

(Reprint of File No. 501)

House Bill No. 5281
As Amended by House
Amendment Schedule "A"

Approved by the Legislative Commissioner
April 29, 1998

AN ACT CONCERNING THE CONNECTICUT UNIFORM
SECURITIES ACT.

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

1 Section 1. Subdivision (10) of section 36b-3
2 of the general statutes, as amended by section 1
3 of public act 97-220, is repealed and the
4 following is substituted in lieu thereof:
5 (10) "Investment adviser" means any person
6 who, for compensation, engages in the business of
7 advising others, either directly or through
8 publications or writings, as to the value of
9 securities or as to the advisability of investing
10 in, purchasing or selling securities, or who, for
11 compensation and as a part of a regular business,
12 issues or promulgates analyses or reports
13 concerning securities. "Investment adviser" does
14 not include (A) AN INVESTMENT ADVISER AGENT; (B) a
15 bank and trust company, a national banking
16 association, a savings bank, a savings and loan
17 association, a federal savings and loan
18 association, a credit union, a federal credit
19 union or a trust company; [(B)] (C) a lawyer,
20 accountant, engineer, or teacher whose performance
21 of these services is solely incidental to the

22 practice of his profession; [(C)] (D) a
23 broker-dealer whose performance of these services
24 is solely incidental to the conduct of his
25 business as a broker-dealer and who receives no
26 special compensation for them; [(D)] (E) a
27 publisher of any bona fide newspaper, news
28 magazine, or business or financial publication of
29 general, regular, and paid circulation; [(E)] (F)
30 a person whose advice, analyses or reports relate
31 only to securities exempted by subdivision (1) of
32 subsection (a) of section 36b-21, as amended by
33 section 11 of [this act] PUBLIC ACT 97-220 AND
34 SECTION 6 OF THIS ACT; [(F)] (G) any insurance
35 company under the supervision of the Insurance
36 Commissioner or any affiliate thereof, as defined
37 in subsection (b) of section 38a-129, when
38 providing services to separate accounts of that
39 insurance company or registered investment
40 companies all of whose shares are owned by such
41 insurance company or its insurance company
42 affiliates or by the separate accounts of that
43 insurance company or its insurance company
44 affiliates; and [(G)] (H) such other persons not
45 within the intent of this [subsection] SUBDIVISION
46 as the commissioner may by regulation or order
47 designate.

48 Sec. 2. Subdivision (11) of section 36b-3 of
49 the general statutes, as amended by section 1 of
50 public act 97-220, is repealed and the following
51 is substituted in lieu thereof:

52 (11) (A) "Investment adviser agent" includes
53 (i) any individual, [other than an investment
54 adviser, or a sole proprietor of an investment
55 adviser] INCLUDING AN OFFICER, PARTNER OR DIRECTOR
56 OF AN INVESTMENT ADVISER, OR AN INDIVIDUAL
57 OCCUPYING A SIMILAR STATUS OR PERFORMING SIMILAR
58 FUNCTIONS, employed, appointed or authorized by OR
59 ASSOCIATED WITH an investment adviser to solicit
60 business from any person for such investment
61 adviser, within or from this state, and who
62 receives compensation or other remuneration,
63 directly or indirectly, for such solicitation; [.
64 An officer, partner or director of an investment
65 adviser, or an individual occupying a similar
66 status or performing similar functions, is an
67 investment adviser agent only if he otherwise
68 comes within this definition.] OR (ii) ANY
69 PARTNER, OFFICER, OR DIRECTOR OF AN INVESTMENT

70 ADVISER, OR AN INDIVIDUAL OCCUPYING A SIMILAR
71 STATUS OR PERFORMING SIMILAR FUNCTIONS, OR OTHER
72 INDIVIDUAL EMPLOYED, APPOINTED, OR AUTHORIZED BY
73 OR ASSOCIATED WITH AN INVESTMENT ADVISER, WHO
74 MAKES ANY RECOMMENDATION OR OTHERWISE RENDERS
75 ADVICE REGARDING SECURITIES TO CLIENTS AND WHO
76 RECEIVES COMPENSATION OR OTHER REMUNERATION,
77 DIRECTLY OR INDIRECTLY, FOR SUCH ADVISORY
78 SERVICES.

79 (B) "INVESTMENT ADVISER AGENT" DOES NOT
80 INCLUDE AN INDIVIDUAL EMPLOYED, APPOINTED OR
81 AUTHORIZED BY, ASSOCIATED WITH OR ACTING ON BEHALF
82 OF AN INVESTMENT ADVISER EXEMPT FROM REGISTRATION
83 UNDER SUBDIVISION (1) OR (2) OF SUBSECTION (e) OF
84 SECTION 36b-6, AS AMENDED BY SECTION 3 OF PUBLIC
85 ACT 97-220, WHO IS A "SUPERVISED PERSON" UNLESS
86 (i) MORE THAN TEN PER CENT OF THE ADVISORY CLIENTS
87 ARE NATURAL PERSONS AND THE SUPERVISED PERSON HAS
88 A PLACE OF BUSINESS IN THIS STATE, (ii) THE
89 SUPERVISED PERSON ON A REGULAR BASIS SOLICITS,
90 MEETS WITH, OR OTHERWISE COMMUNICATES WITH CLIENTS
91 OF THE EXEMPT INVESTMENT ADVISER IN THIS STATE,
92 AND (iii) THE SUPERVISED PERSON DOES NOT
93 EXCLUSIVELY RENDER IMPERSONAL INVESTMENT ADVICE.

94 (C) FOR PURPOSES OF SUBPARAGRAPH (B) OF THIS
95 SUBDIVISION: (i) "IMPERSONAL INVESTMENT ADVICE"
96 MEANS INVESTMENT ADVISORY SERVICES PROVIDED BY
97 MEANS OF WRITTEN MATERIAL OR ORAL STATEMENTS THAT
98 DO NOT PURPORT TO MEET THE OBJECTIVES OR NEEDS OF
99 SPECIFIC INDIVIDUALS OR ACCOUNTS; (ii) "NATURAL
100 PERSON" DOES NOT INCLUDE AN INDIVIDUAL WHO
101 IMMEDIATELY AFTER ENTERING INTO THE INVESTMENT
102 ADVISORY CONTRACT WITH THE EXEMPT INVESTMENT
103 ADVISER HAS AT LEAST FIVE HUNDRED THOUSAND DOLLARS
104 UNDER MANAGEMENT WITH SUCH INVESTMENT ADVISER, OR
105 WHO THE EXEMPT INVESTMENT ADVISER REASONABLY
106 BELIEVES, IMMEDIATELY PRIOR TO ENTERING INTO THE
107 ADVISORY CONTRACT, HAS A NET WORTH TOGETHER WITH
108 ASSETS HELD JOINTLY WITH A SPOUSE, AT THE TIME THE
109 CONTRACT IS ENTERED INTO, OF MORE THAN ONE MILLION
110 DOLLARS; AND (iii) "SUPERVISED PERSON" MEANS ANY
111 PARTNER, OFFICER, DIRECTOR, OR OTHER PERSON
112 OCCUPYING A SIMILAR STATUS OR PERFORMING SIMILAR
113 FUNCTIONS, OR EMPLOYEE OF AN EXEMPT INVESTMENT
114 ADVISER, OR OTHER PERSON WHO PROVIDES INVESTMENT
115 ADVICE ON BEHALF OF SUCH INVESTMENT ADVISER AND IS
116 SUBJECT TO THE SUPERVISION AND CONTROL OF SUCH
117 INVESTMENT ADVISER.

118 (D) "INVESTMENT ADVISER AGENT" DOES NOT
119 INCLUDE SUCH OTHER INDIVIDUALS NOT WITHIN THE
120 INTENT OF THIS SUBDIVISION AS THE COMMISSIONER MAY
121 BY REGULATION OR ORDER DESIGNATE.

122 Sec. 3. Subsection (d) of section 36b-6 of the
123 general statutes, as amended by section 3 of
124 public act 97-220, is repealed and the following
125 is substituted in lieu thereof:

126 (d) No broker-dealer or investment adviser
127 shall transact business from any place of business
128 located within this state unless that place of
129 business is registered as a branch office with the
130 commissioner pursuant to this subsection, PROVIDED
131 AN INVESTMENT ADVISER THAT IS REGISTERED WITH THE
132 SECURITIES AND EXCHANGE COMMISSION MAY, IN LIEU OF
133 FILING AN APPLICATION FOR BRANCH OFFICE
134 REGISTRATION, FILE A NOTICE WITH THE COMMISSIONER
135 FOR EACH BRANCH OFFICE OF THE ADVISER LOCATED
136 WITHIN THIS STATE TOGETHER WITH A NONREFUNDABLE
137 NOTICE FEE OF ONE HUNDRED DOLLARS PER BRANCH
138 OFFICE. An application for branch office
139 registration shall be made on forms prescribed by
140 the commissioner and shall be filed with [him] THE
141 COMMISSIONER, TOGETHER with a nonrefundable
142 APPLICATION fee of one hundred dollars per branch
143 office. A broker-dealer or investment adviser,
144 OTHER THAN AN INVESTMENT ADVISER THAT IS
145 REGISTERED WITH THE SECURITIES AND EXCHANGE
146 COMMISSION, shall promptly notify the commissioner
147 in writing if such broker-dealer or investment
148 adviser (1) engages a new manager at a branch
149 office in this state, (2) acquires a branch office
150 of another broker-dealer or investment adviser in
151 this state, or (3) relocates a branch office in
152 this state. [In the case of a branch office
153 acquisition or relocation, the broker-dealer or
154 investment adviser shall pay to the commissioner
155 an additional nonrefundable fee of one hundred
156 dollars.] IN THE CASE OF A BRANCH OFFICE
157 ACQUISITION OR RELOCATION, SUCH BROKER-DEALER OR
158 INVESTMENT ADVISER SHALL PAY TO THE COMMISSIONER A
159 NONREFUNDABLE FEE OF ONE HUNDRED DOLLARS. AN
160 INVESTMENT ADVISER THAT IS REGISTERED WITH THE
161 SECURITIES AND EXCHANGE COMMISSION SHALL NOTIFY
162 THE COMMISSIONER OF AN ACQUISITION OR RELOCATION
163 OF ANY BRANCH OFFICE OF THE INVESTMENT ADVISER IN
164 THIS STATE IN THE SAME MANNER AS AND CONCURRENTLY
165 WITH THE NOTIFICATION OF SUCH INFORMATION TO THE

166 SECURITIES AND EXCHANGE COMMISSION AND SHALL PAY
167 TO THE COMMISSIONER A NONREFUNDABLE FEE OF ONE
168 HUNDRED DOLLARS. Each registrant or applicant for
169 branch office registration, AND EACH INVESTMENT
170 ADVISER WITH A BRANCH OFFICE IN THIS STATE THAT IS
171 REGISTERED WITH THE SECURITIES AND EXCHANGE
172 COMMISSION, shall pay the actual cost, as
173 determined by the commissioner, of any reasonable
174 investigation or examination made of such
175 registrant, [or] applicant OR INVESTMENT ADVISER
176 by or on behalf of the commissioner.

177 Sec. 4. Section 36b-14 of the general
178 statutes, as amended by section 7 of public act
179 97-220, is repealed and the following is
180 substituted in lieu thereof:

181 (a) (1) Every registered [broker-dealer and]
182 investment adviser shall make, [and] keep AND
183 PRESERVE such accounts, correspondence, memoranda,
184 papers, books and other records as the
185 commissioner by regulation prescribes. All SUCH
186 records [so required] shall be preserved for such
187 period as the commissioner by regulation
188 prescribes.

189 (2) EVERY INVESTMENT ADVISER THAT IS
190 REGISTERED WITH THE SECURITIES AND EXCHANGE
191 COMMISSION OR EXCEPTED FROM THE DEFINITION OF
192 INVESTMENT ADVISER UNDER SECTION 202(a)(11) OF THE
193 INVESTMENT ADVISERS ACT OF 1940, AND EVERY
194 REGISTERED BROKER-DEALER, SHALL MAKE, KEEP AND
195 PRESERVE SUCH ACCOUNTS, CORRESPONDENCE, MEMORANDA,
196 PAPERS, BOOKS AND OTHER RECORDS AS THE SECURITIES
197 AND EXCHANGE COMMISSION REQUIRES. ALL SUCH RECORDS
198 SHALL BE PRESERVED FOR SUCH PERIOD AS THE
199 SECURITIES AND EXCHANGE COMMISSION REQUIRES.

200 (3) [Such] ALL records REFERRED TO IN THIS
201 SUBSECTION may be stored on microfilm, microfiche
202 or on an electronic data processing system or
203 similar system utilizing an internal memory device
204 provided that a printed copy of any such record is
205 immediately accessible.

206 (b) (1) Every registered [broker-dealer and]
207 investment adviser shall file such financial
208 reports as the commissioner by regulation
209 prescribes.

210 (2) EVERY INVESTMENT ADVISER THAT IS
211 REGISTERED WITH THE SECURITIES AND EXCHANGE
212 COMMISSION OR EXCEPTED FROM THE DEFINITION OF
213 INVESTMENT ADVISER UNDER SECTION 202(a)(11) OF THE

214 INVESTMENT ADVISERS ACT OF 1940, AND EVERY
215 REGISTERED BROKER-DEALER, SHALL FILE SUCH
216 FINANCIAL REPORTS AS THE COMMISSIONER BY
217 REGULATION PRESCRIBES, EXCEPT THAT THE
218 COMMISSIONER SHALL NOT REQUIRE THE FILING OF
219 FINANCIAL REPORTS THAT ARE NOT REQUIRED TO BE
220 FILED WITH THE SECURITIES AND EXCHANGE COMMISSION.

221 (c) If the information contained in any
222 document filed with the commissioner UNDER THIS
223 SECTION is or becomes inaccurate or incomplete in
224 any material respect, the [registrant] THE PERSON
225 MAKING THE FILING shall promptly file a correcting
226 amendment unless notification of the correction
227 has been given under [subsection (b) of section
228 36b-6] SECTIONS 36b-2 TO 36b-33, INCLUSIVE, AS
229 AMENDED BY THIS ACT.

230 (d) All the records OF A REGISTERED INVESTMENT
231 ADVISER AND A REGISTERED BROKER-DEALER referred to
232 in subsection (a) of this section are subject at
233 any time or from time to time to such reasonable
234 periodic, special or other examinations by
235 [representatives of] the commissioner, within or
236 without this state, as the commissioner deems
237 necessary or appropriate in the public interest or
238 for the protection of investors. EVERY REGISTERED
239 INVESTMENT ADVISER AND EVERY REGISTERED
240 BROKER-DEALER SHALL KEEP SUCH RECORDS OPEN TO
241 EXAMINATION BY THE COMMISSIONER AND, UPON THE
242 COMMISSIONER'S REQUEST, SHALL PROVIDE COPIES OF
243 ANY SUCH RECORDS TO THE COMMISSIONER. For the
244 purpose of avoiding unnecessary duplication of
245 examinations, the commissioner, insofar as [he]
246 THE COMMISSIONER deems it practicable in
247 administering this subsection, may cooperate with
248 the securities administrators of other states, the
249 Securities and Exchange Commission, and any
250 national securities exchange or national
251 securities association registered under the
252 Securities Exchange Act of 1934.

253 Sec. 5. Section 36b-20 of the general
254 statutes, as amended by section 10 of public act
255 97-220, is repealed and the following is
256 substituted in lieu thereof:

257 (a) The commissioner may issue a stop order
258 denying effectiveness to, or suspending or
259 revoking the effectiveness of, any registration
260 statement if he finds (1) that the order is in the
261 public interest and (2) that: (A) The registration

262 statement as of its effective date or as of any
263 earlier date in the case of an order denying
264 effectiveness, or any report under subsection (j)
265 of section 36b-19, as amended by section 9 of
266 [this act] PUBLIC ACT 97-220, is incomplete in any
267 material respect BUT IS NOT ABANDONED PURSUANT TO
268 SUBSECTION (e) OF THIS SECTION or contains any
269 statement which was, in the light of the
270 circumstances under which it was made, false or
271 misleading with respect to any material fact; (B)
272 any provision of sections 36b-2 to 36b-33,
273 inclusive, as amended by this act AND PUBLIC ACT
274 97-220, or any regulation, order or condition
275 lawfully imposed under said sections has been
276 wilfully violated, in connection with the
277 offering, by (i) the person filing the
278 registration statement, (ii) the issuer, any
279 partner, officer or director of the issuer, any
280 person occupying a similar status or performing
281 similar functions, or any person directly or
282 indirectly controlling or controlled by the
283 issuer, provided the person filing the
284 registration statement is directly or indirectly
285 controlled by or acting for the issuer, or (iii)
286 any underwriter; (C) the security registered or
287 sought to be registered is the subject of an
288 administrative stop order or similar order or a
289 permanent or temporary injunction of any court of
290 competent jurisdiction entered under any other
291 federal or state act applicable to the offering;
292 except the commissioner (i) may not institute a
293 proceeding against an effective registration
294 statement under this subparagraph more than one
295 year from the date of the order or injunction
296 relied on, and (ii) may not enter an order under
297 this subparagraph on the basis of an order or
298 injunction entered under any other state act
299 unless that order or injunction was based on facts
300 which would currently constitute a ground for a
301 stop order under this section; (D) the issuer's
302 enterprise or method of business includes or would
303 include activities which are illegal where
304 performed; (E) the offering has worked or tended
305 to work a fraud upon purchasers or would so
306 operate; (F) the offering has been or would be
307 made with unreasonable amounts of underwriters'
308 and sellers' discounts, commissions or other
309 compensation, or promoters' profits or

310 participation, or unreasonable amounts or kinds of
311 options; (G) when a security is sought to be
312 registered by coordination, there has been a
313 failure to comply with the undertaking required by
314 subdivision (4) of subsection (b) of section
315 36b-17; (H) the applicant or registrant has failed
316 to pay the proper filing fee; but the commissioner
317 may enter only a denial order under this clause
318 and he shall vacate any such order when the
319 deficiency has been corrected; or (I) the issuer
320 is a blank check company. The commissioner may not
321 institute a stop order proceeding against an
322 effective registration statement on the basis of a
323 fact or transaction known to him when the
324 registration statement became effective unless the
325 proceeding is instituted within one hundred eighty
326 days of the effective date of such registration
327 statement.

328 (b) The commissioner may by order summarily
329 postpone or suspend the effectiveness of the
330 registration statement pending final determination
331 of any proceeding under this section. Upon the
332 entry of the order, the commissioner shall
333 promptly notify each person specified in
334 subsection (c) of this section that it has been
335 entered and of the reasons therefor and that
336 within fifteen days after the receipt of a written
337 request the matter will be set down for hearing.
338 If no hearing is requested and none is ordered by
339 the commissioner, the order will remain in effect
340 until it is modified or vacated by the
341 commissioner. If a hearing is requested, the
342 commissioner may modify or vacate the order or
343 extend it until final determination.

344 (c) No stop order may be entered under this
345 section except as provided in subsection (b) of
346 this section without: (1) Appropriate prior notice
347 to the applicant or registrant, the issuer and the
348 person on whose behalf the securities are to be or
349 have been offered; (2) opportunity for hearing;
350 and (3) written findings of fact and conclusions
351 of law.

352 (d) The commissioner may vacate or modify a
353 stop order if he finds that the conditions which
354 prompted its entry have changed or that it is
355 otherwise in the public interest to do so.

356 (e) THE COMMISSIONER MAY DEEM ANY REGISTRATION
357 STATEMENT TO BE ABANDONED IF THE PERSON FILING THE

358 REGISTRATION STATEMENT FAILS TO RESPOND TO ANY
359 REQUEST FOR INFORMATION REQUIRED UNDER THIS
360 CHAPTER, AS AMENDED BY THIS ACT, OR ANY REGULATION
361 OR ORDER UNDER THIS CHAPTER, AS AMENDED BY THIS
362 ACT. THE COMMISSIONER SHALL NOTIFY THE PERSON
363 FILING THE REGISTRATION STATEMENT, THE ISSUER AND
364 THE PERSON ON WHOSE BEHALF THE SECURITIES ARE TO
365 BE OR HAVE BEEN OFFERED, IN WRITING, THAT IF SUCH
366 INFORMATION IS NOT SUBMITTED WITHIN SIXTY DAYS OF
367 SUCH WRITTEN NOTIFICATION, THE REGISTRATION
368 STATEMENT SHALL BE DEEMED ABANDONED. ANY FILING
369 FEE PAID PRIOR TO THE DATE THE REGISTRATION
370 STATEMENT IS DEEMED ABANDONED PURSUANT TO THIS
371 SUBSECTION SHALL NOT BE REFUNDED. ABANDONMENT OF
372 THE REGISTRATION STATEMENT PURSUANT TO THIS
373 SUBSECTION SHALL NOT PRECLUDE THE PERSON FILING
374 THE REGISTRATION STATEMENT FROM SUBMITTING A NEW
375 REGISTRATION STATEMENT UNDER SECTIONS 36b-17 OR
376 36b-18, AS AMENDED. THE HEARING REQUIREMENT IN
377 SUBSECTION (c) OF THIS SECTION SHALL NOT APPLY TO
378 ABANDONMENT PURSUANT TO THIS SUBSECTION.

379 Sec. 6. Subsection (a) of section 36b-21 of
380 the general statutes, as amended by section 11 of
381 public act 97-220, is repealed and the following
382 is substituted in lieu thereof:

383 (a) The following securities are exempted from
384 sections 36b-16, as amended by section 8 of [this
385 act] PUBLIC ACT 97-220, and 36b-22, as amended by
386 section 12 of [this act] PUBLIC ACT 97-220: (1)
387 Any security including a revenue obligation issued
388 or guaranteed by the United States, any state, any
389 political subdivision of a state, or any agency or
390 corporate or other instrumentality of one or more
391 of the foregoing; or any certificate of deposit
392 for any of the foregoing; (2) any security issued
393 or guaranteed by Canada, any Canadian province,
394 any political subdivision of any such province,
395 any agency or corporate or other instrumentality
396 of one or more of the foregoing, or any other
397 foreign government with which the United States
398 currently maintains diplomatic relations, if the
399 security is recognized as a valid obligation by
400 the issuer or guarantor; (3) any security issued
401 by and representing an interest in or a debt of,
402 or guaranteed by, any bank organized under the
403 laws of the United States, or any bank, savings
404 institution or trust company organized and
405 supervised under the laws of any state; (4) any

406 security issued by and representing an interest in
407 or a debt of, or guaranteed by, any federal
408 savings and loan association, or any savings and
409 loan or similar association organized under the
410 laws of any state; (5) any security issued by and
411 representing an interest in or a debt of, or
412 guaranteed by, any insurance company organized
413 under the laws of any state and authorized to do
414 business in this state; (6) any security issued or
415 guaranteed by any federal credit union or any
416 credit union, industrial loan association or
417 similar association organized and supervised under
418 the laws of this state; (7) any security issued or
419 guaranteed by any railroad, other common carrier,
420 public utility or holding company which is (A)
421 subject to the jurisdiction of the Interstate
422 Commerce Commission or its successor agency; (B) a
423 registered holding company under the Public
424 Utility Holding Company Act of 1935 or a
425 subsidiary of such a company within the meaning of
426 that act; (C) regulated in respect of its rates
427 and charges by a governmental authority of the
428 United States or any state; or (D) regulated in
429 respect of the issuance or guarantee of the
430 security by a governmental authority of the United
431 States, any state, Canada or any Canadian
432 province; (8) (A) ANY SECURITY APPEARING ON THE
433 LIST OF OVER-THE-COUNTER AND FOREIGN SECURITIES
434 APPROVED FOR MARGIN BY THE BOARD OF GOVERNORS OF
435 THE FEDERAL RESERVE SYSTEM WHICH IS NOT OTHERWISE
436 A COVERED SECURITY, (B) ANY WARRANT OR RIGHT TO
437 PURCHASE OR SUBSCRIBE TO ANY SECURITY DESCRIBED IN
438 SUBPARAGRAPH (A) OF THIS SUBDIVISION, AND (C) any
439 warrant or right to purchase or subscribe to any
440 security listed or approved for listing upon
441 notice of issuance on [(A)] (i) the New York Stock
442 Exchange, the American Stock Exchange, the Chicago
443 Board Options Exchange and such other securities
444 exchanges as may be designated by the commissioner
445 from time to time, [(B)] (ii) the list of
446 over-the-counter securities approved for margin by
447 the Board of Governors of the Federal Reserve
448 System WHERE SUCH SECURITY IS A COVERED SECURITY,
449 or [(C)] (iii) the national market system of the
450 National Association of Securities Dealers
451 Automated Quotation System established pursuant to
452 the Securities Exchange Act of 1934; (9) any
453 security issued by any person organized and

454 operated not for private profit but exclusively
455 for religious, educational, benevolent,
456 charitable, fraternal, social, athletic or
457 reformatory purposes, or as a Chamber of Commerce
458 or trade or professional association; (10) any
459 commercial paper which arises out of a current
460 transaction or the proceeds of which have been or
461 are to be used for current transactions, and which
462 evidences an obligation to pay cash within nine
463 months of the date of issuance, exclusive of days
464 of grace, or any renewal of such paper which is
465 likewise limited, or any guarantee of such paper
466 or of any such renewal; (11) any security issued
467 in connection with an employees' stock purchase,
468 stock option, savings, pension, profit-sharing or
469 similar benefit plan; (12) any security issued by
470 any cooperative apartment corporation incorporated
471 under the laws of this state, located in and
472 operating wholly within the borders of this state,
473 in conjunction with the execution of proprietary
474 leases; (13) any security issued by any person,
475 organized and located in this state and operating
476 exclusively for the purpose of promoting the
477 industrial or commercial development of this
478 state, or such development of any political
479 subdivision thereof or such development of any
480 regional planning area within this state, if such
481 persons are approved by the Commissioner of
482 Economic and Community Development and such
483 approval has been certified, in writing, by said
484 Commissioner of Economic and Community Development
485 to the commissioner; such approval and
486 certification shall be conclusive as to the nature
487 and purpose of such person; (14) any security
488 issued by the Connecticut Development Credit
489 Corporation; (15) any security issued by any
490 nonstock corporation, which is incorporated under
491 the laws of this state as a cooperative marketing
492 corporation and has its principal place of
493 business in this state, and which is a farmers'
494 cooperative organization as defined in Section 521
495 of the Internal Revenue Code of 1986, or any
496 subsequent corresponding internal revenue code of
497 the United States, as from time to time amended,
498 if such corporation has been certified in writing
499 by the Connecticut Department of Agriculture to
500 the commissioner to be a bona fide cooperative
501 marketing corporation; such certification shall be

502 conclusive as to the nature and purpose of such
503 corporation; (16) any security issued by all
504 cooperative associations organized or existing
505 under chapter 595; (17) any security issued by any
506 person organized, located and operating within or
507 from the borders of this state, when selling or
508 offering for sale an interest in real estate
509 limited partnerships or real estate syndications
510 exclusively, if such person has obtained a permit
511 from the Real Estate Commission; (18) any security
512 which, prior to or within sixty days after October
513 1, 1977, has been sold or disposed of by the
514 issuer or bona fide offered to the public, but
515 this exemption shall not apply to any new offer of
516 any such security by an issuer or underwriter
517 subsequent to such sixty days; (19) any interest
518 or participation in any common trust fund or
519 similar fund established and maintained by a bank,
520 or by one or more banks under common control as
521 otherwise authorized by general statute,
522 exclusively for the collective investment and
523 reinvestment of assets contributed thereto by such
524 bank in its fiduciary capacity; (20) any security
525 issued by a worker cooperative corporation formed
526 under the provisions of sections 33-418f to
527 33-418o, inclusive; (21) any other security that
528 the commissioner may exempt, conditionally or
529 unconditionally, on a finding that registration is
530 not necessary or appropriate in the public
531 interest or for the protection of investors.

532 Sec. 7. Subsection (b) of section 36b-21 of
533 the general statutes, as amended by section 11 of
534 public act 97-220, is repealed and the following
535 is substituted in lieu thereof:

536 (b) The following transactions are exempted
537 from sections 36b-16, as amended by section 8 of
538 [this act] PUBLIC ACT 97-220, and 36b-22, as
539 amended by section 12 of [this act] PUBLIC ACT
540 97-220: (1) Any isolated nonissuer transaction,
541 whether effected through a broker-dealer or not;
542 (2) any nonissuer [distribution of an outstanding
543 security if (A) a recognized securities manual
544 contains the names of the issuer's officers and
545 directors, a balance sheet of the issuer as of a
546 date within eighteen months, and a profit and loss
547 statement for either the fiscal year preceding
548 that date or the most recent year of operations]
549 TRANSACTION BY A REGISTERED AGENT OF A REGISTERED

550 BROKER-DEALER IN A SECURITY OF A CLASS THAT HAS
551 BEEN OUTSTANDING IN THE HANDS OF THE PUBLIC FOR AT
552 LEAST NINETY DAYS PROVIDED, AT THE TIME OF THE
553 TRANSACTION: (A) THE SECURITY IS SOLD AT A PRICE
554 REASONABLY RELATED TO THE CURRENT MARKET PRICE OF
555 THE SECURITY; (B) THE SECURITY DOES NOT CONSTITUTE
556 THE WHOLE OR PART OF AN UNSOLD ALLOTMENT TO, OR A
557 SUBSCRIPTION OR PARTICIPATION BY, THE
558 BROKER-DEALER AS AN UNDERWRITER OF THE SECURITY;
559 (C) A NATIONALLY RECOGNIZED SECURITIES MANUAL
560 CONTAINS (i) A DESCRIPTION OF THE BUSINESS AND
561 OPERATIONS OF THE ISSUER; (ii) THE NAMES OF THE
562 ISSUER'S OFFICERS AND DIRECTORS; (iii) AN AUDITED
563 BALANCE SHEET OF THE ISSUER AS OF A DATE WITHIN
564 EIGHTEEN MONTHS, OR IN THE CASE OF A
565 REORGANIZATION OR MERGER WHERE THE PARTIES TO THE
566 REORGANIZATION OR MERGER HAD SUCH AUDITED BALANCE
567 SHEET, A PRO FORMA BALANCE SHEET; AND (iv) AN
568 AUDITED INCOME STATEMENT FOR EACH OF THE ISSUER'S
569 PRECEDING TWO FISCAL YEARS, OR FOR THE PERIOD OF
570 EXISTENCE OF THE ISSUER, IF IN EXISTENCE FOR LESS
571 THAN TWO YEARS, OR IN THE CASE OF A REORGANIZATION
572 OR MERGER WHERE THE PARTIES TO THE REORGANIZATION
573 OR MERGER HAD SUCH AUDITED INCOME STATEMENT, A PRO
574 FORMA INCOME STATEMENT; AND (D) THE ISSUER OF THE
575 SECURITY HAS A CLASS OF EQUITY SECURITIES LISTED
576 ON A NATIONAL SECURITIES EXCHANGE REGISTERED UNDER
577 THE SECURITIES EXCHANGE ACT OF 1934, OR DESIGNATED
578 FOR TRADING ON THE NATIONAL ASSOCIATION OF
579 SECURITIES DEALERS AUTOMATED QUOTATION SYSTEM,
580 except that the exemption IN THIS SUBDIVISION
581 shall not be available for any distribution of
582 securities issued by a blank check company, shell
583 company, dormant company or any issuer that has
584 been merged or consolidated with or has bought out
585 a blank check company, shell company or dormant
586 company unless the issuer or any predecessor has
587 continuously operated its business for at least
588 the preceding five years and has had gross
589 operating revenue in each of the preceding five
590 years, including gross operating revenue of at
591 least five hundred thousand dollars per year in
592 three of the preceding five years; [or (B)] (3)
593 ANY NONISSUER DISTRIBUTION OF AN OUTSTANDING
594 SECURITY IF the security has a fixed maturity or a
595 fixed interest or dividend provision and there has
596 been no default during the current fiscal year or
597 within the three preceding fiscal years, or during

598 the existence of the issuer and any predecessors
599 if less than three years, in the payment of
600 principal, interest or dividends on the security;
601 [(3)] (4) any nonissuer transaction effected by or
602 through a registered broker-dealer pursuant to an
603 unsolicited order or offer to buy; but the
604 commissioner may by regulation require that the
605 customer acknowledge upon a specified form that
606 the sale was unsolicited, and that a signed copy
607 of each such form be preserved by the
608 broker-dealer for a specified period or that the
609 confirmation delivered to the purchaser or a
610 memorandum delivered in connection therewith shall
611 confirm that such purchase was unsolicited by the
612 broker-dealer or any agent of the broker-dealer;
613 [(4)] (5) any transaction between the issuer or
614 other person on whose behalf the offering is made
615 and an underwriter, or among underwriters; [(5)]
616 (6) any transaction in a bond or other evidence of
617 indebtedness secured by a real or chattel mortgage
618 or deed of trust or by an agreement for the sale
619 of real estate or chattels, if the entire
620 mortgage, deed of trust or agreement, together
621 with all the bonds or other evidences of
622 indebtedness secured thereby, is offered and sold
623 as a unit; [(6)] (7) any transaction by an
624 executor, administrator, sheriff, marshal,
625 receiver, trustee in bankruptcy, creditors'
626 committee in a proceeding under the Bankruptcy
627 Act, guardian or conservator; [(7)] (8) any
628 transaction executed by a bona fide pledgee
629 without any purpose of evading sections 36b-2 to
630 36b-33, inclusive, as amended by this act AND
631 PUBLIC ACT 97-220; [(8)] (9) any offer or sale to
632 a bank and trust company, a national banking
633 association, a savings bank, a savings and loan
634 association, a federal savings and loan
635 association, a credit union, a federal credit
636 union, trust company, insurance company,
637 investment company as defined in the Investment
638 Company Act of 1940, pension or profit-sharing
639 trust, or other financial institution or
640 institutional buyer, or to a broker-dealer,
641 whether the purchaser is acting for itself or in
642 some fiduciary capacity; [(9)] (10) (A) subject to
643 the provisions of this subdivision, any
644 transaction not involving a public offering within
645 the meaning of Section 4(2) of the Securities Act

646 of 1933, but not including any transaction
647 specified in the rules and regulations thereunder;
648 (B) subject to the provisions of this subdivision,
649 any transaction made in accordance with the
650 uniform exemption from registration for small
651 issuers authorized in Section 19(c)(3)(C) of the
652 Securities Act of 1933. (C) The exemptions set
653 forth in [subdivisions (9)] SUBPARAGRAPHS (A) and
654 [(9)] (B) of this [subsection] SUBDIVISION shall
655 not be available for transactions in securities
656 issued by any blank check company, shell company
657 or dormant company. (D) The exemptions set forth
658 in [subdivisions (9)] SUBPARAGRAPHS (A) and [(9)]
659 (B) of this [subsection] SUBDIVISION may, with
660 respect to any security or transaction or any type
661 of security or transaction, be modified,
662 withdrawn, further conditioned or waived as to
663 conditions, in whole or in part, conditionally or
664 unconditionally, by the commissioner, acting by
665 regulation, rule or order, on a finding that such
666 regulation, rule or order is necessary or
667 appropriate in the public interest or for the
668 protection of investors. (E) A fee of one hundred
669 fifty dollars shall accompany any filing made with
670 the commissioner pursuant to this subdivision;
671 [(10)] (11) any offer or sale of a preorganization
672 certificate or subscription if (A) no commission
673 or other remuneration is paid or given directly or
674 indirectly for soliciting any prospective
675 subscriber, (B) the number of subscribers does not
676 exceed ten, and (C) no payment is made by any
677 subscriber; [(11)] (12) any transaction pursuant
678 to an offer to existing security holders of the
679 issuer, including persons who at the time of the
680 transaction are holders of convertible securities,
681 nontransferable warrants or transferable warrants
682 exercisable within not more than ninety days of
683 their issuance, if (A) no commission or other
684 remuneration other than a standby commission is
685 paid or given directly or indirectly for
686 soliciting any security holder in this state, or
687 (B) the issuer first files a notice, in such form
688 and containing such information as the
689 commissioner may by regulation prescribe,
690 specifying the terms of the offer and the
691 commissioner does not by order disallow the
692 exemption within the next ten full business days;
693 [(12)] (13) any offer, but not a sale, of a

694 security for which registration statements have
695 been filed under both sections 36b-2 to 36b-33,
696 inclusive, as amended by this act AND PUBLIC ACT
697 97-220, and the Securities Act of 1933, if no stop
698 order or refusal order is in effect and no public
699 proceeding or examination looking toward such an
700 order is pending under either said sections or the
701 Securities Act of 1933; [(13)] (14) any
702 transaction exempt under Section 4(6) of the
703 Securities Act of 1933, and the rules and
704 regulations thereunder. The issuer shall, prior to
705 the first sale, file with the commissioner a
706 notice, in such form and containing such
707 information as the commissioner may by regulation,
708 rule or order prescribe. A fee of one hundred
709 fifty dollars shall accompany any such filing made
710 pursuant to this subdivision; [(14)] (15) any
711 transaction if all the following conditions are
712 satisfied: (A) The offer and sale is effectuated
713 by the issuer of the security; (B) the total
714 number of purchasers of all securities of the
715 issuer does not exceed ten. A subsequent sale of
716 securities that (i) is registered under sections
717 36b-2 to 36b-33, inclusive, as amended by this act
718 AND PUBLIC ACT 97-220, (ii) is sold pursuant to an
719 exemption under said sections other than this
720 subdivision, or (iii) involves covered securities,
721 shall not be integrated with a sale pursuant to
722 this exemption in computing the number of
723 purchasers hereunder. For the purpose of this
724 subdivision, each of the following is deemed to be
725 a single purchaser of a security: A husband and
726 wife, a child and his parent or guardian when the
727 parent or guardian holds the security for the
728 benefit of the child, a corporation, a
729 partnership, an association or other
730 unincorporated entity, a joint stock company or a
731 trust, but only if the corporation, partnership,
732 association, unincorporated entity, joint stock
733 company or trust was not formed for the purpose of
734 purchasing the security; (C) no advertisement,
735 article, notice or other communication published
736 in any newspaper, magazine or similar medium, or
737 broadcast over television or radio, or any other
738 general solicitation is used in connection with
739 the sale; and (D) no commission, discount or other
740 remuneration is paid or given directly or
741 indirectly in connection with the offer and sale,

742 and the total expenses, excluding legal and
743 accounting fees, in connection with the offer and
744 sale do not exceed one per cent of the total sales
745 price of the securities. For purposes of this
746 subdivision, a difference in the purchase price
747 among the purchasers shall not, in and of itself,
748 be deemed to constitute indirect remuneration;
749 (16) ANY TRANSACTION EXEMPT UNDER RULE 701, 17 CFR
750 SECTION 230.701 PROMULGATED UNDER SECTION 3(b) OF
751 THE SECURITIES ACT OF 1933; [(15)] (17) any other
752 transaction that the commissioner may exempt,
753 conditionally or unconditionally, on a finding
754 that registration is not necessary or appropriate
755 in the public interest or for the protection of
756 investors.

757 Sec. 8. Subsection (d) of section 36b-27 of
758 the general statutes, as amended by section 13 of
759 public act 97-220, is repealed and the following
760 is substituted in lieu thereof:

761 (d) (1) Whenever the commissioner finds as the
762 result of an investigation that any person or
763 persons have violated any of the provisions of
764 sections 36b-2 to 36b-33, inclusive, as amended by
765 this act AND PUBLIC ACT 97-220, or any regulation,
766 rule or order adopted or issued under said
767 sections, the commissioner may send a notice to
768 such person or persons by registered mail, return
769 receipt requested. Any such notice shall include:
770 (A) A reference to the title, chapter, regulation,
771 rule or order alleged to have been violated; (B) a
772 short and plain statement of the matter asserted
773 or charged; (C) the maximum fine that may be
774 imposed for such violation; and (D) the time and
775 place for the hearing. Such hearing shall be fixed
776 for a date not earlier than fourteen days after
777 the notice is mailed.

778 (2) The commissioner shall hold a hearing upon
779 the charges made unless such person or persons
780 fail to appear at the hearing. Said hearing shall
781 be held in accordance with the provisions of
782 chapter 54. After the hearing if the commissioner
783 finds that the person or persons have violated any
784 of the provisions of sections 36b-2 to 36b-33,
785 inclusive, as amended by this act AND PUBLIC ACT
786 97-220, or any regulation, rule or order adopted
787 or issued under said sections, the commissioner
788 may, in his discretion and in addition to any
789 other remedy authorized by said sections, order

790 that a [civil penalty] FINE not exceeding ten
791 thousand dollars per violation be imposed upon
792 such person or persons. If such person or persons
793 fail to appear at the hearing, the commissioner
794 may, as the facts require, order that a [civil
795 penalty] FINE not exceeding ten thousand dollars
796 per violation be imposed upon such person or
797 persons. The commissioner shall send a copy of any
798 order issued pursuant to this subsection by
799 registered mail, return receipt requested, to any
800 person or persons named in such order.

801 Sec. 9. (NEW) (a) Section 6 of The
802 Philanthropy Protection Act of 1995, 15 USC
803 Section 80a-3a, shall not preempt the laws of this
804 state that require registration or qualification
805 of securities or require any person to register as
806 or be subject to regulation as a broker-dealer,
807 agent, investment adviser or investment adviser
808 agent.

809 (b) The Philanthropy Protection Act of 1995,
810 Public Law 104-62, shall not apply in any
811 administrative or judicial action as a defense to
812 any claim that any person, security, interest, or
813 participation of the type described in said act
814 and the amendments made by said act is subject to
815 the provisions of sections 36b-2 to 36b-33,
816 inclusive, of the general statutes, as amended by
817 this act.

* * * * *

"THE FOLLOWING FISCAL IMPACT STATEMENT AND BILL ANALYSIS ARE PREPARED FOR THE BENEFIT OF MEMBERS OF THE GENERAL ASSEMBLY, SOLELY FOR PURPOSES OF INFORMATION, SUMMARIZATION AND EXPLANATION AND DO NOT REPRESENT THE INTENT OF THE GENERAL ASSEMBLY OR EITHER HOUSE THEREOF FOR ANY PURPOSE."

* * * * *

FISCAL IMPACT STATEMENT - BILL NUMBER HB 5281

STATE IMPACT	Workload Impact (Banking Fund), see explanation below
MUNICIPAL IMPACT	None
STATE AGENCY(S)	Department of Banking

EXPLANATION OF ESTIMATES:

The bill makes a number of changes to bring the state securities law into conformity with the federal national Securities Markets Improvement Act of 1996 (NSMIA). It specifies that federally registered investment advisers file notice with the commissioner of the Department of Banking for each branch office. It establishes a \$100 non-refundable notice fee for federally registered investment advisers in lieu of a registration fee. The registration fee was also \$100 for these individuals. Investment Advisers, registered with the Securities and Exchange Commission, are required to file financial records as the Commissioner of Banking prescribes.

The commissioner is allowed to consider a registration statement as abandoned if the applicant fails to supply required information.

There is a minimal workload decrease for the Department of Banking associated with considering any registration statement abandoned.

There is a potential minimal workload increase for the Department of Banking with the possibility of reviewing financial records of Investment Advisers.

House "A" requires Investment Advisers who are registered with the Securities and Exchange Commission to provide financial records to the Commissioner of Banking. It has a potential minimal workload increase impact.

* * * * *

OLR AMENDED BILL ANALYSIS

HB 5281 (as amended by House "A")*

AN ACT CONCERNING THE CONNECTICUT UNIFORM SECURITIES ACT

SUMMARY: This bill makes a number of changes to bring the state securities law into closer conformity with the federal National Securities Markets Improvement Act of 1996 (NSMIA) to supplement the major conforming changes made last year by PA 97-220. The bill:

1. requires certain investment adviser agents associated with exempt investment advisers to register;
2. lets federally registered investment advisers file notice with the banking commissioner for each branch office, instead of having to register it;
3. simplifies procedures for considering an application abandoned;
4. exempts from registration those securities that are federally approved for margin;
5. clarifies several other exemptions; and
6. modifies recordkeeping and filing requirements to be consistent with the federal law.

The bill also exercises the state's option under a federal law to override a federal preemption of state securities registration for charitable organizations and their securities and similar investments in pooled income funds and makes other minor and technical changes.

*House Amendment "A" deletes a provision of the original bill which specified in detail the extent to which anyone subject to the commissioner's securities jurisdiction must make records available to him, replaces it with the provisions in number 6 above, and makes a number of minor and technical changes.

EFFECTIVE DATE: October 1, 1998

FURTHER EXPLANATION

Investment Adviser and Agent Registration

The bill clarifies the definition of investment adviser to exclude an "investment adviser agent." It also modifies the definition of "investment adviser agent" to make it consistent with a similar federal definition. Specifically, it adds to the definition any investment adviser's partner, officer, or director or someone occupying a similar status or performing similar functions, or other individual employed, appointed, or authorized by or associated with an investment adviser, who, for compensation, (1) is employed to solicit business or (2) makes any recommendation or otherwise renders advice regarding securities to clients. Current law only includes these people if they otherwise come within the definition.

The bill specifically exempts from the definition of investment adviser agent (and consequently from state registration) any individual (1) who is not within the intent of the definition as the commissioner designates by regulation or order and (2) who is a "supervised person" employed, appointed, or authorized by; associated with; or acting on behalf of an investment adviser who is exempt from state registration because he is federally registered or federally exempt from registration.

But the bill considers a supervised person to be an investment adviser agent and requires him to register with the state if he:

1. has a place of business in this state and more than 10% of the advisory clients are individuals whose contract calls for the exempt investment adviser to manage less than \$500,000, or whose net worth, including

spousal assets, is under \$1 million;

2. regularly solicits, meets with, or otherwise communicates with the exempt investment adviser's clients in this state; and
3. does not exclusively render impersonal investment advice, by means of written material or oral statements that do not purport to meet the objectives or needs of specific individuals or accounts.

A "supervised person" is an investment adviser's partner, officer, director, or other person occupying a similar status or performing similar functions, employee, or other person who provides investment advice on the adviser's behalf and is supervised and controlled by the adviser.

Branch Offices

Current law requires all investment advisers' Connecticut branch offices to be registered with the Banking Department. The bill makes the following changes for federally registered investment advisers.

1. It allows them, instead of registering each Connecticut branch office, to file a notice with the commissioner for each office, along with a \$100 nonrefundable notice fee (the same as the current registration fee).
2. It deletes the requirement that such advisers notify the commissioner when they engage a new manager.
3. It makes the state notification requirement for branch office acquisitions and relocations the same as under federal law, allows state notice to be concurrent with federal notice, and maintains the current \$100 nonrefundable state fee.

Abandoned Registrations

The bill allows the commissioner, without a hearing, to deem any registration statement abandoned if the applicant fails to respond to a request for required

information. It requires the commissioner to notify the applicant, the issuer, and the person on whose behalf the securities are being offered, in writing, that they have 60 days after the notice to submit the information, or the registration will be deemed abandoned. Under the bill, any paid filing fee is also deemed abandoned and cannot be refunded. But the bill specifies that abandonment of the registration does not preclude anyone from later submitting a new registration statement.

Currently, in order to dispose of a registration statement that has been abandoned, the commissioner must issue a stop order denying effectiveness, provide an opportunity for a hearing, and issue written findings of fact and conclusions of law.

Securities Registration Exemptions

The bill adds a specific exemption from registration for (1) any security on the list of over-the-counter and foreign securities approved for margin by the Federal Reserve Board that is not otherwise covered under federal law and (2) any warrant or right to purchase or subscribe to such a security.

Current law exempts from registration nonissuer distributions of outstanding securities if a recognized securities manual contains the names of the issuer's officers and directors, the issuer's balance sheet dated within 18 months of the exemption, and a profit and loss statement for either the preceding fiscal year or the most recent year of operation. The bill requires the manual to be nationally recognized and expands the information that must be in it for the exemption to apply to include:

1. a description of the issuer's business and operations, instead of just the names of its officers and directors;
2. an audited balance sheet or a pro forma balance sheet in the case of a reorganization or merger where the parties had such an audited balance sheet; and
3. an audited income statement for the two preceding fiscal years, or for the issuer's

period of existence, if this is less than two years, or a pro forma income statement for a reorganization or merger where the parties had such an audited income statement.

The bill creates additional conditions for this exemption, including that the:

1. transaction be made by a registered agent of a registered broker-dealer;
2. security be of a class that has been outstanding in the public's hands for at least 90 days;
3. security be sold at a price reasonably related to its current market price;
4. security not constitute the whole or part of an unsold allotment to, or a subscription or participation by, the broker-dealer as the security's underwriter; and
5. issuer have a class of equity securities listed on a federally registered national securities exchange or designated for trading on the National Association of Securities Dealers Automated Quotation system.

The bill exempts from state registration securities that are exempt under federal Rule 701 (those issued under a compensatory benefits plan).

Recordkeeping and Filing Requirements

The bill requires registered broker-dealers and federally registered or exempt investment advisers to (1) create, keep, and preserve whatever records the Securities and Exchange Commission (SEC) requires for as long a time as it requires and (2) file such financial reports as the banking commissioner prescribes by regulation (but the bill prohibits the commissioner from requiring reports that are not required by the SEC).

It also requires broker-dealers and investment advisers registered with Connecticut to keep their records open to examination by the commissioner and, at his request,

to provide copies of such records to him.

Override of Federal Preemption

The bill specifies that the federal Philanthropy Protection Act of 1995 does not preempt Connecticut laws that require registration or qualification of securities or require anyone to register as a broker-dealer, agent, investment adviser, or investment adviser agent. It also specifies that the federal act does not apply as a defense to any claim that a person, security, interest, or participation is subject to the requirements of the state securities law. (The federal law exempts from state registration securities, interests, or participations in any pooled income fund, collective trust fund, collective investment fund, or similar fund maintained by a charitable organization for certain purposes. It also exempts from state registration as a broker-dealer, investment adviser, or their agent any charitable organization or its trustee, director, officer, employee, or volunteer acting within the scope of his employment or duties. The act gives states three years from December 8, 1995 to enact a law specifying that these federal provisions do not preempt state law, which this bill does).

BACKGROUND

NSMIA and PA 97-220

Consistent with the federal NSMIA preemptions, PA 97-220 eliminated state registration and regulation for (1) securities covered by federal law; (2) securities issued by federally registered investment companies, such as various types of mutual funds; and (3) investment advisers with \$25 million or more in assets under management and those exempted from the scope of the federal law. The state still regulates investment advisers under the \$25 million federal threshold, broker-dealers, agents of both broker-dealers and investment advisers, and securities issues that are not covered by federal law. It also continues to enforce the securities antifraud laws.

Legislative History

On April 17, the House referred the bill to the Judiciary Committee, which reported it without changes

on April 22.

COMMITTEE ACTION

Banks Committee

Joint Favorable Change of Reference
Yea 17 Nay 1

Finance, Revenue, and Bonding

Joint Favorable Report
Yea 42 Nay 0

Judiciary Committee

Joint Favorable Report
Yea 40 Nay 0