may be imposed by the administrator.]

Reporter's Notes

No Prior Provision.

1. "Federal covered investment adviser" is defined in Section 102(6). The scope of the Section 405(a) reference to "transacts business in this State" is specified in Section 610.

2. This provision is necessitated by the National Securities Markets Improvement Act of 1996 and is intended to coordinate this Act with the Investment Advisers Act of 1940.

SECTION 406. REGISTRATION BY BROKER-DEALERS, AGENTS, INVESTMENT ADVISERS, AND INVESTMENT ADVISER REPRESENTATIVES.

(a) [**Application for initial registration.**] A broker-dealer, agent, investment adviser, or investment adviser representative shall register by filing an application ~~including~~ and a consent to service of process complying with Section 611, and paying the fee specified in ~~subsection (d)~~ Section 410 and any reasonable costs charged by the designee of the administrator for processing the filing. ~~The following rules shall apply:~~

(1) Each application must contain the information required for the filing of a uniform application; and

(2) Any other financial or other information requested by the administrator that the administrator determines is appropriate, whether required in a uniform application or not. If the information contained in an application that is filed under the subsection is or becomes inaccurate or incomplete in any material respect, the registrant shall promptly file a correcting amendment. ~~by the~~

~~administrator that is material to an understanding of information in the uniform application and whatever other information, to the extent not contained in the uniform application, the administrator, by rule or order, requires, including any of the following:~~

~~(A) the applicant's form and place of organization;~~

~~(B) the applicant's proposed method of doing business;~~

~~(C) the qualifications and business history of the applicant, and in the case of the broker-dealers or investment adviser, the qualifications and business history of each partner, officer, or director, or any person occupying a similar status or performing similar functions, and any person directly or indirectly controlling the broker-dealer or investment adviser;~~

~~(D) any injunction or administrative order or conviction of a misdemeanor involving securities or commodities or an aspect of the securities or commodities business or a felony of the applicant or a person specified in subparagraph (C);~~

~~(E) the applicant's financial condition and history;~~

~~(F) if the applicant is an investment adviser, any information concerning the investment adviser to be furnished or disseminated to a client or prospective client; and~~

~~(G) any other information that the administrator determines is material to the application.~~

~~(3)~~(b) [**Effectiveness of registration.**] If an order is not in effect and no proceeding is pending under Section ~~408~~ 412, registration is effective at noon on the 45th day after a completed application is filed. The administrator~~, by rule or order,~~ may specify an earlier effective date ~~and~~ or may, by order, defer the effective date until noon on the 45th day after the filing of any amendment completing

the application.

~~(4)~~(c) [**Registration renewal.**] Each registration remains ~~is~~ effective until midnight on December 31 of the year for which the application for registration is filed. A registration may be automatically renewed each year unless an order is in effect under Section ~~408~~ 412, by filing such records as the administrator, by rule or order, specifies and paying the fee specified in ~~subsection (d)~~ Section 410~~,~~ and ~~paying~~ costs charged by the designee of the administrator for processing such filings.

[(d) [**Dual agent/investment adviser representative.**] An investment adviser representative who is registered as an agent under Section 402 and who is acting for a person that is both registered as a broker-dealer under Section 401 and either registered as an Investment Adviser under Section 403 or required to make a notice filing as a federal covered investment adviser under Section 405 shall not be required to pay an initial or annual registration fee for registration as an investment adviser representative.]

[(e) **[Additional conditions.]** The administrator may, by rule or order, impose such other conditions in connection with registration as are appropriate in the public interest and for the protection of investors.]

Reporter's Notes

Prior Provisions: 1956 Act Section 202; RUSA Sections 205, 208.

1. Under Section 406(a), the administrator is authorized to accept standardized forms such as Form B-D for broker-dealers; Form U-4 for agents and investment adviser representatives; and Form ADV for investment advisers, which are filed today through such designees as the Web-CRD or the Investment Adviser Registration Depository.

2. Under this Act a single person may act both as an agent and investment adviser representative if the person satisfies applicable requirements to be both an agent and investment adviser

representative.

SECTION 407. SUCCESSION AND CHANGE IN REGISTRATION OF BROKER-DEALER OR INVESTMENT ADVISER.

~~(5)~~(a) [**Succession.**] A broker-dealer or investment adviser may succeed to the current registration of another broker-dealer or investment adviser or a notice filing of a federal covered investment adviser, and a federal covered investment adviser may succeed to the current registration of an investment adviser or notice filing of another federal covered investment adviser, by filing as a successor an application for registration as required by Section 401 or 403, or a notice ~~filing~~ as required by Section 405, for the unexpired portion of the year of the current registration or notice filing.

~~(h)~~(b) [**Organizational change.**] A broker-dealer or investment adviser may change its form of organization, ~~date or~~ State of incorporation or formation, or ~~composition of~~ membership ~~in a partnership or limited liability company~~ by filing an amendments to its registration if the change does not involve ~~any~~ a material change in its financial condition or management. The amendment ~~will become~~ is effective when filed or upon a date designated by the registrant in its filing. The new entity is a successor to the original registrant for the purposes of this [Act]. A material change in financial condition or management ~~shall~~ requires a new application for registration as a broker-dealer or investment adviser. Any registered predecessor shall discontinue conducting its securities business other than winding down transactions and shall file for withdrawal of broker-dealer or investment adviser registration within 45 days after filing its amendment to effect succession.

~~(i)~~(c) [**Name ~~and control~~ change.**] A broker-dealer or investment adviser may change

its name by amendment to its registration. The amendment becomes effective when filed or upon a date designated by the registrant.

(d) [**Change of control**.] A change of control of a broker-dealer or investment adviser may be made in accordance with a rule or order adopted by the administrator. ~~or investment adviser is effective upon the filing of an amendment to its registration identifying the new controlling person and a letter explaining the background of the transaction and certifying that the new control person has complied with applicable filing requirements of the National Association of Securities Dealers a self-regulatory organization to effect a change of control. The amendment will becomes effective when the amendment and letter have been filed with the administrator or upon a subsequent date designated by the registrant in its amendment.~~

(e) **[Filing Fee.]** There is no fee for filing under this Section.

Reporter's Notes

Prior Provisions: 1956 Act Section 202(c); RUSA 210.

Section 408 is intended to avid unnecessary interruptions of business by specifying procedures for a successor broker-dealer or investment adviser; a broker-dealer or investment adviser that changes its form of organization or name; or, in accordance with a rule or order adopted by the administrator, a broker-dealer or investment when there has been a change of control.

SECTION 408. TERMINATION OF EMPLOYMENT OR ASSOCIATION OF AGENTS AND INVESTMENT ADVISER REPRESENTATIVE, AND TRANSFER OF EMPLOYMENT OR ASSOCIATION.

(a)~~(b)(a) [Termination of employment]~~[**Notice of Termination.**] If an agent registered

under this [Act] ~~a registered agent~~ terminates employment by or association with a broker-dealer or issuer, or if an ~~registered~~ investment adviser representative ~~registered under this [Act]~~ terminates employment by or association with an investment adviser or federal covered investment adviser, or if either registrant terminates activities that require registration as an agent or investment adviser representative, a notice of termination shall promptly be filed by the relevant broker-dealer, issuer, investment adviser, or federal covered investment adviser. If the registrant learns that the relevant broker-dealer, issuer, investment adviser, or federal covered investment adviser fails to file the notice, the registrant shall do so. ~~representative shall promptly file a notice.~~ , the registrant may do so. ~~if the registrant fails to do so. The following rules sh~~ The notice shall be filed by the relevant broker-dealer, ~~issuer, investment adviser, or federal covered investment adviser a~~ if the relevant broker-dealer, issuer, ~~investment adviser, or federal covered investment~~ ~~adviser fails to file the notice all apply:~~

~~[(1) When an agent terminates employment by or association with a registered broker-dealer or an issuer, and within 30 days begins employment by or association with another registered broker-dealer or an issuer, the registration of the agent is immediately effective upon payment of the filing fee specified in subsection (d) *Section 410.*]~~

~~[(2) When an investment adviser representative terminates employment by or association with a registered investment adviser, and within 30 days begins employment with or association with another registered investment adviser, the registration of the investment adviser representative is immediately effective upon payment of the filing fee specified in subsection (d) . *Section 410.*]~~

(b) [**Transfer of employment or association.**] If an agent registered under this [Act] terminates employment by or association with a broker-dealer registered under this [Act] and begins

employment by or association with another broker-dealer registered under this [Act], [or if an investment adviser representative registered under this [Act] terminates employment by or association with an investment adviser registered under this [Act] or a federal covered investment adviser who has filed a notice under Section 405 and begins employment by or association with another investment adviser registered under this [Act] or a federal covered investment adviser, who has filed a notice under Section 405. Upon filing by or on behalf of the registrant, within 30 days after the termination, of an application for registration that complies with the requirement of Section 406(a), and payment of the filing fee required under Section 410, the registration of the agent [or investment adviser representative] is:

(1) immediately effective as of the date the new employment or association began, if the agent's Central Registration Depository (CRD) record or successor record or [or the investment adviser representative's Investment Adviser Registration Depository (IARD) record or successor record] contains no new or amended disciplinary disclosure since the registrant was last registered or employed under this [Act][or, within the preceding 12 months]; or

(2) temporarily effective as of the date the new employment or association began, if the agent's CRD record [or the investment adviser representative's IARD record] contains a new or amended disciplinary disclosure since the registrant was last registered under this [Act]. The administrator may withdraw the temporary registration [if there were grounds for discipline under Section 412] and the administrator does so within 30 days after the filing of the application. If the administrator does not so withdraw the temporary registration, registration becomes automatically effective on the 31st day after filing.]

[(3) Notwithstanding Section 408(b)(1), the administrator may require an applicant,

whether or not the applicant qualifies under 406(b)(1) for registration, to undergo full registration under Section 402.]

~~(a)~~ (c) [**Termination of registration or application for registration.**] ~~(1)~~If the administrator determines that a registrant or applicant for registration is no longer in existence or has ceased to ~~do business~~ act as a broker-dealer, agent, investment adviser, or investment adviser representative, or is the subject of an adjudication of mental incompetence or is subject to the control of a committee, conservator, or guardian, or cannot reasonably be located, the administrator, by rule or order, may cancel or ~~suspend~~ terminate the registration or ~~cancel or~~ deny the application. The administrator may reinstate a canceled or ~~revoked~~ terminated registration, with or without hearing, and may make such registration retroactive.

Reporter's Notes

No Prior Provision

1. Under Sections 402(c) and 404(c) registration of an agent or investment adviser representative is only effective while the agent or investment adviser representative is employed by or associated with a broker-dealer, issuer, or investment adviser. Section 408(a) specifies procedure to inform the administrator of a notice of termination.

2. To expedite transfer to a new broker-dealer in investment adviser, Section 408(b) facilitates a procedure by which agents or investment adviser representative registration must be immediately effective as of the date of new employment when there is no new or added disciplinary disclosure in relevant CRD or IARD records. The CRD and IARD are the acronyms for the electronic Central Requisition Depository which currently includes agent records and the Investment Adviser Requisition Depository which currently includes investment adviser representative records. Both electronic systems are currently administered by the NASD.

SECTION 409. WITHDRAWAL OF REGISTRATION OF BROKER-DEALERS, AGENTS, INVESTMENT ADVISERS, AND INVESTMENT ADVISERS REPRESENTATIVES. ~~(2)~~ Withdrawal ~~from~~ of registration ~~as~~ by a broker-dealer, agent, investment adviser, or investment adviser representative becomes effective ~~30~~ 60 days after filing of an application to withdraw or within such shorter time as the administrator, by rule or order, specifies, unless a revocation or suspension proceeding is pending when the application is filed. If a proceeding is pending, withdrawal becomes effective when and upon such conditions as the administrator, by rule or order, specifies. If no proceeding is pending or instituted and withdrawal automatically becomes effective, the administrator may nevertheless institute a revocation or suspension proceeding under Section ~~408~~ 412 within one year after withdrawal became automatically effective and enter a revocation or suspension order as of the last date on which registration was effective.

SECTION 410. FILING FEES.

~~(1)~~ (a) [**Broker-dealers.**] A broker-dealer shall pay a fee of [$___] when initially filing an application for registration, and a fee of [$___] when filing a renewal of registration. If the application or renewal is denied or withdrawn, the administrator shall retain [$___] of the fee.

~~(2)~~ (b) [**Agents**.] The fee for an agent shall be ~~pay a fee of~~ [$___] when filing an application for registration, a fee of [$___] when filing a renewal of registration, and a fee of [$____] when filing for a transfer of registration. If the application, renewal, or transfer is denied or withdrawn, the administrator shall retain [$___] of the fee.

~~(3)~~ (c) [**Investment advisers.**] An investment adviser shall pay a fee of [$___] when filing an application for registration, and a fee of [$___] when filing a renewal of registration. If the

application or renewal is denied or withdrawn, the administrator shall retain [$___] of the fee.

~~(4)~~ (d) [**Investment adviser representatives.**] The fee for an investment adviser representative shall be ~~pay a fee of~~ [$___] when filing an application for registration, a fee of [$___] when filing a renewal of registration, and a fee of [$___] when filing a transfer of registration. If the application, renewal or transfer is denied or withdrawn, the administrator shall retain [$___] of the fee.

~~(6)~~ (e) [**Payment.**] A person required to pay a ~~[~~filing or notice~~]~~ fee under this section or Section 405(~~b~~ c) may transmit the fee through or to a designee that the administrator, by rule or order, specifies.

SECTION ~~409. SUBSTANTIVE REQUISITIONS.~~ 411. POSTREGISTRATION REQUIREMENTS.

~~(c)~~(a) [**Financial standard.**] Except as limited by Section 15(h) of the Securities Exchange Act of 1934 or Section 222 of the Investment Advisers Act of 1940, the administrator, by rule or order, may establish minimum financial requirements for ~~registered~~ broker-dealers registered under this [Act] and ~~subject to Section 15(h) of the Securities Exchange Act of 1934, and establish minimum financial requirements for~~ investment advisers registered under this [Act]~~,~~. ~~limited to Section 222 of the Investment Advisers Act of 1940.~~

~~(d)~~(b) [**Financial reports.**] Except as limited by Section 15(h) of the Securities Exchange Act of 1934 or Section 222(b) of the Investment Advisers Act of 1940 a ~~registered~~ broker-dealer registered under this [Act] and an ~~registered~~ investment adviser registered under this [Act] shall file such financial reports as the administrator, by rule or order, ~~prescribes~~ specifies.

~~(a)~~(c) [**Recordkeeping.**]~~(1)~~ Except as limited by Section 15(h) of the Securities Exchange Act of 1934 ~~and~~ or Section 222 of the Investment Advisers Act of 1940:

(1) a ~~registered~~ broker-dealer registered under this [Act] and an ~~registered~~ investment adviser registered under this [Act] shall make and ~~keep~~ maintain the accounts, correspondence, memoranda, papers, books, and other records the administrator, by rule or order, specifies; and

(2) ~~required~~ broker-dealer records required to be maintained under paragraph (1) may be maintained in any form of data storage acceptable under Section 17(a) of the Securities Exchange Act of 1934 if they are readily accessible to the administrator.

(3) investment adviser records required to be maintained under paragraph (1) may be maintained in any form of data storage that the administrator, by rule or order, specifies; and

(4) if the information contained in a record filed under subsection (c) is or becomes inaccurate or incomplete in any material respect, the registrant shall promptly file a correcting amendment.

~~(b)~~(d) [**~~Examinations~~ Audits or Inspections.**] The records [specified in paragraph (c)] of a ~~registered~~ broker-dealer registered under this [Act] and an ~~registered~~ investment adviser registered under this [Act] are subject to such ~~reasonable~~ [reasonable] periodic, special, or other audits or ~~examinations~~ inspections by a representative of the administrator within or without this State as the administrator considers necessary or appropriate in the public interest and for the protection of investors. An ~~examination~~ audit or inspection may be made at any time and without prior notice. The administrator may copy~~,~~ and remove for ~~examination,~~ ~~purposes,~~ audit or inspection, copies of all [required] records the administrator ~~reasonably~~ [reasonably] considers necessary or appropriate to conduct the ~~examination~~ audit or inspection. The administrator may ~~impose~~ assess a reasonable ~~fee~~ cost for conducting an

~~examination~~ audit or inspection under this subsection.

~~(f)~~ (e) **[Custody and discretionary authority ~~bond~~ bond or insurance.]** Except as limited by Section 15(h) of the Securities Exchange Act of 1934 ~~and~~ or Section 222 of the Investment Advisers Act of 1940, the administrator, by rule or order, may require each broker-dealer and investment adviser that has custody of or discretionary authority over funds or securities of a client to obtain insurance, or post a bond or other satisfactory form of security in an amount not to exceed [$____]. ~~as the administrator, by rule or order, specifies. subject to~~ The administrator may determine the ~~conditions~~ requirements of the insurance or bond or other satisfactory form of security. Insurance or a bond or other satisfactory form of security may not be required of a registrant whose net capital, or, in the case of an investment adviser whose minimum financial requirements, ~~which the administrator, by rule or order, may specify,~~ exceeds the amount ~~required~~ specified by the administrator~~.~~, by rule or order. ~~Each~~ Each insurance policy or bond or other satisfactory form of security must permit an action by a person ~~who~~ has a claim under Section 509, to enforce any liability on the insurance or bond, and must provide that an action may not be maintained to enforce any liability on the insurance or bond unless commenced within the time limitations ~~of~~ under Section 509~~(l)~~(j). The administrator may, by rule or order, prohibit, limit, or impose conditions upon an investment adviser on retaining custody of securities or funds of a client.

~~(g)~~ (f) [~~Custody rules~~ **Requirements for Custody.**] Except as limited by Section 15(h) of the Securities Exchange Act of 1934 or Section 222 of the Investment Advisers Act of 1940, ~~A~~an agent may not have custody ~~over~~ of funds or securities of a customer except under the supervision of a broker-dealer~~,~~ and an investment adviser representative may not have custody over funds or securities of

a client except under the supervision of an investment adviser or federal covered investment adviser. The administrator may, by rule or order prohibit, limit, or impose conditions on an agent from having custody of funds or securities of a customer and on an investment adviser from having custody of securities or funds of a client.

~~(f)~~(g) [**Investment adviser brochure rule.**] With respect to an ~~a registered~~ investment adviser registered under this [Act], the administrator, by rule or order, may require that information be furnished or disseminated to clients or prospective clients in this State as necessary or appropriate in the public interest ~~or~~ and for the protection of investors and advisory clients.

Reporter's Notes

Prior Provisions: NASAA 1986, 1997; and 2000 Amendments to 1956 Act Section 203; RUSA Section 205(b).

1. In Section 411(a) minimum financial requirements refers, as delineated in Section 15(h) of the Securities Exchange Act, to "capital, custody, margin, financial responsibility, making and keeping records, bonding, or financial or operational reporting requirements."

2. Minimum financial requirements must be maintained during the entire time a person is registered and not merely at the time of the registration. See, e.g., National Grange Mut. Ins. Co. v. Prioleau, 236 S.E.2d 808 (S.C. 1977) (continuing bond requirement); Ridgeway, McLeod & Assoc., 281 A.2d 390 (N.J. Super. Ct. App. Div. 1971) (continuing minimum capital requirement).

3. Section 608 encourages uniformity of application and construction of this Act among States and with related federal laws and regulations.

4. Section 411(c)(1) authorizes the administrator to require all records to be preserved for the period the administrator prescribes by rule or order.

5. The duty in Section 411(c)(2) to correct or update information is limited to information which a reasonable investor would continue to consider important in deciding whether to purchase or sell securities. Cf. TSC Indus., Inc. v. Northway, Inc., 426 U.S. 438, 444-450 (1970); Securities Act Release No. 6084, 17 SEC Dock. 1048, 1054 (1979) ("persons are continuing to rely on all or any material portion of the statements").

6. Rule 17a-4 is the current Rule under Section 17(a) of the Securities Exchange Act referred to in Section 411(c)(2) that addresses acceptable forms of data storage.

7. The administrator's power to copy and examine records in Section 411(c) is subject to all applicable privileges. See, e.g., 10 L. Loss & J. Seligman, Securities Regulation 4921-4925 n.69 (3d ed. rev. 1996).

SECTION ~~408~~ 412. DENIAL, REVOCATION, SUSPENSION, CANCELLATION, WITHDRAWAL, RESTRICTION, CONDITION, OR LIMITATION OF REGISTRATION.

~~(a) [Disciplinary Standards.] The administrator, by order, may deny, revoke, suspend, restrict, condition, or limit an application or registration of a broker-dealer, agent, investment adviser, or investment adviser representative [or censure, bar, or impose a civil penalty upon a registered broker-dealer, agent, investment adviser, or investment adviser representative] if the administrator finds:~~

(a) [**Disciplinary conditions- applicants.**] The administrator, by order, may deny an application, or restrict, condition, or limit registration of a broker-dealer, agent, investment adviser, or investment adviser representative if the administrator finds that the order is in the public interest and there is a ground for a disciplinary order in subsection (d). The administrator must act within the time frame set forth in Section 406(b).

(b) **[Disciplinary conditions – registrants.]** The administrator, by order, may revoke, suspend, condition, or limit the registration of a current registrant and if the registrant is a broker-dealer or investment adviser, any partner, officer, or director, any person occupying a similar status or performing similar functions, or any person directly or indirectly controlling the broker-dealer, if the administrator finds that the order is in the public interest and there is a ground for discipline in subsection (d), except that:

(1) The administrator may not commence a revocation or suspension proceeding under this subsection based on an order issued by another jurisdiction that is reported to the administrator or designee more than one year after the date of the reported order.

(2) Under subparagraphs (d)(5)(A) through (B) the administrator may not enter an order on the basis of an order under the state securities act of another state unless the other order was based on facts that would constitute a ground for an order under this Section had the conduct occurred in this State.

(c) **[Disciplinary penalties – registrants.]** The administrator, by order, may impose a censure or bar, or impose a civil penalty in an amount not to exceed a maximum of [$___] for a single violation or [$___] for multiple violations on a registrant if the administrator finds that the order (1) is in the public interest and there is a ground for discipline in subparagraphs (d)(1)-(6), (9)-(10) or (12)-(14).

~~(2)~~ (d) **[Grounds for discipline]** ~~that~~ When specified under paragraphs (a) through (c), the following constitute grounds for discipline if the applicant or registrant:

(A)(1) within the past 10 years has filed an application for registration under this [Act] or the predecessor act in this State ~~which~~ that, as of ~~its~~ the effective date of registration or as of any date after filing in the case of an order denying effectiveness, was incomplete in any material respect or contained a statement that, in light of the circumstances under which it was made, was false or misleading with respect to a material fact;

~~(B)~~(2) within the past 10 years has willfully violated or willfully failed to comply with this [Act] or the predecessor act or a rule adopted or order issued under this [Act] or the predecessor act;

~~(C)~~(3) has been convicted of ~~a~~ any felony or within the past 10 years has been convicted

of a misdemeanor involving a security, a commodity futures or option contract, or ~~an~~ any~~y~~ aspect of a business involving ~~the~~ securities~~, or~~ commodities, ~~or other business involving~~ investments, franchises, insurance, banking, or finance;

~~(D)~~(4) is enjoined or restrained by a court of competent jurisdiction in an action commenced by the administrator, a State, the Securities and Exchange Commission, or the United States from engaging in or continuing an act or practice involving an aspect of a business involving ~~the~~ securities, ~~or~~ commodities ~~business~~, ~~or other business~~ investments, franchises, insurance, banking, or finance;

~~(E)~~(5) is the subject of an order, entered after notice and opportunity for hearing:

~~(i)~~(A) by the securities, depository institution, insurance or other financial services regulator of a State or by the Securities and Exchange Commission, or other federal agency denying, revoking, or suspending registration as a broker-dealer, agent, investment adviser, federal covered investment adviser, or investment adviser representative;

~~(ii)~~(B) by the securities regulator of a State or by the Securities and Exchange Commission against a broker-dealer, ~~or~~ an investment adviser or a federal covered investment adviser;

~~(iii)~~(C) by the Securities and Exchange Commission or by a self-regulatory organization suspending or expelling the registrant from membership in a self-regulatory organization; or

~~(iv)~~ (D) by a court ~~as~~ adjudicating a United States Postal Service fraud;

(E) by the insurance regulator of a state denying, suspending, or revoking the registration of an insurance agent; or

(F) by a depository institution regulator who suspends or bars a person from the banking or depository institution business.

~~(F)~~(6) is the subject of an adjudication or determination, after notice and opportunity for hearing, by the Securities and Exchange Commission; the Commodity Futures Trading Commission, the Federal Trade Commission; a federal depository institution regulator, depository institution, insurance, or other financial services regulator of ~~another~~ a State, that the person has willfully violated the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, the Investment Company Act of 1940, or the Commodity Exchange Act, the securities or commodities law of ~~another~~ a state, or a federal or state law under which a business involving investments, franchises, insurance, banking, or finance is regulated;

~~(G)~~(7) is insolvent, either in the sense that the person's liabilities exceed the person's assets or in the sense that the person cannot meet the person's obligations as they mature, but the administrator may not enter an order against an applicant or registrant under this subparagraph without a finding of insolvency as to the applicant or registrant;

~~(H)~~(8) is not qualified on the basis of factors such as training, experience, and knowledge of the securities business, except that in the case of an application by an agent for a broker-dealer that is a member of a self-regulatory organization or by an investment adviser representative, no denial order may be based on this subparagraph if the individual has successfully completed all examinations required by subsection (e); ~~as otherwise provided in subsection (c);~~

~~(I)~~(9) within the past 10 years has failed to supervise reasonably an agent, investment adviser representative, or other individual, if the agent, investment adviser representative, or other individual was subject to the person's supervision and committed a violation of this [Act] or the predecessor act or a rule adopted or order issued under this [Act] or the predecessor act;

~~(J)~~(10) ~~after notice,~~ failed to pay the proper filing fee within 30 days after ~~being~~ having been notified by the administrator of a deficiency, but the administrator shall vacate an order under this subparagraph when the deficiency is corrected;

~~(K)~~(11) within the past 10 years has ~~been found~~, after notice and opportunity for a hearing ~~to have~~ been:

~~(i)~~ (A) found by a court of competent jurisdiction to have willfully violated the law of a foreign jurisdiction under which the business of commodities, investment, franchises, insurance, ~~or~~ banking or finance is regulated;

~~(ii)~~(B) found to have been the subject of an order of a securities regulator of a foreign jurisdiction denying, revoking, or suspending the right to engage in the business of securities as a broker-dealer, agent, investment adviser, ~~or~~ investment adviser representative or similar individuals or persons; or

~~(iii)~~(C) found to have been suspended or expelled from membership by or participation in a securities exchange or securities association operating under the ~~authority of the~~ securities ~~regulator~~ laws of a foreign jurisdiction;

~~(L)~~(12) is the subject of a cease and desist order issued by the Securities and Exchange Commission or issued under the securities or commodities laws of a state; ~~or~~

~~(M)~~(13) within the past 10 years has engaged in dishonest or unethical practices in the securities, banking, insurance, or commodities business; or

~~(N)~~(14) refuses to allow or otherwise impedes the administrator from conducting an audit ~~examination~~ or inspection under Section 411(d) or refuses access to any registrant's office to conduct an

audit~~, examination~~ or inspection.

(e) [**Examinations.**] The administrator, by rule or order, may require successful completion ~~that an~~ of an examination, including an examination developed or approved by an organization of securities administrators, be taken by any class of or all ~~applicants~~ individuals. The administrator, by rule or order, may waive ~~the~~ any examination as to ~~a person~~ an individual or class of ~~persons~~ individuals if the administrator determines that the examination is not necessary or appropriate in the public interest or for the protection of investors.

~~(d) [Summary Process.] The administrator, by order, may summarily condition, postpone, suspend, or limit registration pending final determination of a proceeding under this section.~~

~~(e)~~(f) ~~*[Due Process.]* An order may not be issued under this section except under subsection (d) without:~~

~~(1) appropriate notice to the applicant or registrant, and, if the applicant or registrant is an agent or investment adviser representative, the employer or prospective employer;~~

(2) opportunity for hearing; and

(3) findings of fact and conclusions of law in a record [in accordance with the state administrative procedure act].

(f) [**Summary Process**.] The administrator may suspend or deny an application summarily, or restrict, condition, limit or suspend a registration, or impose a censure, bar, or civil penalty pending final determination of an administrative proceeding. Upon the entry of the order, the administrator shall promptly notify each person specified in subsection (g) that the order has been entered, the reasons for the action, and that within 15 days after the receipt of a request in a record from

the person, the matter will be scheduled for a hearing. If a hearing is not requested and none is ordered by the administrator, the order becomes final by operation of law unless it is modified or vacated by the administrator. If a hearing is requested or ordered, the administrator, after notice of and opportunity for hearing to each person specified in subsection (g), may modify or vacate the order or extend the order until final determination.

(g) [**Procedural requirements.**] An order may not be entered under this Section, except under subsection (f), without

(1) appropriate notice to the applicant or registrant;

(2) opportunity for hearing; and

(3) findings of fact and conclusions of law in a record [in accordance with the state administrative procedure act].

~~(f)~~(h) [**Control person liability.**] The administrator, by order, may deny the application or revoke, suspend, restrict, or limit the ~~application or~~ registration of a person that, directly or indirectly, controls a person not in compliance with ~~a provision of~~ this section to the same extent as the noncomplying person, unless the controlling person acted in good faith and did not directly or indirectly induce the act, practice, or course of business constituting the violation.

Reporter's Notes

Prior Provisions: 1956 Act Section 204, NASAA 1981, 1986, 1987, 1992, and 1994 proposed Amendments; RUSA Sections 212-214.

1. Section 412 authorizes the administrator to seek a sanction based on the seriousness of the misconduct.

2. The term"foreign" means a jurisdiction outside of the United States, not a different

state within the United States.

3. In Section 412(b), "any partner, officer, or director, any person occupying a similar status or performing similar function." can include a branch manager, assistant branch manager, or supervisor.

4. There is no time limit or statute of limitations on felony violations in Section 412(d)(3).

5. Under Section 412 the administrator must prove that the denial, revocation, suspension, cancellation, withdrawal, restriction, condition, or limitation both is (1) in the public interest and (2) involves one of the enumerated grounds in Section 412(d). See, e.g., Mayflower Sec. Co., Inc. v. Bureau of Sec., 312 A.2d 497 (N.J. 1973).

6. The "public interest" is a much litigated concept that has come to have settled meanings. See generally 6 L. Loss & J. Seligman, Securities Regulation 3056-3057 (3d ed. 1990) (under federal securities laws).

7. The term "failed to supervise reasonably" in Section 412(d)(9) includes having reasonable supervisory procedures in place as well as a proper system of supervision and internal control. Cf. Hollinger v. Titan Capital Corp., 914 F.2d 1564 (9th Cir. 1990), *cert. denied*, 499 U.S. 976 (1991).

8. The term "dishonest and unethical practices" in Section 412(d)(13) has been held not to be unconstitutionally vague. See, e.g., Brewster v. Maryland Sec. Comm'n, 548 A.2d 157, 160 (M.D. Ct. Spec. App. 1988) ("a broad statutory standard is not vague if it has a meaningful referent in business practice, custom or usage"); Johnson-Bowles Co. v. Division of Sec., 829 P.2d 101, 114 (Utah Ct. App. 1992) (such legislative language bespeaks a legislative intent to delegate the interpretation of what constitutes "dishonest and unethical practices" in the securities industry to the administrator).

9. Section 412(d)(14) can be violated by a refusal to cooperate with an administrator's reasonable audit, inspection, or investigation, including by withholding or concealing records, refusing to furnish required records, or refusing the administrator reasonable access to any office or location within an office to conduct an audit, inspection or investigation under this Act. However, a request by a person subject to an audit, examination, inspection, or investigation for a reasonable delay to obtain assistance of counsel does not constitute a violation of Section 412(d)(14).

10. The defense in Section 412(h) is based on Section 20(a) of the Securities Exchange Act of 1934 which has been interpreted to require adequate supervisory procedures. See 9 Louis Loss & Joel Seligman, Securities Regulation 4467-4475 (3d ed. 1997); Hollinger v. Titan Capital Corp., 904 F.2d 1564 (9th Cir. 1990) *cert. denied*, 499 U.S. 976. A control person can include an officer, director, supervisor, or branch manager.

SECTION 413. DENIAL, REVOCATION, SUSPENSION, CONDITION, OR LIMITATION OF BROKER-DEALER AND INVESTMENT ADVISER EXEMPTIONS. The administrator, by order, may deny, revoke, suspend, condition, or limit the exemptions for a broker-dealer under of Section 401(b)(1)(D) or (F) and an investment adviser under Section 403(b)(1)(C) if the administrator finds:

(a) that the order is in the public interest; and

(b) that the broker-dealer or investment adviser

(1) has willfully violated or willfully failed to comply with this [Act] or the predecessor act or a rule adopted or order issued under this [Act] or the predecessor act; or

(2) has engaged in dishonest or unethical practices in the securities business.]

(c) [**Summary Process.**] The administrator may summarily deny, revoke, suspend, condition, or limit an exemption specified in Section 401(b)(1)(D) or (F) or Section 403(b)(1)(C) pending final determination of an administrative proceeding. Upon the entry of the order, the administrator shall promptly notify each person specified in subsection (d) that the order has been entered, the reasons for the postponement or suspension, and that within 15 days after the receipt of request in a record from the person the matter will be scheduled for a hearing. If a hearing is not requested and none is ordered by the administrator, the order remains in effect until it is modified or vacated by the administrator. If a hearing is requested or ordered, the administrator, after notice of and opportunity for hearing to each person specified in subsection (d), may modify or vacate the order or extend the order until final determination.

(d) [**Procedural requirements**.] An order may not be entered under this section except under subsection (c) without:

(1) appropriate notice to the applicant or registrant, the issuer, and the person on whose behalf the securities are to be or have been offered;

(2) opportunity for hearing; and

(3) findings of fact and conclusions of law in a record [in accordance with the state administrative procedure act].

(e) An order issued under this section may only be issued prospectively.

ARTICLE 5

FRAUD AND LIABILITIES

SECTION 501. GENERAL FRAUD. It is unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly:

(1) to employ any device, scheme, or artifice to defraud;

(2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statement made, in the light of the circumstances under which it is made, not misleading; or

(3) to engage in any act, practice, or course of business that operates or would operate as a fraud or deceit upon a person.

Reporter's Notes

Source of Law: 1956 Act Section 101; RUSA Section 501.

1. Section 501, which was Section 101 in the 1956 Act, was originally substantially similar to the Rule 10b-5 adopted under the Securities Exchange Act of 1934, which in turn was modeled on Section 17(a) of the Securities Act of 1933, except that Rule 10b-5 was expanded to cover the purchase as well as the sale of any security. There has been significant later federal and state case development.

2. There are no exemptions from Section 501.

3. Section 501 applies to any securities transaction. This would include registered, exempt, or federal covered securities. It would also include a rescission offer under Section 510.

4. Because Rule 10b-5 reaches market manipulation, see 8 L. Loss & J. Seligman, Securities Regulation Ch.10.D (3d ed. 1991), this Act does not include the RUSA market manipulation Section 502, which had no counterpart in the 1956 Act.

5. The culpability required to be pled or proved under Section 501 is addressed in the relevant enforcement context. See, e.g., Section 508, criminal penalties, where "willfulness" must be

proven; Section 509, civil liabilities, which includes a reasonable care defense.

6. There is no private cause of action, express or implied, under Section 501. Section 509(m) expressly provides that only Section 509 provides for a private cause of action.

SECTION 502. PROHIBITED CONDUCT IN PROVIDING INVESTMENT ADVICE.

(a) [**Fraud in providing investment advice.**] It is unlawful for a person ~~who~~ that advises others, for compensation, either directly or indirectly or through publications or writings, as to the value of securities or the advisability of investing in, purchasing or selling securities, or ~~who~~ that, for compensation and part of a regular business, issues or promulgates analyses or reports concerning securities:

(1) to employ any device, scheme, or artifice to defraud ~~the other~~ another person; or

(2) to engage in any act, practice, or course of business that ~~which~~ operates or would operate as a fraud or deceit upon ~~the other~~ another person.

[(b) [**Rulemaking.**] The administrator may, by rule, define an act, practice, or course of business of an investment adviser or an investment adviser representative other than a supervised person of a federal covered investment adviser as fraudulent, deceptive or manipulative, and prescribe means reasonably designed to prevent investment advisers and investment adviser representative representatives other than supervised persons of a federal covered investment adviser from engaging in such defined fraudulent, deceptive, or manipulative acts, practices, and courses of business.]

[(c) [**Investment adviser contracts.**] It is unlawful for an investment adviser directly or

indirectly to enter into, perform, extend, or renew ~~any~~ an investment advisory contract if the contract:

(1) provides for compensation to the investment adviser on the basis of a share of capital gains upon or capital appreciation of the funds or any portion of the funds of the client except as the administrator provides by rule or order;

(2) fails to provide, in substance, that no assignment of such a contract will be made by the investment adviser without the consent of the other party to the contract; or

(3) fails to provide, in substance, that the investment adviser, if a [general] partnership, will notify the other party to the contract of any change in the membership of the partnership within a reasonable time after the change.

(d) [**Conflict of interest disclosure requirement.**] It is unlawful for an investment adviser, acting as principal for the investment adviser's own account, knowingly to sell a security to or purchase a security from a client, or acting as broker-dealer for a person other than the client, knowingly to effect ~~any~~ a sale or purchase of a security for the account of the client, without disclosing to the client in ~~writing~~ a record before completion of the transaction the capacity in which the investment adviser is acting and obtaining the consent of the client to the transaction except as the administrator specifies by rule or order. ~~The prohibitions of~~ This subsection ~~do~~ does not apply to a transaction with a customer of a broker-dealer if the broker-dealer is not acting as an investment adviser in relation to the transaction.]

(e) There is no private cause of action under this Section.

Reporter's Notes

Source of Law: 1956 Act Section 102(a); RUSA Section 503; Inv. Adv. Act Section 206.

1. There is no private cause of action, express or implied, under Section 502. Only

Section 502 provides for a private cause of action. See Section 509(m).

2. Subsection 502(c) or (d) permit an investment adviser to engage in conduct in which a federal covered adviser may lawfully engage under the Investment Advisers Act of 1940 or the rules adopted under that Act.

3. Under Section 203A(b)(2) of the Investment Advisers Act states retain their authority to investigate and bring enforcement actions with respect to fraud or deceit against a federal covered investment adviser or a person associated with a federal covered investment adviser. Under Section 502(a), which applies to any person, a state could bring an enforcement action against a federal covered investment adviser, including a federal covered investment adviser excluded from the definition of investment adviser in Section 102(15)(E).

4. As of July 2001 51 state jurisdictions by statute have adopted the substance of Section 502(a); none have adopted the substance of Section 502(b); 34 have adopted the substance of Section 502(c); and 24 have adopted the substance of Section 502(d).

Section 502 Prohibited Conduct in Providing Investment Advice

	Jurisdiction and Citation	Section (a)	Section (b)	Section (c)	Section (d)
1	Alabama Sec. 8-6-17	X		X	X
2	Alaska Sec. 45.55.020	X		X	
3	Arizona Sec. 44-3241	X			
4	Arkansas Sec. 23-42-307	X		X	
5	California 25235	X			X
6	Colorado Sec. 11-51-501	X			X
7	Connecticut Sec. 36b-5	X		X	
8	Delaware Sec. 7317	X		X	
9	District of Columbia Sec. 2665.2.[502]	X		X	X
10	Florida Sec. 517.301.	X			
11	Georgia Sec. 10-5-12.	X		X	
12	Guam Sec. 46102	X		X	
13	Hawaii Sec. 485-25	X		X	X
14	Idaho Sec. 30-1404	X		X	
15	Illinois Sec. 12[5/121]	X			

		Jurisdiction and Citation	Section (a)	Section (b)	Section (c)	Section (d)
1	16	Indiana Sec. 23-2-1-12.1	X		X	X
2	17	Iowa Sec. 502.408	X		X	
3	18	Kansas 17-1253	X		X	X
4	19	Kentucky Sec. 292.320	X		X	
5	20	Louisiana Sec. 51:712	X			
6	21	Maine Sec. 10203	X			
7	22	Maryland Sec. 11-302	X		X	X
8	23	Massachusetts Sec. 102	X			
9	24	Michigan Sec. 451.502	X		X	X
10	25	Minnesota Sec. 80A.02	X			X
11	26	Mississippi Sec. 75-71-503	X		X	X
12	27	Missouri Sec. 409.102	X		X	X
13	28	Montana Sec. 30-10-301	X		X	X
14	29	Nebraska Sec. 8-1102	X		X	X
15	30	Nevada Sec. 90.590	X			
16	31	New Hampshire Sec. 421-B:4	X			
17	32	New Jersey Sec. 49:3-53	X		X	
18	33	New Mexico Sec. 58-13B-33	X		X	
19	34	New York				
20	35	North Carolina Sec.78A-8	X		X	X
21	36	North Dakota Sec. 10-04-10.1	X		X	X
22	37	Ohio Sec. 1707.44	X			X
23	38	Oklahoma Sec. 102	X		X	
24	39	Oregon Sec. 59.135	X			
25	40	Pennsylvania Sec. 404	X		X	X
26	41	Puerto Rico Sec. 852. [102]	X		X	
27	42	Rhode Island Sec. 7-11-503	X			X
28	43	South Carolina Sec. 35-1-1220	X		X	X
29	44	South Dakota Sec. 47-3 IA-102	X		X	X
30	45	Tennessee Sec. 48-2-121	X			
31	46	Texas				

	Jurisdiction and Citation	Section (a)	Section (b)	Section (c)	Section (d)
47	Utah Sec. 61-1-2	X		X	
48	Vermont Sec. 4224	X		X	X
49	Virginia Sec. 13.1-503	X		X	X
50	Washington Sec. 21.20.020	X		X	X
51	West Virginia Sec.32-4-102	X		X	
52	Wisconsin Sec. 551.44	X			
53	Wyoming Sec. 17-4-102	X			
	TOTALS:	51	-0-	34	24

Some states have adopted §502(b) by rule. E.g., 64 Pa. Code §§404.010-404.013.

SECTION 503. EVIDENTIARY BURDEN.

(a) **[Civil.]** In a civil action or administrative proceeding under this [Act], a person claiming an exemption, exception, preemption, or exclusion has the burden of ~~proving~~ persuasion to prove the applicability of the exemption, exception, preemption, or exclusion.

(b) **[Criminal.]** In a criminal proceeding under this [Act], a person claiming an exemption, exception, preemption, or exclusion has the burden of going forward with evidence of the claim.

Reporter's Notes

Source of Law: 1956 Act Section 402(d); RUSA Section 608.

1. The Official Comment 2 to RUSA Section 608 explained:

> Section (b) has been added to clarify the parties' respective obligations in a criminal proceeding. While the standard of proof that the prosecuting attorney is required to meet to obtain a conviction is establishing the requisite elements of the criminal offense "beyond a reasonable doubt," a defendant claiming an exemption or exception as a defense has the burden of offering evidence to establish that defense.

2. The burden of proving an exemption or exception is upon the party claiming it. See, e.g., United States ex. rel. Schott v. Tehan, 365 F.2d 191, 195 (6th Cir. 1966) (Ohio blue sky law constitutionally shifts burden of proof to defendant); Commonwealth v. David, 309 N.E.2d 484, 488 (Mass. 1974) (exemption is an affirmative defense); State v. Frost, 387 N.E.2d 235, 238-239 (Ohio 1979) (it is not unconstitutional to require the burden of proof as an affirmative defense to prove a securities law exemption); State v. Andersen, 773 A.2d 328 (Conn. 2001) (an exemption from registration is an affirmative defense to the charge of selling unregistered securities).

SECTION 504. FILING OF SALES AND ADVERTISING LITERATURE.

(a) [**Filing requirement.**] Except as otherwise provided in subsection (b), the administrator, by rule or order, may require the filing of any prospectus, pamphlet, circular, form letter, advertisement, sales literature, or advertising communication addressed or intended for distribution to prospective investors, including clients or prospective clients of an investment adviser registered or required to be registered in this State, in connection with a security or investment advice.

(b) [**Scope limitations.**] This section does not apply to a ~~any such~~ communication relating to a federal covered security, a federal covered investment adviser, or ~~any~~ security or transaction exempted by Section~~s~~ 201, ~~and~~ 202, or 203.

Reporter's Notes

Source of Law: 1956 Act Section 403; RUSA Section 405.

1. The prospectuses, pamphlets, circulars, form letters, advertisements, sales literature or advertising communications, or other records includes material disseminated electronically or available on a web site.

2. The administrator may bring a civil enforcement action in a court under Section 603 or institute administrative enforcement under Section 604 to prevent publication, circulation or use of any materials required by the administrator to be filed under Section 504 that have not been filed.

SECTION 505. MISLEADING FILINGS. It is unlawful for a person to make or cause to be made, in a record that is used in a proceeding or filed under this [Act], a statement that, at the time and in the light of the circumstances under which it is made, is false or misleading in a material respect, or, in connection with such statement, to omit to state a material fact necessary in order to make the statement made, in the light of the circumstances under which it was made, not misleading.

Reporter's Notes

Source of Law: 1956 Act Section 404; RUSA Section 504. The definition of "materiality" in TSC Indus., Inc. v. Northway, Inc., 426 U.S. 438, 449 (1976) ("an omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote") has generally been followed in both federal and state securities law. See 4 L. Loss & J. Seligman, Securities Regulation 2071-2105 (3d ed. rev. 2000).

SECTION 506. MISREPRESENTATIONS CONCERNING REGISTRATION OR EXEMPTION. ~~(a)~~ The filing of an application for registration, a registration statement, or a notice filing under this [Act], or the registration of a person, the notice filing by a person, or the registration of a security under this [Act] does not constitute a finding by the administrator that a record filed under this [Act] is true, complete, and not misleading. The filing or registration or the availability of an exemption, exception, preemption, or exclusion for a security or a transaction does not mean that the administrator has passed upon the merits or qualifications of, or recommended or given approval to, a person, security, or transaction. ~~(b)~~ It is unlawful to make, or cause to be made, to a purchaser, customer, client, or prospective customer or client a representation inconsistent with ~~subsection (a)~~ this section.

Reporter's Notes

Source of Law: RUSA Section 505; 1956 Act Section 405. This Section follows the 1956 Act and RUSA, as well as state securities statutes generally, in providing that a misrepresentation

concerning registration or an exemption is unlawful.

SECTION 507. QUALIFIED IMMUNITY.

~~(a) [Truthful statements required.] A broker-dealer, agent, investment adviser, or investment adviser representative shall make truthful and accurate statements in any record required by the administrator, the Securities and Exchange Commission, or a self-regulatory organization.~~

~~(b) [Qualified immunity.]~~ A broker-dealer, agent, investment adviser, federal covered investment adviser, or investment adviser representative is not liable to another broker-dealer, agent, investment adviser, federal covered investment adviser, or investment adviser representative for defamation relating to an alleged untrue statement that is contained in a record required by the administrator, or its designee, the Securities and Exchange Commission, or a self-regulatory organization unless it is ~~shown~~ proven [by clear and convincing evidence] that the person knew, or should have known at the time that the statement was made, that it was false in a ~~any~~ material respect or the person acted in reckless disregard of the statement's truth or falsity.

Reporter's Notes

Source of Law: National Association of Securities Dealers, Inc. Proposal Relating to Qualified Immunity in Arbitration Proceedings for Statements Made in Forms U-4 and U-5.

1. The National Association of Securities Dealers proposal was reprinted in Securities Exchange Release 39,892, 66 SEC Dock. 2473 (1998). This proposal was limited to arbitration proceedings. It has not been approved by the Securities and Exchange Commission.

2. An alternative approach would be a standard providing for absolute immunity. See generally Wright, Form U-5 Defamation, 52 Wash. & Lee L. Rev. 1299 (1995); Acciardo v. Millennium Sec. Corp., 83 F. Supp. 2d 413 (S.D.N.Y. 2000) (discussing both New York qualified and absolute immunity cases).

3. Securities administrators or self-regulatory organizations generally are subject to absolute or qualified immunity for actions of their employees within the course of their official duties. See 10 L. Loss & J. Seligman, Securities Regulation 4818-4821 (3d ed. rev. 1996).

4. As is generally the law "truth is a complete defense to a defamation action." Andrews v. Prudential Sec., Inc., 160 F.3d 304, 308 (6th Cir. 1998).

5. Through June 2001 no state had adopted an immunity provision in its securities statute. No state has rejected immunity in this context by judicial decision. A number of states have adopted qualified immunity by judicial decision. See, e.g., Eaton Vance Distrib., Inc. v. Ulrich, 692 So.2d 915 (Fla. Dist. Ct. App. 1997); Bavarati v. Josephal, Lyon & Ross, Inc., 28 F.3d 704 (7th Cir. 1994) (Illinois); Andrews v. Prudential Sec., Inc., 160 F.3d 304 (6th Cir. 1998) (Michigan); Prudential Sec., Inc. v. Dalton, 929 F. Supp. 1411 (N.D. Okla. 1996) (Oklahoma); Glennon v. Dean Witter Reynolds Inc., 83 F.3d 132 (6th Cir. 1996) (Tennessee).

6. An agent who has been the subject of a Form U-5, Uniform Termination Notice for Securities Industry Registration, may respond to specified adverse disclosures and have their responses reprinted on the published version of Form U-5.

SECTION 508. CRIMINAL PENALTIES.

(a) [**Criminal penalties.**] A person that willfully violates this [Act], or a rule adopted or order issued under this [Act], except Section 504 or the notice filing requirements of Section 302 or 405, or who willfully violates Section 505 knowing the statement made to be false or misleading in a material respect, upon conviction, shall be fined not more than [$___] or imprisoned not more than [___] years, or both. ~~but~~ A person convicted of violating a rule or order under this [Act] may be ~~sued~~ fined, but may not be imprisoned ~~for the violation of a rule adopted or order issued~~ if the person proves ~~that the person did not have~~ no knowledge of the rule or order.

(b) [**Statute of limitations.**] An indictment or information may not be returned under this [Act] more than [___ years] after the commission of the offense.

~~(b)~~(c) [**Criminal reference not required.**] The [Attorney General or the proper

prosecuting attorney] with or without a reference from the administrator, may commence appropriate criminal proceedings under this [Act].

~~(c)~~ (d) [**No limitation on other criminal enforcement.**] This [Act] does not limit the power of this State to punish a person for conduct that otherwise constitutes a crime under ~~the~~ other laws of this State~~'s law~~.

Reporter's Notes

Source of Law: 1956 Act Section 409; RUSA Section 604; Securities Exchange Act of 1934 Section 32(a).

1. This Section follows the 1956 Act and the federal securities laws in awarding criminal penalties for any willful violation of the Act. RUSA Section 604 distinguished between felonies and misdemeanors, limiting willful violations of cease and desist orders to a misdemeanor.

2. The term "willfully" has the same meaning in Section 508 as it did in the 1956 Act. All that is required is proof that a person acted intentionally in the sense that the person was aware of what he or she was doing. Proof of evil motive or intent to violate the law or knowledge that the law was being violated is not required. The principal function of the word "willfully" is thus to serve as a legislative hint of self-restraint to the administrator. This definition has been followed by most subsequent courts. See, e.g., State v. Hodge, 460 P.2d 596, 604 (Kan. 1969) ("No specific intent is necessary to constitute the offense where one violates the securities act except the intent to do the act denounced by the statute"); State v. Nagel, 279 N.W.2d 911, 915 (S.D. 1979) ("[I]t is widely understood that the legislature may forbid the doing of an act and make its commission a crime without regard to the intent or knowledge of the doer"); State v. Fries, 337 N.W.2d 398, 405 (Neb. 1983) (proof of a specific intent, evil motive, or knowledge that the law was being violated is not required to sustain a criminal conviction under a state's blue sky law); People v. Riley, 708 P.2d 1359, 1362 (Colo. 1985) ("A person acts 'knowingly' or 'willfully' with respect to conduct . . . when he is aware that his conduct . . . exists"); State v. Larsen, 865 P.2d 1355, 1358 (Utah 1993) (willful implies a willingness to commit the act, not an intent to violate the law or to injure another or acquire any advantage); State v . Montgomery, 17 P.3d 292, 294 (Idaho 2001) (bad faith is not required for a violation of a state securities act; willful implies "simply a purpose or willingness to commit the act or make the omission referred to"); State v. Dumke, 901 S.W.2d 100, 102 (Mo. Ct. App. 1995) (*mens rea* not required); State v. Mueller, 549 N.W.2d 455, 460 (Wis. Ct. App. 1996) (willfulness does not require proof that the defendant acted with intent to defraud or knowledge that the law was violated).

3. The appropriate state prosecutor under Section 508(c) may decide whether to bring a

criminal action under this statute, another statute, or, when applicable, common law.

4. This Section does not specify maximum dollar amounts for criminal fines, maximum terms for imprisonment, nor the years of limitation, but does provide for each state including appropriate numbers for these matters.

5. In certain states the administrator has full or limited criminal enforcement powers.

6. The final sentence of Section 508(a) is based on Section 32(a) of the Securities Exchange Act of 1934, which provides: "[N]o person shall be subject to imprisonment under this section in violation of any rule or regulation if he proves that he had no knowledge of such rule or regulation." The "no knowledge" clause was interpreted in the United States v. Lilley, 291 F. Supp. 989, 993 (S.D. Tex. 1968) to mean that

> Congress intended to charge every man with knowledge of the standards prescribed in the securities acts themselves. It would frustrate the intent of Congress to permit a person whose conduct is expressly prohibited by statute to attempt to prove no knowledge of a parallel rule provision. Allowing these defendants to invoke the "no knowledge" clause would have precisely this effect. It was not intended by the Congress that the "no knowledge" clause of the penalty statute should be available to persons who were charged with knowing their conduct to be in violation of a particular rule or regulation of the SEC such as Rule 10b-5. . . .
>
> . . . Proof of no knowledge cannot mean proof that defendants did not know, for example, the precise number or common name of the rule, the book and page where it was to be found, or the date upon which it was promulgated. It does not even mean proof of a lack of knowledge that their conduct was proscribed by rule rather than by statute. Proof of "no knowledge" of the rule can only mean proof of an ignorance of the substance of the rule, proof that they did not know that their conduct was contrary to law.

The "no knowledge" clause in Section 508(a) is only relevant to sentencing. The person convicted has the burden of persuasion to prove no knowledge at sentencing. Because this does not impose a burden on the defendant to disprove the elements of a crime, Section 32(a) of the Securities Exchange Act of 1934 has been held not to raise a constitutional problem. United States v. Mandel, 296 F. Supp. 1038, 1040 (S.D.N.Y. 1969).

~~SECTION 509. CIVIL LIABILITY.~~

(a) The application of this section is limited by the Securities Litigation Uniform Standards Act of 1998.

(b) A person who:

(1) sells a security in violation of Section 301; or

(2) sells a security by means of any untrue statement of a material fact or an omission to state a material fact necessary in order to make the statement made, in the light of the circumstances under which they are made, not misleading, the purchaser not knowing of the untruth or omission, and the seller does not sustain the burden of proof that the seller did not know and in the exercise of reasonable care could not have known of the untruth or omission is liable to the purchaser. The purchaser may maintain an action at law or in equity to recover the consideration paid for the security, [together with interest at x percent per year from the date of payment,] costs, and reasonable attorneys' fees determined by the court, less the amount of any income received on the security, upon the tender of the security, or for damages provided in paragraph (j)(1).

(c) A person who sells a security in violation of Section 401(a), 402(a), or 506(b) is liable to the purchaser. The purchaser may sue at law or in equity to recover the commissions paid to purchase the security [together with interest at X percent per year from the date of payment,] costs, or reasonable attorneys' fees determined by the court.

(d) A person who buys a security by means of an untrue statement of a material fact or an omission to state a material fact necessary in order to make the statement made, in light of the circumstances under which it is made, not misleading, the seller not knowing of the untruth or omission, and the purchaser does not sustain the burden of proof that the purchaser did not know and in the

exercise of reasonable care could not have known of the untruth or omission is liable to the seller. The seller may maintain an action at law or in equity to recover the security, costs, or reasonable attorneys' fees determined by the court, plus the amount of any income received on the security or for damages provided in paragraph (j)(2).

(e) An investment adviser or investment adviser representative who violates Section 403(a), 404(a), or 506(b), whether through the issuance of analyses, reports, or otherwise, is liable to a person who provides directly or indirectly any consideration for advice as to the value of securities or their purchase or sale. That person may maintain an action at law or in equity to recover the consideration paid for the advice [together with interest at [x] percent from the date of payment], plus costs and reasonable attorneys' fees determined by the court.

(f) A person who receives directly or indirectly any consideration from another person for advice as to the value of securities or their purchase or sale, whether through the issuance of analyses, reports, or otherwise and employs a device, scheme, or artifice to defraud other person or engages in any act, practice, or course of business that operates or would operate as a fraud or deceit on the other person, is liable to the other person. The other person may maintain an action at law or in equity to recover the consideration paid for the advice and any loss due to the advice, [together with interest at [x] percent from the date of payment of the consideration,] costs, and reasonable attorney's fees determined by the court, less the amount of any income received from the advice.

(g) The following persons are liable jointly and severally with and to the same extent as a violation under subsections (b) through (f):

(1) a person who directly or indirectly controls a person liable under subsections (b)

through (f);

(2) a person who is a managing partner, executive officer, or director of a person liable under subsections (b) through (d) including each person occupying a similar status or performing similar functions;

(3) a person who is an employee of a person liable under subsections (b) through (f) who materially aids and abets conduct giving rise to the liability; and

(4) a person who is a broker-dealer or agent or an investment adviser or investment adviser representative who materially aids and abets the conduct giving rise to the liability in subsections (b) through (f).

There is contribution as in cases of contract among the several persons liable under this Section.

(h) A person specified in subsections (g)(1) and (2) will not be liable if the person sustains the burden of proof that the person did not know, and in exercise of reasonable care could not have known, of the existence of the facts by reason of which the liability is alleged to exist.

(i) The tender specified in this subsection (b) may be made at any time before entry of judgment. Tender requires only notice in a record of willingness to exchange the security for the amount specified. A purchaser who no longer owns the security may recover damages.

(j) Damages in an action arising:

(1) under subsection (b) are the amount that would be recoverable upon a tender less the value of the security when the purchaser disposed of it, together with interest [at x percent per year from the date of disposition of the security,] costs, and reasonable attorneys' fees determined by the court;

(2) under subsection (d) are the difference between the price at which the securities were

purchased and the market value the securities would have had at the time of the purchase in the absence of the defendant's action, omission, or transaction causing liability, together with interest [at x percent per year from the date of purchase of the security], costs, and reasonable attorneys' fees determined by the court.

(k) A cause of action under this section survives the death of an individual who might have been a plaintiff or defendant.

(l) A person may not obtain relief:

(1) under paragraph (b)(1) or subsection (e) unless an action is commenced within one year after the act, omission, or transaction constituting the violation;

(2) under paragraph (b)(2) or subsection (d) or (f) unless an action is commenced within one year after discovery, and one [three] year[s] after discovery should have been made by the exercise of reasonable care, or three [five] years after the act, omission, or transaction constituting the violation.

(m) A purchaser may not commence an action under this section if:

(1) the purchaser received in a record, before an action is commenced, an offer to purchase:

(A) stating the respect in which liability under this section may have arisen and fairly advising the purchaser of the purchaser's rights in connection with the offer to repurchase;

(B) if the basis for relief under this subsection may have been a violation of subsection (e) or (f), including financial and other information necessary to correct all material misstatements or omissions in the information that was required by this [Act] to be furnished to the purchaser as of the time of the sale of the security to the purchaser;

(C) offering to repurchase the security for cash, payable on delivery of the security, equal to the consideration paid, [together with interest at x percent per year] from the date of payment, less income received thereon, or, if the purchaser no longer owns the security, offering to pay the purchaser upon acceptance of the offer an amount in cash equal to the damages computed in the manner provided in subparagraph (j)(1); and

(D) stating that the offer may be accepted by the purchaser within 30 days after the date of its receipt by the purchaser or any shorter period, not less than three days that the administrator by order prescribes;

(2) the offer under paragraph (1) [is filed with administrator before the offering and] conforms in form and content with any rule prescribed by the administrator;

(3) the offeror has the present ability to pay the amount offered under paragraph (1);

(4) the offer under paragraph (i) is received by the purchaser; and

(5) the purchaser accepts the offer in a record within the period specified under paragraph (1)(D) and is paid in accordance with the terms of the offer.

(n) A person who has made or engaged in the performance of a contract in violation of this [Act] or a rule adopted or order issued under this [Act], or who has acquired a purported right under the contract with knowledge of the facts by reason of which is making or performance was in violation, may not base an action on the contract.

(o) A condition, stipulation, or provision binding a person purchasing or selling a security or receiving investment advice or waiving compliance with this [Act] or a rule adopted or order issued under this [Act] is void.

~~(p) The rights and remedies provided by this [Act] are in addition to any other rights or remedies that may exist at law or in equity, but this [Act] does not create a cause of action not specified in this section or Section 406(n).~~

SECTION 509. CIVIL LIABILITY.

(a) [**Securities Litigation Uniform Standards Act.**] Enforcement of civil liability under this section is subject to the Securities Litigation Uniform Standards Act of 1998.

(b) [**Liability of seller to purchaser.**] A person who sells a security in violation of Section 301, or by means of an untrue statement of a material fact or an omission to state a material fact necessary in order to make the statement made, in light of the circumstances under which it is made, not misleading, the purchaser not knowing the untruth or omission, and the seller not sustaining the burden of proof that the seller did not know and, in the exercise of reasonable care, could not have known of the untruth or omission, is liable to the purchaser. An action under this subsection is governed by the following rules:

(1) The purchaser may commence an action at law or in equity to recover the consideration paid for the security, less the amount of any income received on the security, together with interest at [__] percent per year from the date of the purchase, costs, and reasonable attorneys' fees determined by the court, upon the tender of the security, or for damages as provided in paragraph (3).

(2) The tender referred to in paragraph (1) may be made any time before entry of judgment. Tender requires only notice in a record of [ownership of the security and] willingness to exchange the security for the amount specified. A purchaser that no longer owns the security may

recover damages.

(3) Actual damages in an action arising under this subsection are the amount that would be recoverable upon a tender less the value of the security when the purchaser disposed of it, together with interest at [__] percent per year from the date of purchase, costs, and reasonable attorneys' fees determined by the court.

(c) [**Liability of purchaser to seller.**] A person who buys a security by means of an untrue statement of a material fact or omission to state a material fact necessary in order to make the statement made, in light of the circumstances under which it is made, not misleading, the seller not knowing of the untruth or omission, and the purchaser not sustaining the burden of proof that the purchaser did not know, and in the exercise of reasonable care, could not have known of the untruth or omission, is liable to the seller. An action under this subsection is governed by the following rules:

(1) The seller may commence an action at law or in equity to recover the security, together with any income received on the security, costs, and reasonable attorney's fees determined by the court, upon the tender of the purchase price, or for damages as provided in paragraph (3).

(2) The tender referred to in paragraph (1) may be made any time before entry of judgment. Tender requires only notice in a record of the present ability to pay the amount tendered and willingness to take delivery of the security for the amount specified. If the purchaser no longer owns the security, the seller may recover damages.

(3) Actual damages in an action arising under this subsection are the difference between the price at which the security was sold and the value the security would have had at the time of the sale in the absence of the seller's conduct causing liability, together with interest at [__] percent per

year from the date of sale of the security, costs, and reasonable attorneys' fees determined by, the court.

(d) [**Liability of unregistered broker-dealer and agent.**] A broker-dealer or agent who sells or buys a security in violation of Section 401(a), 402(a), or 506 is liable to the customer. The customer, if a purchaser, may commence an action at law or in equity for recovery of damages as specified in subsection (b)(1)-(3); or, if a seller, a remedy as specified in subsection (c)(1)-(3).

(e) **[Liability of unregistered investment adviser and investment adviser representative.]** An investment adviser or investment adviser representative who provides investment advice for a fee in violation of Section 403(a), 404(a), or 506 is liable to the client. The client may commence an action at law or in equity to recover the consideration paid for the advice, together with interest at [__] percent from the date of payment, costs, and reasonable attorney's fees determined by the court.

(f) [**Liability for investment advice**]. (1) A person who receives directly or indirectly any consideration for providing investment advisory services and who employs a device, scheme, or artifice to defraud the other person or engages in an act, practice, or course of business that operates or would operate as a fraud or deceit on the other person, is liable to the other person.

(2) The other person may commence an action at law or in equity to recover the consideration paid for the advice and the amount of any actual damages caused by the misconduct specified in paragraph (1), together with interest at [__] percent from the date of the transaction causing the loss, costs, and reasonable attorney's fees determined by the court, less the amount of any income received as a result of the transaction causing the loss.

(g) [**Joint and several liability**.] The following persons are liable jointly and severally

with and to the same extent as persons liable under subsections (b) through (f):

(1) a person who directly or indirectly controls a person liable under subsections (b) through (f), unless the person sustains the burden of proof that the controlling person acted in good faith and did not, directly or indirectly, induce the act, omission or transaction constituting the violation;

(2) an individual who is a managing partner, executive officer, or director of a person liable under subsections (b) through (f), including each individual occupying a similar status or performing similar functions, unless the individual sustains the burden of proof that the individual did not know and, in the exercise of reasonable care could not have known, of the existence of the facts by reason of which the liability is alleged to exist;

(3) an individual who is an employee of a person liable under subsections (b) through (f) who intentionally or recklessly materially aids and abets the conduct giving rise to the liability; and

(4) a person who is a broker-dealer, agent, investment adviser, or investment adviser representative who intentionally or recklessly materially aids and abets the conduct giving rise to the liability under subsections (b) through (f).

(h) [**Right of contribution.**] A person liable under this section has a right of contribution as in cases of contract against any other person liable under this section for the same conduct.

(i) [**Survival of cause of action.**] A cause of action under this section survives the death of a person who might have been a plaintiff or defendant.

(j) **[Statute of limitations.]** A person may not obtain relief:

(1) under subsection (b) for violation of Section 301, or under subsection (d) or

(e), unless the action is commenced within one year after the violation occurred; or

(2) under subsection (b) other than for violation of Section 301, or under subsection (c) or (f), unless the action is commenced within the earlier of one year after the actual discovery of the facts constituting the violation, and four years after such violation.

(k) [**No enforcement of violative contract.**] A person that has made or engaged in the performance of a contract in violation of this [Act] or a rule adopted or order issued under this [Act], or who has acquired a purported right under the contract with knowledge of the facts by reason of which its making or performance was in violation, may not base an action on the contract.

(l) [**No contractual waiver.**] A condition, stipulation, or provision binding a person purchasing or selling a security or receiving investment advise to waive compliance with this [Act] or a rule adopted or order issued under this [Act] is void.

(m) [**Survival of other rights or remedies.**] The rights and remedies provided by this [Act] are in addition to any other rights or remedies that may exist at law or in equity, but this [Act] does not create a cause of action not specified in this section or Section 411(e).

Reporter's Notes

Source of Law: 1956 Act Section 410; RUSA Sections 605-607, 609, 802.

1. Under Section 509 violations of two or more sections can be proven, but the remedy is limited either to rescission or actual damages. Actual damages means compensatory damages. Punitive or "double" damages are prohibited by this section which also is the standard under Section 28(a) of the Securities Exchange Act of 1934. See 9 L. Loss & J. Seligman, Securities Regulation 4408-4427 (3d ed. rev. 1992).

2. Section 509(a) referencing the Securities Litigation Uniform Standards Act of 1998 modifies the entire Section 509.

3. Section 509(b), as with Section 12(a)(2) of the Securities Act of 1933, contains a type of privity requirement in that the purchaser is required to bring an action against the seller. Section 509(b) is broader than Section 12(a)(2) in that it will reach all sales in violation of Section 301, not just sales "by means of a prospectus" as is the law under Section 12(a)(2). See Gustafson v. Alloyd Co., Inc., 513 U.S. 561 (1995). Cf. Hoover v. E. F. Hutton & Co., Inc., 1980 Fed. Sec. L. Rep. (CCH) ¶97,654 (E.D. Pa. 1980).

In Zack Co. v. Sims, 438 N.E. 2d 663 (Ill. App. Ct. 1982), the court held that a party who provides financing for the purchase of stock without becoming involved in the actual contract negotiations is not a "purchaser" and not entitled to invoke the statutory remedies. However a financing party may assume a variety of legal roles such as donor, lender, or beneficiary of a resulting trust, with regard to the benefitted party, that have no relationship whatsoever to the agreement between the contracting parties. A purchaser's wife providing financing to the purchaser without participating in the purchase transaction would not be entitled to relief as a "purchaser" and is not entitled to relief, but she could be recognized as the beneficiary of a resulting trust with a one half interest in designated stock. See also Space v. E. F. Hutton Co., Inc., 544 N.E.2d 67 (Ill. App. 1989), appeal denied, 548 N.E.2d 1078 (Ill. 1989) (the remedies under the Illinois blue sky law §13(A) are available only to purchasers of securities).

4. In providing for damages as an alternative to rescission, Section 509(b)(3) follows the 1956 Act and is an improvement upon many earlier state provisions, which conditioned the plaintiff's right of recovery on his or her being in a position to make a good tender. A plaintiff is not given the right under this type of statutory formula to retain stock and also seek damages. See Windswept Corp. v. Fisher, 683 F. Supp. 233, 239 (W.D. Wash. 1988) (Washington).

5. The measure of damages in Section 509(b)(3) is that contemplated by Section 12 of the Securities of 1933. See 9 L. Loss and J. Seligman, Securities Regulations 4242-4246 (3d ed. 1992). The measure of damages in Section 509(c)(3), however, is suggested by Rule 10b-5. Sec. 9 id. 4408-4427.

6. Section 509(c)-(f) is based on a 1981 NASAA amendment to the Uniform Securities Act adopted in order "to establish civil liability for individuals who willfully violate Section 102 dealing with fraudulent practices pertaining to advisory activities." Neither provision is intended to limit other state laws claims for providing investment advice.

7. Forty-three jurisdictions have adopted each provision of Section 509(g).

Section 509(g) – Joint and Several Liability Section 509(g) – Several and Joint Liability

Jurisdiction and Citation	Section A – Directly or Indirectly controls person liable	Section B – Managing Partner executive officer, etc	Section C – Employee of person liable who materially aids and abets	Section D – Broker-dealer or investment adviser who materially aids and abets
1 Alabama Sec. 8-6-19(c)	X	X	X	
2 Alaska Sec. 45.55.930(c)	X	X	X	X
3 Arizona Sec. 44-2003.	X	X		
4 Arkansas Sec. 23-42-106(c)	X	X	X	X
5 California (See Notes)	X	X[7]	X[8]	[9]
6 Colorado Sec. 11-51-604(5)[10]	X	X	X	X
7 Connecticut Sec. 36b-29(c)	X	X	X	X
8 Delaware Sec. 7323(b	X	X	X	X
9 District of Columbia Sec. 2666.5[605](c)	X	X	X	X
10 Florida Sec. 517.211.				
11 Georgia Sec. 10-5-14(c)	X	X	X	X
12 Guam Sec. 46410(b)	X	X	X	X
13 Hawaii Sec. 485-20(a)		X	X[11]	
14 Idaho Sec. 30-1446(2)	X	X	X	X
15 Illinois Sec. 13[5/13].A	X		X	
16 Indiana Sec. 23-2-1-19(d)	X	X	X	X
17 Iowa Sec. 502.503.1	X	X	X	X
18 Kansas 17-1268(b)	X	X	X	X
19 Kentucky Sec. 292.480	X	X	X	X
20 Louisiana Sec. 51:714(B)	X	X	[12]	X[13]
21 Maine Sec. 10605(3)	X	X	X	X
22 Maryland Sec. 11-703(c)	X	X	X	X
23 Massachusetts Sec. 410(b)	X	X	X	X
24 Michigan Sec. 451.810(b)	X	X	X	X
25 Minnesota Sec. 80A.23. Subd.3	X	X	X	X

[7] California Sec. 25504. Controlling person – Joint and several liability

[8] California Sec. 25504.1. Person materially assisting in violation – Joint and several liability

[9] Id. – "Any person who materially assists in any violation…"

[10] Colorado – "…any person"

[11] Hawaii – "…if the…agent has personally participated or aided in any way…"

[12] Louisiana – "… every person occupying a similar status or performing similar functions…"

[13] Louisiana – "…who participates in a material way"

26 Mississippi Sec. 75-71-719	X	X	X	X
27 Missouri Sec. 409.411(c)	X	X	X	X
28 Montana Sec. 30-10-307(2)	X	X	X	X
29 Nebraska Sec. 8-1118(3)	X			X
30 Nevada Sec. 90.660.4	X	X	X	X
31 New Hampshire Sec. 421-B:25(III)	X	X	X	X
32 New Jersey Sec. 49:3-71(d)	X	X	X	X
33 New Mexico Sec. 58-13B-40(F)	X	X	X	X
34 New York Sec. 359-g				
35 North Carolina Sec.78A-56(c)	X	X	X	X
36 North Dakota Sec. 10-04-17[14]				
37 Ohio Sec. 1707.41	X			
38 Oklahoma Sec. 408(b)[15]	X	X		
39 Oregon Sec. 59.995	X	X	X	X
40 Pennsylvania Sec. 1-503		X	X	X
41 Puerto Rico Sec. 890(b)	X	X	X	X
42 Rhode Island Sec. 7-11-605(d)	X	X	X	X
43 South Carolina Sec. 35-1-1490				
44 South Dakota Sec. 47-31A -410(c)	X	X	X	X
45 Tennessee Sec. 48-2-122(g)	X	X	X	X
46 Texas Sec. 33[581-33](F)	X			
47 Utah Sec. 61-1-22(4)(a)	X	X	X	X
48 Vermont Sec. 4240(f)	X	X	X	X
49 Virginia Sec. 13.1-522(C)	X	X	X	X
50 Washington Sec. 21.20.430(3)	X	X	X	X
51 West Virginia Sec.32-4-410(b)	X	X	X	X
52 Wisconsin Sec. 551.59(4)	X	X	X	X
53 Wyoming Sec. 17-4-122(b)	X	X	X	X
TOTALS:	44	47	44	43

[14] North Dakota – "The person making such sale or contract for sale, and every director, officer, or agent of or for such seller who shall have participated or aided in any way in making such sale shall be jointly and severally liable to such purchaser who may sue wither at law or in equity to recover…"

[15] Oklahoma – "Every person who materially participates or aids in a sale or purchase made by any person liable…or how directly or indirectly controls any person so liable, shall also be liable jointly and severally…"

8. In Section 509(g), the phrase "the purchaser not knowing of the untruth or omission" has been read as requiring proof that the plaintiff exercised reasonable care under the circumstances. S & F Supply Co. v. Hunter, 527 P.2d 217, 221 (Utah 1974); Darling & Co. v. Clouman, 87 F.R.D. 756 (N.D. Ill. 1980). Neither causation nor reliance has been held to be an element of a private cause of action under the precursor to Section 509(b). See Gerhard W. Gohler, IRA v. Wood, 919 P.2d 561 (Utah 1996); Ritch v. Robinson-Humprhey Co., 748 So. 2d 861 (Ala. 1999).

In Kaufman v. i-Stat Corp., 754 A.2d 1188 (N.J. 2000), the New Jersey Supreme Court interpreted the New Jersey Uniform Securities law to require privity and misrepresentations but not reliance.

9. The control liability provision in Section 509(g)(1) is modeled on Section 15 of the Securities Act of 1933 and Section 20(a) of the Securities Exchange Act of 1934. See 9 L. Loss & J. Seligman, Securities Regulations 4457-4475 (3d ed. 1992). State court decisions typically follow analogous federal law in deciding whether a person may be deemed a control person. See, e.g., Hines v. Data Line Sys., Inc., 787 P.2d 8, 13-16 (Wash. 1990). On the meaning of "control," see 4 L. Loss & J. Seligman, Securities Regulations 1703-1727 (3d ed. rev. 2000).

10. The defense of lack of knowledge in Section 509(g)(1)-(2) is modeled on Section 15 of the Securities Act of 1933 or Section 20(a) of the Securities Exchange Act of 1934. See generally 9 L. Loss & J. Seligman, Securities Regulation 4467-4475 (3d.1992). Washington's Supreme Court contrasts this defense with the corporate law business judgment rule and "requires affirmative action on the part of a director who wished to avail himself of this defense." Hines v. Data Line Sys., Inc., 787 P.2d 8, 17-19 (Wash. 1990). Several jurisdictions have interpreted the provision to Section 509(g) to impose strict liability on partners, officers, and directors unless the statutory defense of lack of knowledge is proven. See, e.g., Taylor v. Perdition Minerals Group, Ltd., 766 P.2d 805, 809 (Kan. 1988), citing cases; Hines v. Data Line Sys., Inc., 787 P.2d at 17. The plaintiff obviously does not have to allege a defendant's scienter to deprive the defendant of the reasonable care defense. See Currie v. Cayman Resources Corp., 595 F. Supp. 1364, 1374 (N.D. Ga. 1984) (Texas statute).

11. Under Section 509(g)(2), an outside director may be held liable without actively participating in any of the illegal transactions. See Hines v. Data Line Sys. Inc. 787 P.2d 8, 16-18 (Wash. 1990). The Michigan precursor to Section 509(g)(2) imposes liability on directors of corporations offering securities who know or reasonably should have known of the presence of information that was false and misleading. There was no requirement that the plaintiff prove a specific intent to defraud. Molecular Technology Corp. v. Valentine, 925 F.2d 910, 920 & n.7 (6th Cir. 1991).

Under Section 509(g)(2) partners, officers, and directors are liable, subject to the defense afforded by that subsection, without proof that they aided in the sale.

12. In Section 509(g)(12) partner is intended to be limited to partners with management responsibilities, rather than a partner with a passive investment.

13. The phrase "intentional or reckless" in Section 509(g)(3)-(4) means that the culpability standard under those subsections is intended to be identical to that which has developed under Rule 10b-5 of the Securities Exchange Act of 1934. See, e.g., 8 L. Loss & J. Seligman, Securities Regulation 3665-3668 (3d ed. rev. 1991) (after Ernst & Ernst v. Hochfelder, 425 U.S. 185 (1976), at least 11 of 12 circuits had adopted intentionality of recklessness as the culpability standard under Rule 10b-5).

14. Under 509(g)(4), performance by a clearing broker of the clearing broker's contractual, operational, and other ministerial functions would not constitute material aiding and abetting for liability under this subsection. Carlson v. Bear Stearns & Co., 906 F.2d 315 (7th Cir. 1990)(dismissing Illinois blue sky claim based on clearing broker only performing ministerial and operational acts); Riggs v. Schappell, 939 F. Supp. 321 (D. N.J. 1996) (dismissing New Jersey blue sky claim).

15. On the interpretation of the "material aids" in Section 509(g)(3)-(4), see Quick v. Woody, 747 S.W.2d 108 (Ark. 1988); Connecticut Nat'l Bank v. Giacomi, 699 A.2d 101 (Conn. 1997); State v. Diacide Distrib., Inc., 596 N.W.2d 532 (Iowa 1991).

In Metal Tech Corp. v. Metal Teckniques Co., Inc. 703 P.2d 237, 245-246 (Or. App Ct. 1985) the court observed that merely acting as a scrivener or otherwise merely preparing and executing documents would not involve material aid.

16. The "reasonable attorneys' fees" specified in Section 509 are permissive, not mandatory. See, e.g., Andrews v. Blue, 489 F.2d 367, 377 (10th Cir. 1973), (Colorado Statute). A request for attorney's fees may be made by motion a reasonable time after the final judgment under the Florida statute. Arceneaux v. Merrill Lynch, Pierce, Fenner & Smith, Inc., 767 F.2d 1498, 1503-1504 (11th Cir. 1985).

17. The contribution provision in Section 509(h) is a safeguard to avoid the common law rule that prohibited contribution among joint tortfeasors. In Black & Co., Inc. v. Nova-Tech, Inc., 333 F. Supp. 468, 471 (D. Or. 1971), the court held under the Oregon provision that, since indemnification was a traditional remedy for one who paid a loss caused by another, the legislature did not intend by including a right of contribution to exclude the right of indemnity. In Hainbuchner v. Miner, 509 N.E. 2d 424, 426 (Ohio 1987), the court held under the Ohio provision that the liability of a director in contribution is coextensive with his liability for securities fraud in the underlying action.

18. The statute of limitations in Section 509(j) is a hybrid of the 1956 Act and federal securities law approaches.

The 1956 Act Section 410(p) provided that: "No person may sue under this section more than

two years after the contract of sale." Under this provision, the state courts generally declined to extend a statute of limitations period on grounds of fraudulent concealment or equitable tolling. See , e.g., Martin v. Pacific Ins. Co. of N.Y., 431 S.W.2d 239,240 (Ark. 1968); Norden v. Friedman, 756 S.W.2d 158, 163 (Mo 1988); Weisz v. Spindletop Oil & Gas Co. 664 S.W.2d 423, 425-426 (Tex. Ct. App. 1983); McCullough v. Leede Oil & Gas, Inc., 617 F. Supp. 384, 390-391 (W.D. Okla. 1985) (Alabama statute); Reshal Assoc., Inc. v. Long Grove Trading Co., 754 F. Supp. 1226, 1242-1243 (N.D. Ill. 1990). But some state statutes expressly provided or have been construed to provide for tolling. See, e.g., Platsis v. E. F. Hutton & Co., Inc. 642 F. Supp. 1277, 1305 (W.D. Mich. 1986), aff'd per curiam, 829 F.2d 13 (6th Cir. 1987), *cert denied*, 485 U.S. 962 (Michigan statute); Barton v. Peterson, 733 F. Supp. 1482, 1492-1493 (N.D. Ga. 1990) (Georgia).

Rule 10b-5 of the Securities Exchange Act, in contrast, as construed by the United States Supreme Court in Lampf, Pleva, Lipkind, Prepis & Petigrew v. Gilbertson, 501 U.S. 350 (1991), prohibits equitable tolling under the federal securities law one year after discovery and three years after the act formula. See generally 10 L. Loss & J. Seligman, Securities Regulation 4505-4525 (3d. ed. rev. 1996).

Section 509(j)(1), as with the 1956 Act, is a unitary statute of repose, requiring an action to be commenced within one year a violation occurred. It is not intended that there be equitable tolling.

Section 509(j)(2), in contrast, generally follows the federal securities law model. An action must be brought within the earlier of one year after actual discovery or four years after the violation. Unlike federal courts construing the statute of limitations under Rule 10b-5, which have cut off the plaintiff's right to proceed one year after actual discovery "or after such discovery should have been made by the exercise of reasonable diligence" (inquiry notice), see, e.g., Law v. Media Research, Inc., 113 F.3d 781 (7th Cir. 1997), an action under Section 509(j)(2) is only cut off one year after *actual* discovery.

19. Section 509(k) is similar to Section 29(b) of the Securities Exchange Act and is intended only to apply to actions to enforce illegal contracts. See L. Loss, Commentary on the Uniform Securities Act 150 (1976). Nevertheless at least one court has read the provision as barring an action for rescission by a purchaser with knowledge, allegedly, of the failure to register the securities. Hayden v. McDonald, 742 F.2d 423, 435-436 (8th Cir. 1984) (Unif. Sec. Act); cf. Dunn v. Bemor Petroleum, Inc., 680 S.W.2d 304, 306 (Mo Ct. App. 1984) (recognition of defenses of estoppel and in parti delicto "would defeat the purpose of our blue sky laws"). See also Brannan v. Eisenstein, 804 F.2d 1041-1045 (8th Cir. 1986).

20. Section 509(m) follows the 1956 Act. Cf. State ex rel. Corbin v. Pickrell, 667 P.2d 1304 (Ariz. 1983) (securities violations may be basis of Consumer Fraud Act complaint); Knoell v. Huff, 395 N.W.2d 749, 754 (Neb. 1986) (Nebraska blue sky law is not exclusive remedy under state law for cases involving the sale of securities); Campbell v. Moseley, Hallgarten, Estabrook & Weeden, Inc., 1984-1985 Fed. Sec. L. Rep. (CCH) ¶92,082 at 91,416-91,417 (N.D. Ill. 1985) (Illinois blue sky law

does not preempt application of the state's Consumer Fraud Act to securities transactions).

21. Section 509 and Section 411(e) are intended to be the exclusive private causes of action under this Act.

SECTION 510. RESCISSION OFFERS. A purchaser or seller may not commence an action under Section 509 if:

(1) the purchaser or seller received in a record, before the action is commenced, an offer ~~to repurchase~~:

(A) stating the respect in which liability under Section 509 may have arisen and fairly advising the purchaser of the purchaser's rights or the seller of the seller's rights in connection with the offer;

(B) if the basis for relief under this section may have been a violation of Section 509(b), ~~(d), or (f)~~ offering to repurchase the security for cash, payable on delivery of the security, equal to the consideration paid, [together with interest at [__] percent per year from the date of purchase,] less the amount of any income received on the security, or, if the purchaser no longer owns the security, offering to pay the purchaser upon acceptance of the offer damages in the an amount that would be recoverable upon a tender, less the value of the subsection when the purchaser disposed of it, together with interest at [ ] percent per year from the date of purchase in cash equal to the damages computed in the manner provided in ~~subsection~~ this subparagraph (b); ~~and~~

(C) if the basis for relief under this Section may have been a violation of Section 509(c), offering to tender the security, on payment by the seller of an amount equal to the purchase price paid, less income received on the security by the purchaser, or if the purchaser no longer owns the security,

offering to pay the seller upon acceptance of the offer in cash damages in the amount of the difference between the price at which the security was purchased and the value of the security would have had at the time of the purchase in the absence of the purchaser's conduct causing liability;

(D) if the basis for relief under this Section may have been a violation of Section 509(d), if the customer is a purchaser, offering as specified in 510(1)(B), and, if the customer is a seller, offering as specified in 510(1)(C);

(E) if the basis for relief under this Section may have been a violation of Section 509(e), offering to reimburse in cash the consideration paid for the advice, together with interest at [_____] percent from the date of payment;

(F) if the basis for relief under this Section may have been a violation of Section 509(f), offering to reimburse in cash the consideration paid for the advice and the amount of any actual damages caused by the misconduct, together with interest at [_____] percent from the date of the transaction causing the loss;

(G) if the basis for relief under this Section may have been a violation of Section 509 that employed a device, scheme, or artifice to defraud, made an untrue statement of a material fact necessary in order to make the statement made, in light of the circumstances under which it was made, not misleading, or engaged in an act, practice, or course of business that operated or would operate as a fraud or deceit on another person, including in the offer any financial or other information necessary to correct all deception and material misstatements or omissions in the information which was required by this Act to be furnished to the purchaser or seller as of the time of the sale or purchase of the security or investment advice;

~~(4)~~ (H) stating that the offer may be accepted by the purchase or seller within 30 days after the date of its receipt by the purchase or seller or any shorter period, not less than three days, that the administrator, by order, ~~precribes~~ specifies; and

(2) the offeror has the present ability to pay the amount offered or to tender the security under paragraph (1);

(3) the offer under paragraph (1) is delivered to the purchaser or seller or sent in a manner that ensures receipt by the purchaser or seller; and,

(4) ~~if~~ the purchaser or seller that accepts the offer under paragraph (1), in a record within the period specified under paragraph (3), ~~the purchaser~~ is paid in accordance with the terms of the offer~~; and~~

(b) If the basis for relief under this Section may have been a violation of Section 509 ~~which~~ that employed a dvice, scheme, or artifice to defraud, made an untrue statement of a material fact necessary in order to make the statement made, in light of the circumstances under which it was made, not misleading, or engaged in an act, practice, or course of business that operated or would operate as a fraud or deceit on another person, ~~this Section involves a violation made by means of a statement of material fact or an omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading~~ the offer, **[or, a notice]** is filed with the administrator ten business days before the offering and conforms in form and content with a rule prescribed by the administrator.]

Reporter's Notes

1. A rescission offer must meet the specific requirements of Section 510 for civil liability under Section 509 to be extinguished. Cf. Binder v. Gordian Sec., Inc., 742 F. Supp. 663, 666 (N.D. Ga. 1990). A purchaser who accepts a statutory offer of rescission may not later sue for attorneys' fees

incurred in seeking the rescission, although the court noted that fees would have been awarded if the plaintiff had prevailed in an action for rescission. Brockman Indus., Inc., v. Carolina Sec. Corp. 861 F.2d 798, 800-801 (4th Cir. 1988) (South Carolina statute). But see Dixon v. Oppenheimer & Co., Inc., 739 F.2d 165 (4th Cir. 1984) (Virginia version precursor to Section 510 is limited to the securities sold in violation that the purchaser seeks to have rescinded). See generally Rowe, Rescission Offers under Federal and State Securities Law, 12 J. Corp. L. 383 (1987). In Mashburn v. First Investors Corp., 432 S.E.2d 869 (N.C. App. 1993), *cert. denied*, 439 S.E.2d 18( ), the court relied on Brockmann and the Rowe article to dismiss a claim after a rescission offer had been accepted.

2. A rescission offer that does not comply with Section 510 is subject to civil liability or administrative enforcement under this Act. A rescission offer, for example, could violate Section 501, the general fraud provision.

3. The administration may publish a form that would comply with Section 510, but the form would not be the only one that could be used by the parties.

ARTICLE 6

ADMINISTRATION AND JUDICIAL REVIEW

SECTION 601. ADMINISTRATION OF [ACT].

(a) **[Administration.]** This [Act] shall be administered by the [insert title of ~~administration~~ administrator and any related provisions on such matters as method of selection, salary, term of office, selection and remuneration of personnel, annual reports to the legislature or governor which are appropriate to the particular State].

(b) **[Unlawful use of records or information.]** It is unlawful for the administrator or any of the administrator's officers, employees ~~[~~, or designees~~]~~ to use for personal benefit or the benefit of others records or other information that is obtained by the administrator or is filed that is not public under Section 607(b). This [Act] does not authorize the administrator or any of the administrator's officers, employees [, or designees] to disclose the information, except ~~among themselves, or when necessary or appropriate in a~~ an ~~action or proceeding or investigation under this [Act], or in cooperation with other agencies~~ in accordance with Section 608 ~~9(a)~~.

(c) **[No common law privilege or exemption created or derogated.]** This [Act] does not create or derogate from any privilege or exemption that exists at common law or otherwise when records or other evidence is sought under a subpoena.

(d) **[Investor education.]** The administrator may develop and implement investor education initiatives to inform the public about investing in securities, with particular emphasis on the prevention and detection of securities fraud. In developing and implementing these initiatives, the administrator may

collaborate with public and nonprofit entities with an interest in investor education. The administrator may accept grants or donations from a person who is not affiliated with the securities industry or from a nonprofit organization, regardless of whether the organization is affiliated with the securities industry, to develop and implement investor education initiatives.

Reporter's Notes

Prior Provisions: 1956 Act Section 406; RUSA Sections 701-702.

1. Each State, the District of Columbia, Guam, and Puerto Rico today have enacted an administrative procedure act. Article 6 has been drafted on the assumption that each state adopting this Act has a comprehensive administrative procedure act. It is the assumption of this Act that a person against whom an order may be issued or a sanction imposed generally is entitled to an administrative proceeding that affords procedural due process including notice and an opportunity for a hearing. It is similarly the assumption of this Act that rules adopted on orders issued under this Act are subject to judicial review. The specific provisions of this part are intended to augment the state administrative procedure act.

2. Section 601(b) should be read with Section 607. Section 601(b) prohibits the administrator or the administrator's officers and employees from using for personal benefit records or information that Section 607(b) specifies as not constituting public records. Section 601(b) is not intended to limit in any way the operation of Section 607(a). Neither subsection 601(b) nor 607(b) is intended to impede the ability of the agencies specified in subsection 608(a) to share records or other information in connection with an examination or an investigation. Cf. Griffin v. S.W. Devanney & Co., Inc., 775 P.2d 555 (Colo. 1989) (Colorado equivalent to subsection 601(b) does not prohibit the administrator from disclosing to other regulators and law enforcement agencies information regarding possible law enforcement violations obtained by the administrator during an examination of a broker-dealer's books and records).

3. Section 601(c) makes clear that nothing in this Act alters the availability of evidentiary privileges. That question is left to the general law of the particular state.

SECTION 602. INVESTIGATIONS AND SUBPOENAS.

(a) **[Authority to investigate.]** The administrator:

(1) may make public or private investigations within or outside of this State that the

administrator considers necessary or appropriate to determine whether any person has violated, is violating, or is about to violate this [Act] or a rule adopted or order issued under this [Act], or to aid in the enforcement of this [Act] or in the adoption of rules and forms under this [Act];

(2) may require or permit a person to testify, file a statement, or produce a record, under oath or otherwise as the administrator determines, as to all the facts and circumstances concerning the matter to be investigated or in ~~a~~ an action or proceeding; ~~or an investigated;~~ and

(3) may publish information concerning a proceeding, or an investigation under, or a violation of, this [Act] or a rule adopted or order issued under this [Act] if the administrator determines it is necessary or appropriate in the public interest or for the protection of investors.

(b) **[Administrator powers to investigate.]** For the purpose of an investigation under this [Act], the administrator or a designated officer may administer oaths and affirmations, subpoena witnesses, seek compulsion of attendance, take evidence, and require the production of any records that the administrator considers relevant or material to the investigation.

(c) **[Procedure and remedies for noncompliance.]** If a person fails or refuses to testify, ~~to~~ file a statement, ~~to~~ produce records, or ~~to~~ obey a subpoena issued by the administrator or a designated officer under this [Act], the administrator [may refer the matter to the Attorney General or the proper attorney, who] may apply to [insert name of the appropriate court] or a court of another state to enforce compliance. The court may order the person to do any or all of the following:

(1) ~~order the person~~ appear before the administrator or a designated officer;

(2) testify about the matter under investigation or in question;

~~(2)~~ (3) produce records;

~~(3)~~ (4) obey injunctive relief, including restricting or prohibiting the offer or sale of securities or providing investment advice;

~~(4)~~ (5) pay a civil penalty ~~against the person~~ not less than [$__] and not greater than [$__] ~~per~~ for each violation;

[~~(5)~~ (6) ~~an order finding~~ be held ~~the person~~ in contempt]; or

~~(6)~~ (7) any other necessary or appropriate relief.

[This subsection does not preclude a person from applying to [insert name of the appropriate court] or a court of another state for appropriate relief from a request to appear, testify, protect records, file a statement, or obey a subpoena.]

~~(d) An individual is not excused from attending in obedience to the subpoena of the administrator or a designated officer [or in a proceeding instituted by the administrator] on the ground that the required testimony, statement, or record, or other evidence, directly or indirectly, may tend to incriminate the individual or subject the individual to a fine, penalty or forfeiture. If the individual asserts a claim against self-incrimination, the administrator may apply [in the appropriate court] to compel the testimony, the filing of the statement, or the production of the record. If the testimony, the filing of the statement, or the production of the record is compelled, the information, record, or other evidence, directly or indirectly, may not be used against the individual so compelled in a criminal case, except that the individual testifying or providing the statement is not exempt from prosecution and punishment for perjury or contempt committed in testifying or in the statement.~~

(d) **[Use immunity procedure.]** An individual is not excused from attending, testifying, producing any statement, record or other evidence, or obeying a subpoena of the administrator or a

designated officer [or in a proceeding instituted by the administrator] on the ground that the required testimony, statement, record, or other evidence, directly or indirectly, may tend to incriminate the individual or subject the individual to a criminal fine, penalty or forfeiture. If the individual refuses to testify or produce any statement, record [or other evidence] on the basis of the individual's privilege against self-incrimination, the administrator may apply [to the name of the appropriate court] to compel the testimony, the filing of the statement, the production of the record [or other evidence.] No testimony or other evidence compelled under such an order, or other information directly or indirectly may be used against the individual in a criminal case, except in a prosecution for perjury or contempt or otherwise failing to comply with the order.

(e) **[Assistance to securities regulator of another state.]** At the request of the securities regulator of another state or a foreign jurisdiction, the administrator may provide assistance if the requesting regulator states that it is conducting an investigation to determine whether a person has violated, is violating, or is about to violate a law or rule of the other state or foreign jurisdiction relating to securities matters that the requesting regulator administers or enforces. The administrator may, in its sole discretion, conduct the investigation and use the powers conferred by this section as the administrator determines is necessary or appropriate. ~~to collect information, records, and evidence pertinent to the request for assistance. The assistance information~~ The assistance may be provided without regard to whether the facts stated in the request would also constitute a violation of this [Act] or ~~the~~ other laws of this State. In deciding whether to provide the assistance, the administrator ~~shall~~ may consider whether the requesting regulator is permitted and has agreed to provide assistance reciprocally within its state or foreign jurisdiction to the administrator on securities matters when required; whether compliance with the

request would violate or prejudice the public policy of this State; and the availability of resources and staff of the administrator to carry out the request for assistance.

Reporter's Notes

Source of Law: 1956 Act Section 407.

1. Sections 602 (a)-(b) follow the 1956 Act, which was modeled generally on Sections 21(a)-(d) of the Securities Exchange Act of 1934 as it then read.

2. Standards for issuance of subpoenas have been consistently recognized in federal and state securities law. See, e.g., 10 L. Loss & J. Seligman, Securities Regulation 4917-4937 (3d ed. rev. 1996) (discussing Oklahoma Press Pub. Co. v. Walling, 327 U.S. 186 (1946) and other cases).

3. Sections 602(c) amplifies the last sentence of Section 407(c) of the 1956 Act which had provided in toto: "Failure to obey the order of the court may be punished by the court as a contempt of court." See Feigin v. Colorado Nat'l Bank, N.A., 879 P.2d 814, 818-819 (Colo. 1995).

4. Section 602 is intended to apply generally to securities offers and sales under Article 3 and broker-dealer and investment adviser activity under Article 4, when there is noncompliance with the first sentence of Section 602(c). This subsection does not limit the powers of an administrator under other provisions of this Act.

5. Where appropriate under Section 602(e), an administrator could move to authorize admission of a requesting state's attorney under existing *pro hac vice* rules.

6. Section 602(e) is consistent with the Securities Litigation Uniform Standard Act of 1998 which provides in Section 102(e):

> The Securities and Exchange Commission, in consultation with State securities commissions (or any agencies or offices performing like functions), shall seek to encourage the adoption of State laws providing for reciprocal enforcement by State securities commissions of subpoenas issued by another State securities commission seeking to compel persons to attend, testify in, or produce documents or records in connection with an action or investigation by a State securities commission of an alleged violation of State securities laws.

7. The scope of subpoena enforcement in each state is a general matter for judicial determination. Under Section 602, an individual subpoenaed to testify by the administrator is not compelled to testify within the meaning of these sections simply by service of a subpoena. Under Section 602(b) the individual can be subpoenaed and compelled to attend. Once in attendance an individual can assert an evidentiary privilege

or exemption, see Section 601(c), including the Fifth Amendment privilege against self-incrimination. If an individual refuses to testify or give evidence, the administrator may apply (or have the appropriate state attorney apply) to the appropriate court for the relief specified in Section 602(c). If the individual invokes the privilege against self- incrimination, Section 602(d) allows the administrator to apply to the appropriate court to compel testimony under a "use immunity" provision barring the record compelled or other evidence obtained being used in a criminal case. See People v. District Co. of Arapahoe County, 894 P.2d 739 (Colo. 1995). The phrase "directly or indirectly" in Section 602(d) is intended to include testimony, other evidence, or other information derived from immunized testimoy, statements, records, or evidence.

SECTION 603. CIVIL ENFORCEMENT.

(a) **[Civil action instituted by administrator]** ~~In addition to administrative enforcement under Sections 604 and 605,~~ Whenever it appears to the administrator that a person has engaged, is engaging, or is about to engage in an act or practice constituting[, or that a person is materially aiding and abetting] a violation of this [Act] or a rule adopted or order issued under this [Act], the administrator may maintain an action in the [insert the name of ~~appropriate court~~ court of competent jurisdiction] to enjoin the act~~s~~ or practice~~s~~ and to enforce compliance with this [Act] or a rule adopted or order issued under this [Act]. In an action ~~maintained~~ under this section and upon a proper showing, the court may

(1) grant or require a permanent or temporary injunction, restraining order, a declaratory judgment, asset freeze, accounting, writ of attachment, writ of general or specific execution, or writ of mandamus and appoint a receiver or conservator, who may be the administrator, for the defendant or the defendant's assets;

(2) order the administrator to take charge and control of a party's property, including investment accounts and accounts in a depository institution, rents, and profits; to collect debts; and to acquire and dispose of property;

(3) enter an order of rescission, civil penalty up to a maximum of [$__] for a single violation

or of [$__] for multiple violations in a single proceeding or a series of related proceedings, ~~a declaratory judgment~~, restitution, or disgorgement directed to a person ~~who~~ that has engaged in an act or practice constituting a violation of this [Act] or ~~a~~ the predecessor act or a rule adopted or order issued under this [Act] or the predecessor act; or

(4) order the payment of prejudgment and postjudgment interest or other relief the court considers just~~; and~~.

[(b) **[Statute of limitations.]** No action shall be maintained to enforce any liability created under Section 603(a)(3) unless brought within five years after the discovery by the administrator of the facts constituting the violation.]

(~~b~~ c) **[No bond requirement.]** The ~~not require~~ the administrator may not be required to post a bond.

Reporter's Notes

1. In Section 412, in brackets, the administrator may seek censure, a civil penalty, or suspension or bar of registered broker-dealers, agents, investment advisers, investment adviser representatives, or associated persons.

2. Constitutional due process considerations can also be addressed by rulemaking or incorporation of the applicable administrative procedure act provisions of each jurisdiction. The term "upon a proper showing" has a settled meaning in the federal securities laws. See, e.g., Securities Act of 1933 Section 20(b).

3. The statute of limitations in Section 603(b) is suggested by the statute of limitations applied to the SEC in Johnson v. SEC, 87 F.3d 484 (D.C. Cir. 1996) (five year statute of limitations of 28 U.S.C. Section 2462 is applicable to SEC administrative proceedings).

4. A primary purpose of a broad range of potential sanctions is to enable administrators to better tailor appropriate sanctions to particular misconduct.

SECTION 604. ADMINISTRATIVE ENFORCEMENT.

~~(a) Whenever it appears to the administrator that a person has engaged, is engaging, or is about to engage in an act or practice constituting a violation of this [Act], or a rule adopted under or order issued under this][Act]. [~~or that a person is ~~aiding and abetting a intentionally or recklessly materially aiding and abetting the conduct giving rise to such a violation] of this [Act]] the administrator may: do one or more of the following:~~

~~(1) Issue a summary an order directing the person to cease and desist from engaging in the act or practice or to take other action as is necessary or appropriate to comply with the requirements of this [Act], [and effect service or the summary order on the person]. The administrator must provide service of process as required by Section 612. If a hearing is not timely requested, the summary order becomes final by operation of law. The order shall remains effective from the date of issuance until the date the order becomes final by operation of law or is overturned by a [an administrative law judge or presiding officer] or court following a request for hearing. vacated or modified. A person against whom an summary order has been issued under this subsection paragraph may contest the order by filing a request for a contested case proceeding hearing as provided in [the state administrative procedure act] or in accordance with rules adopted by the administrator under this [Act]. The person must file the request within 30 days from after the date that the order is served, or the order becomes final by operation of law.~~

~~(2) After notice and opportunity for hearing [in accordance with the state administrative procedure act], issue an order imposing civil penalty in an amount not to exceed up to a maximum [of $___] for a single violation or of [$] for multiple violations in a single proceeding or a series of related proceedings for each violation against a person that violates an order served under paragraph (1).~~

~~(3) If a petition for judicial review of an order under paragraph (2) is not timely filed [in~~

~~accordance with the state administrative procedure act], file a certified copy of the administrator's order with the clerk of a court of competent jurisdiction, which shall be treated and have the same effect as a judgment of the court and may be recorded, enforced, or satisfied in the same manner as a judgment of the court.~~

~~(4) If a person violates an order issued under paragraph (1) or (2) [without having petitioned for judicial review], the administrator may petition a court of competent jurisdiction [, with notice service to the person as specified in Section 612,] to enforce the order as certified by the administrator. The court shall not require the administrator to post a bond.~~

~~(b) If on petition by the administrator, the court finds after notice and opportunity for a hearing that the person is not in compliance with the order, the court shall adjudge the person in civil contempt of the order. The court may assess impose a further civil penalty against the person for contempt in an amount not less than [$___] but not greater than [$___] for each violation, and may issue such other rulings as it determines are appropriate.~~

(a) **[Issuance of an order or notice.]** Whenever it appears to the administrator that a person whose securities are not registered under Article 3 or who is not registered under Article 4 has engaged, or is about to engage, in an act or practice constituting a violation of this [Act] or a rule adopted or order issued under this [Act], or that a person [intentionally or recklessly] materially aided and abetted the act or practice constituting the violation, the administrator may:

(1) issue an order directing the person to cease and desist from engaging in the act or practice or to take other action as is necessary or appropriate to comply with this [Act], and giving notice of opportunity for hearing on the order;

(2) issue a notice, but not to person who is registered under Article 4, giving opportunity for

hearing, of imposition of a civil penalty for the noticed violation; and

[(3) charge the actual cost of any investigation resulting from a violation of this [Act] or a rule adopted or order issued under this [Act].]

(b) **[Service of an order or notice.]** Service of an order or notice under subsection (a) is not effective unless made in accordance with Section 611.

(c) **[Effectiveness of an order.]** An order issued under subsection (a)(1) is effective from the date of issuance until such time as it is vacated or modified by the administrator or a court.

(d) **[Contesting of an order or notice; effect of not contesting.]** A person against whom an order or notice has been issued under subsection (a) may contest the order or noticed penalty by filing a request for hearing within 30 days after the date the order or notice is served. If a hearing is not timely requested, the order or noticed penalty becomes final by operation of law.

(e) **[Making of a final order; civil penalty.]** After service and provision of opportunity for hearing, the administrator shall make findings and

(1) make final, or vacate, an order issued under subsection (a)(1), or modify and make final the modified order; and

(2) issue, or determine not to issue, an order, which shall be final, imposing against a person to whom a notice of civil penalty has been issued under subsection (a)(2) a civil penalty up to a maximum of [$] for a single violation or [$] for multiple violations found in the proceeding or in a series of related proceedings.

(f) [**Filing of certified final order with court; effect of filing.]** If a petition for judicial review of a final order is not timely filed in accordance with Section 609, the administrator may file a certified

copy of the final order with the clerk of a court of competent jurisdiction. The certified order so filed shall be treated and have the same effect as a judgment of the court and may be recorded, enforced, or satisfied in the same manner as a judgment of the court.

(g) [**Enforcement by court; further civil penalty.**] If a person fails to comply with an order under subsection (a)(1), an order that becomes final by operation of law under subsection (d), an order that is made final under subsection (e), or an order filed with a court under subsection (f), the administrator may petition a court of competent jurisdiction, with service in accordance with Section 611 on the person against whom the order has been issued, to enforce the order as certified by the administrator. The court shall not require the administrator to post a bond. If the court finds, after service and opportunity for hearing, that the person is not in compliance with the order, the court may adjudge the person in civil contempt of the order. The court may impose a further civil penalty against the person for contempt in an amount not less than [$] but not greater than [$] for each violation, and may issue such other rulings as it determines are just and proper in the circumstances.

~~**SECTION 605. EMERGENCY ADMINISTRATIVE PROCEEDINGS.**~~

~~(a) The administrator may use emergency administrative proceedings if the proceedings are in the public interest or for the protection of investors. If the administrator initiates a proceeding under this subsection, the administrator shall issue an order, including a brief statement of findings of fact, conclusions of law, and, if it is an exercise of the agency's discretion, policy reasons for the decision to justify the determination that the proceedings are in the public interest or for the protection of investors and the administrator's decision to take the specific action. The administrator must give the notice as is practicable~~

~~to persons that who are required to comply with the order. The order is effective when issued.~~

~~(b) After issuing an order under subsection (a), the administrator shall proceed as expeditiously as feasible to provide the same right to request a hearing that is required under Section 604.~~

~~(c) The record of the administrator under subsection (a) consists of the official records regarding the matter which were considered, prepared, submitted to, or obtained by the administrator. The administrator shall maintain these records as the official record.~~

~~(d) Unless otherwise required by law, the administrator's official record under subsection (a) need not constitute the exclusive basis for the administrator's action in an emergency administrative proceeding or for judicial review of the emergency action.~~

SECTION 606~~5~~. RULES, FORMS, ORDERS, INTERPRETATIVE OPINIONS, AND HEARINGS.

(a) **[Issuance and adoption of forms, orders, and rules.]** The administrator may issue [forms,] orders, and after notice and comment, may adopt, amend and ~~rescind~~ repeal the rules, ~~and issue the forms and orders that are~~ when ~~necessary or~~ appropriate to carry out this [Act], including rules and forms governing registration statements, applications, notice filings, reports, and other records, and define terms, whether or not used in this [Act], when these definitions are not inconsistent with this [Act]. For the purposes of rules and forms, the administrator may classify securities, persons, and transactions and adopt different requirements for different classes.

(b) **[Findings and cooperation.]** A rule or form may not be adopted, amended, or repealed, or an order issued, amended, or vacated, unless the administrator finds that the rule, form, or order is necessary

or appropriate in the public interest ~~or for~~ and for the protection of investors and is consistent with the purposes intended by this [Act]. In adopting rules and forms, the administrator may cooperate under Section 609~~8~~ [to effectuate the purposes of this [Act] [alternative: in order] and to achieve uniformity among the States [alternative: and coordination with federal laws] in the form and content of registration statements, applications, reports, and other records. The administrator, by rule or order, may adopt a uniform form.

(c) **[Financial statements.]** ~~A financial statement filed under this [Act] shall must be prepared in accordance with generally accepted accounting principles in the United States, unless the administrator, by rule or order, waives this requirement. (d)~~ Except ~~to the extent~~ as limited by Section 15(h) of the Securities Exchange Act or Section 222 of the Investment Advisers Act of 1940, require a financial statement filed under this [Act] ~~to~~ must be prepared in accordance with generally accepted accounting principles in the United States and ~~must~~ comply with any other requirements specified by the administrator, by rule or order. The administrator, by rule or order, may ~~prescribe~~ specify:

(1) the form and content of financial statements required under this [Act];

(2) ~~the circumstances under which~~ whether unconsolidated financial statements ~~must~~ may [or must] be filed; and

(3) whether required financial statements must be audited by an independent certified public accountant.

(d) **[Interpretative opinions.]** The administrator may ~~on request~~ provide interpretative opinions or may issue determinations that the administrator will not institute an enforcement proceeding or commence an action against a specified person for engaging in a specified act or practice if the determination is consistent with the purposes intended by this [Act]. The administrator, by rule or order, may assess a reasonable

charge for interpretative opinions or determinations that it will not commence an action or initiate an enforcement proceeding.

~~.(c) The administrator shall make all rules, forms and orders available to the public.~~

~~(f)~~ (e) **[Effect of compliance.]** No penalty or liability under this [Act] ~~shall~~ may be imposed for conduct that is engaged in or omitted in good faith conformity with a rule, form, or order of the administrator under this [Act].

~~(g)~~ (f) **[Presumption for public hearings.]** A hearing in an administrative proceeding under this [Act] must be conducted publicly unless the administrator ~~[~~for [good] cause consistent with the purposes intended by this [Act] determines ~~shown]~~ ~~grants a request [joined in by all the respondents]~~ that the hearing not be conducted publicly.

Reporter's Notes

Source of Law: 1956 Act Section 412; 1987 NASAA Proposed Amendment to Section 412(a); RUSA Sections 705, 707.

1. It is anticipated that the administrator will make amendments under Section 605(a) to remain coordinate with relevant federal law, including the rules of the National Association of Securities Dealers, and to achieve uniformity among the States.

2. Uniform forms such as Form B-D, U-4, U-5, and NF are today common in the securities industry and would be authorized by section 605(b).

3. Section 605(c) refers to generally accepted accounting principles in the United States which currently are promulgated by the Financial Accounting Standards Board and the Securities and Exchange Commission.

4. It is anticipated that the states will employ e-mail or other electronic means to provide notice of proposed rulemaking or adoption of new rules, rule amendments, forms or form amendments, statements of policy or interpretations adopted by the administrator, and issuance of orders to registrants and others who have provided a current e-mail or similar address and expressed an interest in receiving such notice.

5. Section 605(e) does not apply to staff no action or interpretative opinions, but does apply to rules, forms, orders, statements of policy or interpretations adopted by the administrator.

SECTION 606. ADMINISTRATIVE FILES AND OPINIONS.

(a) **[Public register of filings.]** The administrator shall maintain, or have its designee maintain, a register of all applications for registration of securities; registration statements; notice filings, all applications for registration of broker-dealers, agents, investment advisers, and investment adviser representatives; ~~registration, all~~ notice filings by a federal covered investment adviser ~~which~~ that are or have been effective under this [Act] and the predecessor act; ~~all~~ notices of claims of exemption from registration or notice filing requirements contained in a record; ~~all~~ orders issued under this [Act] and the predecessor act; and all interpretative opinions or no-action determinations issued under this [Act].

(b) **[Public availability.]** The administrator shall make all rules, forms, and orders available to the public.

(c) **[Copies of public records.]** Upon request, the administrator shall furnish to a person a copy of a record that is a public record or a certification that there is no record. The administrator, by rule or order, may ~~prescribe~~ assess a reasonable charges for furnishing the record. A copy certified by the administrator or its designee is prima facie evidence of the record certified.

Reporter's Notes

Prior Provisions: 1956 Act Section 413; RUSA Section 709.

1. "Record" is defined in Section 102(26).

2. Compliance with a state comprehensive records law will typically satisfy the requirements of Section 606(a).

SECTION 608 7. PUBLIC RECORDS; CONFIDENTIALITY.

(a) **[Presumption of public records.]** Except as otherwise provided in subsection ~~(c)~~ (b), records obtained by the administrator or filed, including information contained in or filed with any registration statement, application, notice filing, or report, are public records and are available for public examination.

~~(c)~~ (b) **[Nonpublic records.]** The following records and other information are not public records under subsection (a) ~~and are not public records under subsection~~ or ~~(b)~~:

(1) a record and other information obtained by the administrator in connection with an examination under Section 4~~09~~11(c) or an investigation under Section 602;

(2) a part of a record filed in connection with a registration statement under Sections 301 and 303 through 305 or a report under Section 4~~09~~11(d), ~~to the extent it~~ that contains trade secrets or confidential information and the person filing the registration statement or report has asserted a claim of confidentiality or privilege that is authorized by law;

(3) a record~~s~~ and other information that is not required ~~or~~ to be provided to the administrator or filed under this [Act] and is provided to the administrator only on the condition that the information will not be subject to public examination or disclosure;

(4) nonpublic records and other information received from a ~~securities agency, law~~ person ~~enforcement agency or agency or administrator specified~~ specified in section 60~~9~~8; and

(5) any social security number, residence address, and residence telephone number contained in a record that is filed; and

~~[~~(6) information or records obtained by the administrator through a designee that the administrator determines, by rule or order: ~~which have~~

(A) has been ~~deleted~~ *appropriately* expunged from its own records ~~from~~ by ~~the~~ that designee, or ~~designated as~~ (B) appropriately determined to be nonpublic or nondisclosable by ~~the~~ that designee~~]~~ [if the administrator finds that such expungement is in the public interest and for the protection of investors.]

~~(d)~~ (c) **[Administrator discretion to disclose.]** The [administrator] may disclose:

(1) records and information obtained in connection with an audit or inspection under Section 411(d) or an investigation under ~~sub~~Section 602 ~~to the extent provided in subSection 602(c) and~~ subject to the restrictions of paragraph ~~(d)~~(2); and

(2) records and information obtained in connection with an audit or inspection under Section 411(d) or an investigation under ~~subs~~ Section 602~~(a)~~, if disclosure is for the purpose of a civil, administrative, or criminal investigation or ~~administrative, or criminal investigation or~~ proceeding by a ~~regulator, commission, organization or agency~~ person specified in ~~sub~~ Section 60~~9~~ 8(a), [and the receiving ~~regulator, commission, organization, or agency~~ person represents in writing that under applicable law protections exist to preserve the integrity, confidentiality, and security of the information.]

~~(c)~~ (d) **[No impact on privileges or exemptions.]** This section does not create or diminish a privilege or exemption existing at common law, by statute, rule, or otherwise.

Reporter's Notes

Source of Law: RUSA Section 703; SEC Rule Section 200.80(b)(4); Securities Exchange Act of 1934 Sections 24(d)-(e).

1. Records and other information obtained by an administrator in connection with an audit or inspection under subsection 411(d) or an investigation under Section 602 may be made public in the enforcement action, even if records and other information would otherwise be subject to subsection 607(b)(1).

2. Section 607 may insulate from public disclosure records or other information that may be available under a state freedom of information or open records act. Unless the state freedom of information or open records act implements a constitutional provision, this Act as the later and more specific enactment should control as a matter of statutory construction. A state may amend its freedom of information or open records act to eliminate any inconsistency.

3. Section 601(c) is similar to Section 607(d), but is limited to records or other evidence sought under a subpoena. Section 607(d) addresses more broadly the effect of Section 607.

SECTION 608. UNIFORMITY AND COOPERATION WITH OTHER AGENCIES.

~~SECTION 609 8. COOPERATION WITH OTHER AGENCIES.~~

~~(a) The administrator may cooperate with the securities regulators of one or more States, Canadian jurisdictions, or another country; the Securities and Exchange Commission; the Commodity Futures Trading Commission, the Federal Trade Commission, the Securities Investor Protection Corporation, a self regulatory organization, a national or international organization of securities officials or agencies regulators, banking and insurance agencies regulators, and any governmental law enforcement or regulatory agency.~~

(a) **[Objective of uniformity.]** The administrator shall, at the discretion of the administrator, cooperate, coordinate, consult, and, subject to Section 607, share information with the securities regulators of one or more States, Canadian jurisdictions, or another country; the Securities and Exchange Commission, the Department of Justice, the Commodity Futures Trading Commission, the Federal Trade Commission, the Securities Investor Protection Corporation, a self-regulatory organization, a national or international organization of securities regulators, federal or state banking and insurance regulators, and any governmental law enforcement agency ~~the Securities and Exchange Commission, the National Association of Securities Dealers and the North American Securities Administrators Association,~~ in order

to effectuate greater uniformity in securities matters among the federal government, self-regulatory organizations and state governments.

(b) **[Balancing of policies.]** In cooperating with other agencies under this Section and in taking actions by rule, order, or waiver under this [Act], the administrator shall, in the judgment of the Administrator, take into consideration in carrying out the public interest an appropriate balancing in the circumstances of the following general policies:

(1) maximizing effectiveness of regulation for the protection of investors;

(2) maximizing uniformity in federal and state regulatory standards; and

(3) minimizing burdens on the business of capital formation, without adversely affecting essentials of investor protection.

[Alternative – Last sentence of former Section 612]

(c) **[Subjects for cooperation.]** The cooperation authorized by subsection (a) includes but is not limited to, the following actions:

(1) establishing or employing a designee as a central depository for registration and notice filings under this [Act] and for records required or allowed to be maintained under this [Act];

(2) developing ~~common~~ and maintaining uniform forms;

(3) ~~making~~ conducting a joint examination or investigation;

(4) holding a joint administrative hearing;

(5) filing and prosecuting a joint civil or administrative proceeding;

(6) sharing and exchanging personnel;

(7) coordinating registrations under Sections 301 and 401 through 404 and exemptions

under Section 203; ~~with other States jurisdictions, the Securities and Exchange Commission, and self-regulatory organizations;~~

(8) sharing and exchanging information and records;

(9) formulating~~[, in accordance with the [administrative procedure act] of this State,]~~ rules, statements of policy, guidelines, forms, and interpretative opinions and releases;

(10) formulating common systems and procedures; ~~and~~

(11) public notification of proposed rules, forms, statements of policy, and guidelines;

[(12) attendance at conferences and other meetings among securities regulators, which may include representatives of private organizations involved in capital formation, deemed necessary or appropriate to promote or achieve uniformity; and

(13) developing and maintaining a uniform exemption from registration for small issuers, and taking other steps to reduce the burden of raising investment capital by small businesses.]

Reporter's Notes

Prior Provisions: 1956 Act Section 415; RUSA Sections 704 and 803; 19(c) of the Securities Act of 1933.

1. Uniformity of regulation among the states and coordination with the Securities and Exchange Commission is a principal objective of this Act. Section 608 is intended to encourage such cooperation to the maximum extent appropriate.

2. The goals of uniformity among the states and coordination with related federal regulation, including self regulatory organizations, may be enhanced by greater use of information technology systems such as the Web-CRD, the Investment Adviser Registration Depository, or the Securities and Exchange Commission Electronic Data Gathering, Analysis and Retrieval System. These types of techniques are consistent with a potential system of "one stop filing" of all federal and state forms that is encouraged by this Act.

3. This Act is intended, to the extent practicable, to be revenue neutral in its impact on existing state

laws.

4. Section 608(d) lists some joint or coordinated efforts which might be undertaken. Other appropriate cooperative activities are also encouraged.

5. In cooperating with other agencies, an administrator must also comply with its own State's laws and rules, including those with respect to administrative procedure.

SECTION ~~610~~ 09. JUDICIAL REVIEW.

~~(a)~~ Final orders issued under this [Act] are subject to judicial review in accordance with [the State's administrative procedure act].

[(b) Rules adopted under this [Act] are subject to judicial review in accordance with [the State's administrative procedure act].]

~~[(b) Rules adopted under this [Act] are subject to judicial review in accordance with [the state's administrative procedure act.]~~, the offeree ~~directs it to the offeror in this State reasonably believing the offeror to be in thi the offeree s State and it the acceptance is received at a place in this State to which it is directed;~~

Reporter's Comment

Source of Law: RUSA Section 711(b).

1. The 1956 Act Section 411 instead specified procedures for judicial review of orders, in part modeled on Section 12 of the Model Administrative Procedure Act, 54 Handbook of National Conference of Commissioners or Uniform State Laws 334 (1944) and partly on Section 25 of the Securities Exchange Act.

2. A rule adopted under this Act is also subject to judicial review in accordance with the state administrative procedure act.

3. In those states in which judicial review of rules is permitted, a state may choose to renumber Section 609 as Section 609(a) [Judicial review of orders.] and add a Section 609(b) that would read:

(b) [Judicial review of rules.] Rules adopted under the [Act] are subject to judicial

review [in accordance with the state administrative procedure act].

Richard Smith proposes including Section 609(b) in the text and including a note that those states that do not provide for judicial review of rules may delete Section 609(b). The ABA has forwarded a survey, dated February 14, 2002, which concludes that in 52 of 53 jurisdictions there is judicial review of rulemaking.

SECTION 611 ~~1~~ *0*. JURISDICTION.

(a) ***[Sellers and offerors to sell.]*** Sections 301, 302, 401(a), 402(a), 403(a), 404(a), 501, 506, ~~and~~ 509 *and 510* apply to a person ~~who~~ that sells or offers to sell a security ~~when an~~ *if the* offer to sell is made in this State, or ~~an~~ *the* offer to buy is made and accepted in this State.

(b) ***[Buyers and offerors to buy.]*** Sections 401(a), 402(a), 403(a), 404(a), 501, ~~and~~ 506, *509, and 510* apply to a person ~~who~~ that buys or offers to buy a security ~~when an~~ *if the* offer to buy is made in this State, or ~~an~~ *the* offer to sell is made and accepted in this State.

(c) ***[Offers in this State.]*** For the purpose of this Section, an offer to sell or to buy a security is made in this State, whether or not either party is then present in this State, ~~when~~ *if* the offer:

(1) originates from this State; or

(2) is directed by the offeror to this State and received at the place to which it is directed. ~~[or at any post office in this State, in the case of a mailed offer].~~

(d) ***[Acceptances in this State.]*** For the purpose of this Section, an offer to buy or to sell *or to buy* is accepted in this State, *whether or not either party is then present in this State, if* ~~when~~ *the* acceptance:

(1) is communicated to the offeror in this State *and the offeree reasonably believes the offeror to be in their state and the acceptance is received at a place in this State to which it is directed.*

and

(2) has not previously been communicated to the offeror, orally or in a record, outside this State. ~~and is communicated to the offeror in this State, whether or not either party is then present in this State, when [or at any post office in this State, in the case of a mailed acceptance].~~

(e) ***[Publications, radio, television, or electronic communication.]*** An offer to sell or to buy is not made in this State when a publisher circulates or there is circulated on the publisher's behalf in this State a ~~any~~ bona fide newspaper or other publication of general, regular, and paid circulation that is not published in this State, or that is published in this State but has had more than two-thirds of its circulation outside this State during the previous 12 months, or a radio or television program or other electronic communication originating outside this State is received in this State. A radio or television program or other electronic communication is considered as having originated in this State if either the broadcast studio or the originating source of transmission is located in this State, unless:

(1) the program or communication is syndicated and distributed from outside this State for redistribution to the general public in this State;

(2) the program or communication is supplied by a radio, television, or other electronic network with the electronic signal originating from outside this State for redistribution to the general public in this State;

(3) the program or communication is an electronic signal that originates outside this State and is captured for redistribution to the general public in this State by a community antenna or cable, radio, cable television, or other electronic system; or

(4) the program or communication consists of an electronic signal that originates in this State,

but which is not intended for redistribution to the general public in this State.

(f) **[Investment advice and misrepresentations.]** Sections 403(a), 404(a), [405(a),] 502, 505, and 506 apply to a person ~~when any~~ when any act or ~~conduct~~ practice instrumental in effecting prohibited conduct is engaged in this State, whether or not either party is then present in this State.

Reporter's Notes

Source of Law: 1956 Act Section 414; NASAA Proposed 1986 and 1997 Amendments to Section 414; and RUSA Sections 708, 801.

1. Under subsection 202(18) certain out-of-state offers or sales are exempt from securities registration.

2. The phrase "other electronic means" is coextensive with computer or other information technology permitted by subsections 102(8), 102(26).

3. The Internet raises new jurisdictional issues, as one commentator theorizes because application of state blue sky laws to securities transactions has traditionally been based on location, i.e., the laws of a given state seek to regulate transactions occurring within the state's boundaries. Rice, The Regulatory Response to the New World of Cybersecurities, 51 Admin. L. Rev. 901, 930-931 (1999). It is uncertain whether the existing statutory approach will remain adequate. "Despite the additional complexities, existing principles can be used to view e-mail over the Internet as similar to traditional postal mail and phone calls in providing a basis for jurisdiction." Id. at 933. See also id. at 944-945; ABA Global Cyberspace Jurisdiction Project, 55 Bus. Law. 1801, 1931-1937 (2000).

4. Under Section 610 the administrator may adopt interpretative rules or orders to specify when particular uses of new electronic communications, including the Internet, involve an offer to sell or to buy a security, acceptance of an order to buy or sell a security, or an act or practice prohibited conduct, within a State, whether or not a buyer, seller, or other party is then present in the State. The NASAA Interpretive Order Concerning Broker-Dealers, Agents, and Investment Adviser Representatives Using the Internet for General Dissemination of Information for Products and Services (Apr. 23, 1997) is an illustration of an order that would be in compliance with the administrator's authority under Section 610. Under this Order, broker-dealers, agents, investment advisers, and investment adviser representatives who distribute information on available products and services through communications on the Internet generally to anyone having access to the Internet such as postings on a Bulletin Board or Home Page shall not be deemed to be transacting business in a State if specified conditions are satisfied including a legend clearly stating that the broker-dealer, agent, investment adviser, or investment adviser representative may only transact business in that State if first registered, excluded or exempted from applicable registration

requirements.

5. Courts have interpreted the precursor to Section 610(a) as applicable if there was a physical nexus between the sale or offer to sell and a specific state. See, e.g. Ah Moo v. A. G. Becker Paribas, Inc., 857 F.2d 615, 620 (9th Cir. 1988).

In Shappley v. State, 520 S.W.2d 766, 768 (Tex. Crim. App. 1974), the court held: "If the offer was made within the state, it would be immaterial whether it was intended that the sale would be finally consummated in another state." Similarly it is immaterial that a solicitation originated outside the forum state if the solicitation was received within the forum state. See, e.g., DuPont v. Becker, 375 F. Supp. 959, 962 n.2 (D. Mass. 1974) *aff'd without pub. op.*, 508 F.2d 834 (1st Cir. 1974). See also Parvin v. Davis Oil Co., 524 F.2d 112, 117 (9th Cir. 1975); Petrites v. J.C. Brandford & Co., 646 F.2d 1033, 1036-1037 (5th Cir. 1981); Stimmel v. Shearson, Hammill & Co., 411 F. Supp. 345, 348-349 (D. Or. 1976); Oil Resources, Inc. v. State of Fla. Dep't of Banking & Fin., Div. of Sec., 583 F. Supp. 1027, 1030 (S.D. Fla. 1984), *aff'd without pub. op.* 746 F.2d 814 (11th Cir. 1984).

In Booth v. Verity, 124 F. Supp. 2d 452, 459 (W.D. Ky. 2000) (Kentucky law), the court held that the mere ability to view a passive web page or mass media report was an insufficient contact with a state to render an out-of-state defendant subject to that state's jurisdiction.

6. The Section 610(c)(2) "place to which it is directed" would include a post office box at which a person receives mail. Application of the Section 610(c)(2) formula has been held to afford due process of law. Green v. Weis, Voison, Cannon, Inc. 479 F.2d 462 (7th Cir. 1973).

In Newsome ex rel. Oklahoma Sec. Comm. v. Diamond Oil Producers, Inc., 1982-1984 Blue Sky L. Rep. (CCH) ¶71,869 (Okla. Dist. Ct. 1983), the court applied the precursor to Section 610(c)(1) even though the offer in the state to which it was directed had been made in accordance with the laws of that state. It would be incompatible with the purposes of the Act to exclude such sales from regulation, the court said, because that would create a "safe harbor" from which a promoter could operate with impunity so long as he or she never ventured into the states in which the purchasers resided.

In Haberman v. Washington Pub. Power Supply Sys., 109 Wash. 2d 107, 134-136, 744 P.2d 1032, 1053-1054 (en banc 1987), *appeal dismissed sub nom*. American Express Related Serv. Co. v. Washington Pub. Power Sys., 488 U.S. 805, which grew out of a bond issue by the System to finance two nuclear power plants, the court applied the "most significant relationship" standard to conclude that Washington was clearly the state with the most substantial contracts with the subject matter of the case.

Cf. Singer v. Magnavox Co., 380 A.2d 969, 981 (Del. 1977), where the Delaware Supreme Court refused to apply the Delaware Blue Sky Law "simply because the company is incorporated here." Cf. also State of Wis. v. Mattes, 175 Wis. 2d 572, 499 N.W.2d 711 (Wis. Ct. App. 1993) (establishing venue in county in which defendant accepted and negotiated checks).

7. With respect to Section 610(d), see Cody v. Ward, 954 F. Supp. 43 (D. Conn. 1997), where a federal district court concluded that Connecticut could extend its version of the Uniform Securities Act to a non-resident who sent oral and written misrepresentations into the state.

8. With respect to Section 610(e), cf. Martin v. Steubner, 652 F.2d 652 (6th Cir. 1981), where an advertisement of a Minnesota real estate limited partnership was placed in the Wall Street Journal and read by the plaintiff in Ohio. This alone would not establish Ohio as a forum state. But the plaintiff also wrote from and received a written reply in Ohio, in addition to causing $100,000 to be transferred from an Ohio broker to the defendant's bank in Minnesota, and was mailed a subscription agreement in Ohio which was signed in that state. On these latter bases the court concluded that there were sufficient contacts with Ohio. Id. at 653.

SECTION 611. SERVICE OF PROCESS.

(a) **[Signed consent to service of process.]** A consent to service of process required by this [Act] ~~shall~~ must be signed and filed in the form the administrator, by rule, specifies. ~~A n irrevocable~~ consent appointing the administrator the person's agent for service of process in a [noncriminal proceeding] against the person, a successor, or personal representative, which arises under this [Act] or a rule adopted or order issued by the administrator under this [Act] after the consent is filed, has the same force and validity as ~~if served~~ process served personally on the person that filed the consent. ~~(b)~~ A person that has filed a consent complying with this subsection ~~(a)~~ in connection with a previous application for registration or notice filing need not file an additional consent.

~~(c)~~ (b) **[Conduct constituting appointment of agent for service.]** If a person, including a nonresident of this State, engages in an act or practice prohibited or made actionable by this [Act] or a rule adopted or order issued by the administrator under this [Act] and the person has not filed a consent to service of process under subsection (a), that act or practice ~~and subsequently engaged in an act or practice prohibited or made actionable by this [Act]~~, ~~the conduct~~ constitutes the appointment of the

administrator as the person's agent for service of process in a [noncriminal proceeding] against ~~a~~ that person, successor, or personal representative.

(~~d~~c) **[Procedure for service of process.]** Service under subsection (a) or (~~c~~b) may be made by ~~leaving~~ providing a copy of the process to the office of the administrator, but it is not effective unless:

(1) the plaintiff, who may be the administrator, promptly sends notice of the service and a copy of the process, ~~by registered or certified mail,~~ return receipt requested, to the defendant or respondent at the address set forth in the consent to service of process or, if a consent to service of process has not been filed, at the last known address, ~~and~~ or takes other reasonable steps ~~reasonably calculated~~ to give notice; and

(2) the plaintiff files an affidavit of compliance with this subsection in the proceeding on or before the return day of the process, if any, or within the time that the court, or the administrator in a proceeding before the administrator, allows.

(~~e~~d) **[Use in administrative proceedings]** Service as provided in subsection (~~d~~ c) may be used in a proceeding before the administrator or by the administrator in a civil action in which the administrator is the moving party.

(~~f~~ e) **[Provision of opportunity to defend.]** If the process is served under subsection (~~d~~ c), the court, or the administrator in a proceeding before the administrator, shall order continuances as are necessary or appropriate to afford the defendant or respondent reasonable opportunity to defend.

Reporter's Notes

Source of Law: RUSA Section 708.

1. The required consent to service of process in Section 611(a) extends to process in any

proceeding "which arises under this act," and substituted service under Section 611(b) applies to any proceeding "which grows out of" conduct "prohibited or made actionable by this act."

2. In Piantes v. Hayden-Stone, Inc., 514 P.2d 529 (Utah 1973), the court held that jurisdiction could be based either on a state blue sky provision like Section 611(b) or on a state's long arm statute. Cf. Paquinelli v. Wilson, 365 S.E.2d 702 (N.C. App. 1988), where the defendants, both directors of a North Carolina corporation though residents of other states, were held to be subject to personal jurisdiction under a North Carolina statute applicable to nonresident directors "in all actions. . . .on behalf of, or against said corporation in which said director is a necessary or party." Id. at 730. See also Illinois Nat'l Bank & Trust Co. of Rockford, Ill. v. Gulf States Energy Corp., 429 N.E.2d 1301 (Ill. App. 1981) (Illinois long arm statue applied to securities transactions). But see Ek v. Nationwide Candy Div., Ltd., 403 So. 2d 780, 784 (La. App. 1981), *cert denied*, 407 So.2d 732 La. (1981) (long arm statute did not make nonresident amenable to jurisdiction when he was never physically present in the forum state and the only contacts with that state were two telephone calls and a letter).

~~SECTION 61 3 2. UNIFORMITY OF APPLICATION AND CONSTRUCTION.~~

~~In applying and construing this Uniform Act, consideration shall be given to the need to promote uniformity of the law with respect to its subject matter among states that enact it and to the coordination of the application, construction, and administration of this [Act] with related federal acts Securities Act of 1933, Securities Exchange Act of 1934, Public Utility Holding Company Act of 1935, Investment Company Act of 1940, Investment Advisers Act of 1940, and the rules and regulations adopted under those acts, all as in effect on the effective date of this [Act] [, or as later amended]. This Act shall be applied and construed to protect investors and, to the extent [in a manner] consistent with this purpose, to encourage capital formation.~~

SECTION 614 2. SEVERABILITY CLAUSE. If any provision of this [Act] or its application to any person or circumstances is held invalid, the invalidity does not affect other provisions or applications of

this [Act] which can be given effect without the invalid provision or application, and to this end the provisions of the [Act] are severable.

Reporter's Notes

Prior Provisions: 1956 Act Section 417; RUSA Section 805.

Cf. Florida Realty, Inc. v. Kirkpatrick, 509 S.W.2d 114, 121 (Mo. 1974) (reading exemption in blue sky law in the light of the common law rule that "a negation in or exception to a statute will be construed so as to avoid nullifying or restricting its apparent principal purpose . . . 'and no conflict will be found unless the same is clear and inescapable'").

ARTICLE 7

TRANSITION

SECTION 701. EFFECTIVE DATE. This [Act] takes effect on [insert date, which should be at least 60 days after enactment].

Reporter's Notes

Prior Provisions: 1956 Act Section 419; RUSA Section 806.

SECTION 702. REPEALS. The following act is repealed:

[Insert name of former State securities act].

SECTION 703. APPLICATION TO EXISTING PROCEEDING.

(a) **[Applicability of predecessor act to pending proceedings.]** The predecessor act exclusively governs all actions, prosecutions, or proceedings that are pending or may be maintained or instituted on the basis of facts or circumstances occurring before the effective date of this [Act], except that a civil action may not be maintained to enforce any liability under the predecessor act unless commenced within any period of limitation that applied when the cause of action accrued or within two years after the effective date of this [Act], whichever is earlier.

(b) **[Transition.]** All effective registrations under the predecessor act, all administrative orders relating to the registrations, statements of policy, interpretative opinions, declaratory rulings, no action determinations, and all conditions imposed upon the registrations remain in effect while they would have remained in effect if this [Act] had not been enacted. They are considered to have been filed, entered, or

imposed under this [Act], but are governed by the predecessor act.

(c) **[Applicability of predecessor act to offers or sales]** The predecessor act ~~applies in respect of~~ exclusively governs any offer or sale made within one year after the effective date of this [Act] except with respect to federal covered securities under an offering begun ~~in good faith~~ before the effective date of this [Act] ~~because of~~ using an exemption available under the predecessor act.

Reporter's Notes

Source of Law: 1956 Act Section 418; RUSA Section 807.

1. Prior law governs all suits, actions, prosecutions, or proceedings which are pending or may be initiated on the basis of facts or circumstances occurring before the effective date of a State blue sky statute. See Hilton v. Mumaw, 522 F.2d 588, 600 (9th Cir. 1975).

2. Case law construing provisions of prior securities statutes that are identical or substantively similar may be relevant to construction of this Act.