



General Assembly

**Substitute Bill No. 1000**

*January Session, 2003*

**AN ACT CONCERNING INVESTMENT ADVISERS.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 36b-7 of the general statutes is repealed and the  
2 following is substituted in lieu thereof (*Effective October 1, 2003*):

3 (a) A broker-dealer, agent, investment adviser or investment adviser  
4 agent may obtain an initial or renewal registration by filing with the  
5 commissioner or other depository as the commissioner may by  
6 regulation or order designate an application together with a consent to  
7 service of process pursuant to subsection (g) of section 36b-33. The  
8 application shall contain such information as the commissioner may  
9 require. On and after January 1, 2005, the commissioner (1) shall not  
10 approve any such application filed by an investment adviser or an  
11 investment adviser agent for an initial registration unless the applicant  
12 passes an examination administered by the commissioner pursuant to  
13 section 5 of this act, and (2) shall not approve any such application  
14 filed by an investment adviser or investment adviser agent for a  
15 renewal registration unless the applicant complies with the continuing  
16 education requirements of section 4 of this act and passes an  
17 examination administered by the commissioner pursuant to section 5  
18 of this act.

19 (b) The application for an initial or renewal registration for an  
20 investment adviser or an investment adviser agent shall include a

21 statement to be signed by the applicant, in which the applicant  
22 represents that the applicant (1) will not charge or receive  
23 compensation in connection with the rendering of investment advice  
24 unless such compensation is fair and reasonable, determined on an  
25 equitable basis and adequately disclosed to each client, (2) will ensure  
26 that each broker-dealer selected by the investment adviser or  
27 investment adviser agent to effect transactions in securities for the  
28 account of a client is registered pursuant to chapter 672a, and (3) will  
29 provide to the commissioner any adverse financial or disciplinary  
30 information required by the commissioner. Each applicant shall also  
31 disclose in the application (A) any criminal record of the applicant, and  
32 (B) any pending litigation against the applicant concerning any  
33 business or personal matter that could reflect on the integrity of the  
34 applicant with regard to the applicant's employment as an investment  
35 adviser or investment adviser agent.

36 Sec. 2. Section 36b-9 of the general statutes is repealed and the  
37 following is substituted in lieu thereof (*Effective October 1, 2003*):

38 The commissioner may require that each application for registration  
39 of a broker-dealer [or investment adviser] be accompanied by a true  
40 and correct statement of financial condition, in such form and  
41 containing such data as the commissioner may require. The  
42 commissioner shall require that each application for registration of an  
43 investment adviser or an investment adviser agent be accompanied by  
44 a true and correct statement of financial condition in such form and  
45 containing such data as the commissioner may require. Such statement  
46 of financial condition shall be sworn to, before a person qualified to  
47 administer oaths, by the applicant, and shall state that the alleged facts  
48 therein contained are true to [his] the applicant's own knowledge. If  
49 such applicant is a partnership, such oath shall be made by a general  
50 partner thereof, and, if such applicant is a corporation or other form of  
51 association, such oath shall be made by an executive officer thereof.  
52 Such statement of financial condition shall be kept in a confidential file  
53 and shall not be open to the public.

54 Sec. 3. Section 36b-14 of the general statutes is repealed and the  
55 following is substituted in lieu thereof (*Effective October 1, 2003*):

56 (a) (1) Every registered investment adviser and investment adviser  
57 agent shall make, keep and preserve such accounts, correspondence,  
58 memoranda, papers, books and other records as the commissioner by  
59 regulation prescribes. All such records shall be preserved for such  
60 period as the commissioner by regulation prescribes.

61 (2) Every investment adviser that is registered with the Securities  
62 and Exchange Commission or excepted from the definition of  
63 investment adviser under Section 202(a)(11) of the Investment  
64 Advisers Act of 1940, and every registered broker-dealer, shall make,  
65 keep and preserve such accounts, correspondence, memoranda,  
66 papers, books and other records as the Securities and Exchange  
67 Commission requires. All such records shall be preserved for such  
68 period as the Securities and Exchange Commission requires.

69 (3) All records referred to in this subsection may be stored on  
70 microfilm, microfiche or on an electronic data processing system or  
71 similar system utilizing an internal memory device provided that a  
72 printed copy of any such record is immediately accessible.

73 (b) (1) Every registered investment adviser and registered  
74 investment adviser agent shall file such financial reports as the  
75 commissioner by regulation prescribes.

76 (2) Every registered investment adviser and registered investment  
77 adviser agent shall also file with the commissioner, on the date of issue  
78 or publication to the investing public, one copy of (A) any prospectus,  
79 pamphlet, circular, form letter or other sales literature addressed or  
80 intended for general distribution to clients or prospective clients of the  
81 investment adviser, and (B) any advertisement offering investment  
82 advisory services to such clients or prospective clients. Every  
83 registered investment adviser and registered investment adviser agent  
84 shall promptly report to the commissioner any financial problem of the  
85 adviser or agent that could affect the impartiality of the advice

86 provided by the adviser or agent to clients.

87 [(2)] (3) Every investment adviser that is registered with the  
88 Securities and Exchange Commission or excepted from the definition  
89 of investment adviser under Section 202(a)(11) of the Investment  
90 Advisers Act of 1940, and every registered broker-dealer, shall file  
91 such financial reports as the commissioner by regulation prescribes,  
92 except that the commissioner shall not require the filing of financial  
93 reports that are not required to be filed with the Securities and  
94 Exchange Commission.

95 (c) If the information contained in any document filed with the  
96 commissioner under this section is or becomes inaccurate or  
97 incomplete in any material respect, the person making the filing shall  
98 promptly file a correcting amendment unless notification of the  
99 correction has been given under sections 36b-2 to 36b-33, inclusive.

100 (d) All the records of a registered investment adviser, a registered  
101 investment adviser agent and a registered broker-dealer referred to in  
102 subsection (a) of this section are subject at any time or from time to  
103 time to such reasonable periodic, special or other examinations by the  
104 commissioner, within or without this state, as the commissioner deems  
105 necessary or appropriate in the public interest or for the protection of  
106 investors. Every registered investment adviser, every registered  
107 investment adviser agent and every registered broker-dealer shall keep  
108 such records open to examination by the commissioner and, upon the  
109 commissioner's request, shall provide copies of any such records to the  
110 commissioner. For the purpose of avoiding unnecessary duplication of  
111 examinations, the commissioner, insofar as the commissioner deems it  
112 practicable in administering this subsection, may cooperate with the  
113 securities administrators of other states, the Securities and Exchange  
114 Commission, and any national securities exchange or national  
115 securities association registered under the Securities Exchange Act of  
116 1934.

117 Sec. 4. (NEW) (*Effective July 1, 2003*) The Commissioner of Banking

118 shall adopt regulations, in accordance with the provisions of chapter  
119 54 of the general statutes, establishing continuing education  
120 requirements on and after January 1, 2004, for persons registered as  
121 investment advisers or investment adviser agents, as defined in section  
122 36b-3 of the general statutes. On and after January 1, 2005, a  
123 registration for an investment adviser or investment adviser agent may  
124 not be renewed unless the investment adviser or investment adviser  
125 agent submits to the commissioner proof of compliance with such  
126 continuing education requirements. The commissioner shall update  
127 such regulations at least every two years.

128       Sec. 5. (NEW) (*Effective July 1, 2003*) The Commissioner of Banking  
129 shall adopt regulations, in accordance with the provisions of chapter  
130 54 of the general statutes, establishing examination requirements,  
131 including an examination fee, for applicants for initial or renewal  
132 registration as investment advisers or investment adviser agents, as  
133 defined in section 36b-3 of the general statutes, on and after January 1,  
134 2005. Such examinations for applicants for renewal registration as  
135 investment advisers or investment adviser agents shall include topics  
136 covered in the continuing education required under section 4 of this  
137 act. The commissioner shall update such regulations at least every two  
138 years.

139       Sec. 6. (NEW) (*Effective October 1, 2003*) Each registered investment  
140 adviser and registered investment adviser agent, as defined in section  
141 36b-3 of the general statutes, shall give a written statement to each  
142 client (1) indicating that any membership of such adviser or agent in a  
143 professional organization is not a representation of the integrity of the  
144 adviser or agent or the quality of the services that the adviser or agent  
145 will provide to the customer, and (2) providing the telephone number  
146 of the Department of Banking office that provides information to the  
147 public concerning investment advisers and investment adviser agents.

This act shall take effect as follows:	
Section 1	<i>October 1, 2003</i>

Sec. 2	<i>October 1, 2003</i>
Sec. 3	<i>October 1, 2003</i>
Sec. 4	<i>July 1, 2003</i>
Sec. 5	<i>July 1, 2003</i>
Sec. 6	<i>October 1, 2003</i>

**Statement of Legislative Commissioners:**

References to "investment adviser agent" were added in section 4 for statutory consistency with subsection (a) of section 1.

**BA**        *Joint Favorable Subst.*